

## Entrepreneurial Orientation and Performance of Selected Small and Medium Enterprises (SMEs) in Lagos State, Nigeria

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### Abstract

Small and Medium Enterprises (SMEs) play a crucial role in economic growth by fostering job creation, innovation, and poverty alleviation, especially in developing countries like Nigeria. Initiatives to boost SME performance have included government policies, financial assistance, and training programs to improve resource access and enhance capabilities. However, these efforts have often been inadequate, as shown by the declining performance of SMEs in Lagos State, Nigeria. This downturn may be attributed to weak entrepreneurial orientation (EO), which includes innovativeness, proactiveness, and risk-taking essential factors for business success. A lack of strong EO may limit SMEs' ability to adapt to changing market conditions and compete effectively, highlighting the importance of investigating how entrepreneurial orientation impacts the performance of selected SMEs in Lagos State to develop strategies for improvement. The study adopted survey research design. The population of this study comprised 11,663 registered owner-managers of selected small and medium scale enterprises SMEs in Lagos State, Nigeria. A sample size of 503 was determined using Taro Yamane (1967) formula. Simple random sampling technique was adopted to select respondents. A structured and validated questionnaire was used for data collection. The Cronbach's Alpha reliability coefficients of constructs ranged from 0.80 to 0.91. A response rate of 90.7% was recorded. Data were analysed using descriptive and inferential (multiple linear regression) statistics at 5% significance level. The findings revealed that entrepreneurial orientation had significant effect on performance of selected small and medium enterprises (SMEs) in Lagos State, Nigeria ( $Adj.R^2 = 0.400$ ;  $F(df = 5, 451) = 61.747$  at  $p = 0.000$  ( $p < 0.05$ ). The study concluded that entrepreneurial orientation influenced the performance of selected small and medium enterprises (SMEs) in Lagos State, Nigeria. Therefore, the study recommended that SMEs owner-managers should prioritize fostering an entrepreneurial culture to enhance SMEs performance.

### **Background to the Study**

Small and Medium Enterprises (SMEs) are vital to economic growth, driving job creation, innovation, and poverty reduction, particularly in developing economies like Nigeria. Efforts to enhance SMEs performance have included government policies, financial support, and training programs aimed at improving access to resources and capacity building. However, these initiatives have often fallen short, as evidenced by the declining performance of SMEs in Lagos State, Nigeria. This decline may be linked to poor entrepreneurial orientation (EO), which encompasses innovativeness, proactiveness, and risk-taking key drivers of business success. The lack of a strong EO could hinder SMEs' ability to adapt to market dynamics and compete effectively, underscoring the need to examine the effect of entrepreneurial orientation on the performance of selected SMEs in Lagos State to identify strategies for improvement.

Globally, Small and Medium Enterprises (SMEs) have faced significant performance declines between 2022 and 2025, driven by economic crises, supply chain disruptions, and rising operational costs. A 2022 World Economic Forum report highlighted that 67% of SME executives cited survival and expansion as their primary challenges, with low margins and difficulties in scaling operations exacerbating financial strain (World Economic Forum, 2022). In the UK, SME turnover growth was uneven, with a 6.9% increase in average turnover by 2023, yet sectors like Arts, Entertainment, and Recreation saw a 6% turnover drop, reflecting sector-specific vulnerabilities (Merchant, 2024). In India, the contribution of MSMEs to export markets declined from 49.77% in 2019–2020 to 42.67% in 2022–2023, indicating weakened global competitiveness (Behera et al., 2024). Additionally, a McKinsey study noted that up to 80% of SMEs across 32 countries lost up to 50% of revenues during the COVID-19 pandemic, with recovery hampered by digitalization costs and skill gaps (Zhou, 2025). These statistics underscore the multifaceted pressures SMEs face, from economic uncertainty to structural barriers, impacting their global performance.

In the United States, Small and Medium Enterprises (SMEs) have experienced a notable decline in performance from 2022 to 2025, primarily due to economic disruptions and rising operational costs. A McKinsey analysis indicates that SMEs in the U.S. accounted for two out of three jobs added over the past 25 years, yet they faced significant revenue losses during the COVID-19 pandemic, with up to 80% of SMEs across 32 countries, including the U.S., losing up to 50% of revenues (Zhou, 2025). The U.S. Small Business Administration reported that SMEs struggled with access to capital, with 40% of formal SMEs in developing countries, including some U.S. sectors, facing an unmet financing need of \$5.2 trillion annually (World Bank, 2019). Additionally, supply chain disruptions and inflationary pressures have increased costs, reducing profitability. For instance, sectors like retail and hospitality saw sales declines of 10-15% in 2022 due to reduced consumer spending (Merchant Savvy, 2024). These challenges highlight the vulnerability of U.S. SMEs to economic shocks, despite their critical role in job creation.

In the United Kingdom, SMEs have faced a turbulent period from 2022 to 2025, marked by post-COVID recovery challenges, Brexit-related trade barriers, and surging energy costs. According to Merchant Savvy (2024), while UK SME turnover grew by 6.9% on average by 2023, sectors such as Arts, Entertainment, and Recreation experienced a 6% turnover decline, reflecting uneven recovery across industries. The European Commission's SME Performance Review noted that UK SMEs, which account for 99.8% of employer firms and 65% of private sector employment, struggled with liquidity shortages exacerbated by tightened monetary policies and rising interest rates (European Commission, 2024). A 2022 World Economic Forum report further indicated that 67% of SMEs globally, including those in the UK, were fighting for survival due to low margins and scaling difficulties (World Economic Forum, 2022). Brexit has compounded these issues, with SMEs facing increased costs and delays in cross-border trade, particularly impacting export-oriented businesses.

In India, Micro, Small, and Medium Enterprises (MSMEs) have seen a decline in performance, particularly in export competitiveness, from 2022 to 2025. A study by Behera et al. (2024) reported that MSME contribution to India's export markets dropped from 49.77% in 2019–2020 to 42.67% in 2022–2023, driven by outdated technology and competition from neighboring countries like China and Indonesia. Despite contributing 35-40% to India's GDP by 2023, MSMEs faced challenges such as limited access to finance and low productivity growth, with only 10% of large companies in 2022 having been MSMEs post-2000 (McKinsey, 2024). The Redseer report highlighted that while digital adoption is increasing, with 70% of MSMEs expected to adopt e-payments by 2027, financial constraints and skill gaps continue to hinder growth (Consultancy.in, 2023). These factors underscore the structural barriers limiting Indian MSMEs' global market presence.

Indonesian SMEs, which constitute 99% of business units and contribute 61% to GDP, have faced significant performance declines between 2022 and 2025, largely due to the lingering effects of the COVID-19 pandemic and financial access barriers. The International Monetary Fund (2024) noted that small firms in Indonesia suffered a disproportionate sales drop from 2019 to 2021, with 69% of SMEs reporting decreased turnover and 13% facing capital access issues (Susanty et al., 2022). Additionally, only 15.8% of Indonesia's MSME output is exported, reflecting limited global market integration compared to regional peers (IMF, 2024). Lockdowns caused distribution stagnation, and low productivity due to work hour restrictions further hampered performance, with 4% of SMEs halting production temporarily (Susanty et al., 2022). Despite a post-pandemic recovery, inadequate infrastructure and informal sector dominance (67% of MSMEs) continue to constrain growth.

In South Korea, SMEs, which account for 98% of enterprises and 50% of employment, have experienced performance declines from 2022 to 2025 due to global economic slowdowns and trade disruptions. The Asian Development Bank (2023) reported that South Korean SMEs, particularly in manufacturing, face productivity gaps, achieving

only 40% of large firms' productivity in some sectors (World Economic Forum, 2024). The 2022 Cisco survey indicated that while 60% of Asia-Pacific SMEs, including those in South Korea, prioritized digitalization, high costs of technology adoption strained budgets, especially for smaller firms (Consultancy.asia, 2021). Additionally, tightened monetary conditions and trade wars, particularly affecting South Korea's export-led economy, have reduced SME internationalization, with export contributions lagging behind larger firms (MDPI, 2020). Government support through loan guarantees has mitigated some impacts, but SMEs remain vulnerable to external economic shocks.

Customer retention and sustainability remain pressing challenges for small and medium-sized enterprises (SMEs) in Africa, where high failure rates threaten their critical role in economic development. SMEs constitute about 90% of businesses across the continent, contributing roughly 33% to GDP (ADB, 2022), yet approximately 70% collapse within five years of starting (World Bank, 2021). This high attrition rate highlights the precarious environment African SMEs navigate, despite their vital contribution to job creation and economic growth. Key barriers to their longevity include restricted access to finance, inadequate infrastructure, complex regulatory frameworks, and a lack of entrepreneurial skills (IFC, 2022). These obstacles limit SMEs' ability to innovate, scale, and achieve long-term stability. For example, in South Africa, around 60% of new businesses fail within three years, with only 30% surviving a decade (SSA, 2022). Despite SMEs contributing 34% to South Africa's GDP and employing 66% of the workforce, their potential is curtailed by systemic issues that often trap them at the micro-enterprise level (Department of Small Business Development, 2021). The COVID-19 pandemic intensified these challenges, with over 80% of South African SMEs reporting revenue declines, leading to widespread closures and financial distress (World Bank, 2021). While government initiatives, such as financial support and training programs, aim to bolster SME resilience, they are frequently criticized for being inaccessible or poorly tailored to SMEs' unique needs (Meyer et al., 2022).

The performance of small and medium-sized enterprises (SMEs) in Nigeria faces significant barriers due to systemic and structural challenges. A high failure rate plagues the sector, with approximately 80% of SMEs closing within the first five years, a trend mainly due to economic constraints, complex regulatory frameworks, and limited access to critical resources (MSME Africa, 2023). SMEs play a vital role in Nigeria's economy, contributing around 48% of the GDP and employing about 84% of the workforce, yet they struggle to survive. A significant hurdle is access to finance, with only 20% of SMEs securing formal funding. High interest rates, restrictive loan requirements, and stringent collateral demands make financing inaccessible for many (Central Bank of Nigeria [CBN], 2023). Moreover, poor infrastructure, including unreliable electricity and inadequate transport networks, further restricts operational efficiency and growth (IFC, 2022).

The regulatory environment in Nigeria also presents formidable challenges for SME performance. Bureaucratic inefficiencies and multiple taxation requirements create high

administrative costs and compliance burdens, deterring business growth (Bagis et al., 2023). Compounding these issues are poor management practices; only about 15% of SME owners have formal business training, negatively impacting strategic planning, operational efficiency, and adaptability (Oyelaran-Oyeyinka, 2014). The COVID-19 pandemic exacerbated these vulnerabilities, with over 70% of SMEs experiencing revenue declines, leading to closures and financial instability (World Bank, 2021). While government support programs exist, many SMEs report difficulty accessing these resources, citing misalignment with their needs (Meyer et al., 2022).

Studies have examined the impact of entrepreneurial orientation on various aspects of business performance (Esator et al., 2025; García-Lopera et al., 2022; Pehrsson, 2019; Karim et al., 2024; Pangestu & Nuvriasari, 2024; Wijayanto et al., 2020). These studies highlight the significance of entrepreneurial orientation, technological innovation, and market responsiveness in fostering business performance, financial outcomes, and environmental sustainability. However, a critical gap persists in understanding how entrepreneurial orientation influences SMEs' performance, particularly in contexts with unique socio-economic and regulatory dynamics, such as Lagos State, Nigeria. Small and Medium Enterprises (SMEs) in Nigeria have exhibited poor performance, constrained by a combination of systemic and environmental challenges. According to a 2022 SMEDAN report, approximately 80% of SMEs fail before their fifth anniversary due to harsh economic conditions, limited access to capital, and inadequate business practices (Phillips Consulting, 2024). The World Bank's 2019 Enterprise Survey, cited in 2023 studies, noted that 48% of Nigerian SMEs identified access to finance as a major constraint, compounded by high interest rates and stringent collateral requirements (Free Trade Nigeria, 2023). Additionally, poor infrastructure, such as unreliable electricity and inadequate transport networks, increases operational costs, with electricity alone accounting for the highest operational expense for many SMEs (Moniepoint Blog, 2023). Regulatory hurdles, including multiple taxation and complex registration processes, further stifle growth, creating an unfavorable business environment that discourages entrepreneurship and limits SME scalability (AFSIC, 2024).

The poor performance of SMEs has significantly impacted Nigeria's industrial landscape and national economy, undermining their potential as drivers of economic growth. SMEs account for 96.7% of businesses, 87.9% of employment, and 49.7% of GDP as of 2020, but their high failure rates have weakened these contributions (Free Trade Nigeria, 2023). A 2022 study highlighted that the closure of 1.9 million MSMEs during economic recessions and the COVID-19 pandemic exacerbated unemployment, with many SMEs unable to recover due to funding shortages and poor business practices (Free Trade Nigeria, 2023). This has led to reduced industrial output, particularly in manufacturing and retail, where SMEs dominate, limiting economic diversification away from oil dependency (AFSIC, 2024). Nationally, the decline in SME performance has slowed poverty reduction efforts, as SMEs are critical for job creation and wealth redistribution, with over 40% of SMEs failing due to lack of market demand or competitive pressures (Moniepoint Blog, 2023). The inability to leverage digital transformation, with many SMEs lacking technological

integration, further hampers their global competitiveness, stunting Nigeria's economic development (Phillips Consulting, 2024). Hence, the need to investigate the effect of entrepreneurial orientation on SMEs' performance in Lagos State, Nigeria.

### **Hypotheses Development**

The interaction between entrepreneurial orientation (EO) and employee retention has been extensively explored, with numerous studies supporting the positive effect of EO on various aspects of organisational performance. Muhammad et al. (2021) highlight that EO enables firms to capitalize on opportunities, creating a sense of purpose and security among employees, which is crucial for retention. Zulkifli and Rosli (2020) further assert that EO enhances competitive advantage and fosters employee loyalty by leveraging firm-specific resources. Risk-sharing practices associated with high EO, as noted by Gede et al. (2020), also contribute to retention by engaging employees in decision-making processes, fostering a sense of ownership. Additionally, Bapoo et al. (2021) found that organisational learning, facilitated by EO, enhances employee skills and reduces turnover. However, Alshanty and Emeagwali (2019) caution that excessive risk-taking and aggressive tactics can result in market oversaturation or misaligned products, damaging a firm's reputation. Muhammad et al. (2021) further highlight that firms may fail to capitalize on opportunities due to poor execution. Rahayu et al. (2024) also noted that firms overly focused on aggressive strategies may struggle to adapt to rapid market changes, weakening their market position. Lastly, while transformational leadership can amplify EO's effects (Panjaitan et al., 2021), it can also lead to strategic missteps if leaders push for innovation without balancing operational stability. Thus, while EO is valuable, its impact on market position depends on careful management of its dimensions and alignment with market realities. Drawing from the preceding evidence, this study formulates the hypothesis that:

**H<sub>0</sub>:** Entrepreneurial orientation has no significant effect on SMEs performance

### **Literature Review**

#### **Entrepreneurial Orientation**

Entrepreneurial orientation (EO) is a firm's strategic posture that emphasizes its inclination towards innovation, risk-taking, and proactive pursuit of opportunities, reflecting a firm's readiness to engage with market dynamics. Covin and Slevin (1989) identified three core dimensions that characterize EO: innovativeness, risk-taking, and proactiveness. Innovativeness denotes the firm's focus on creativity and new ideas, while risk-taking refers to the willingness to invest resources in ventures with uncertain outcomes. Proactiveness, on the other hand, involves anticipating and acting on future market trends. According to Wales et al. (2020), EO is particularly crucial for small and medium-sized enterprises (SMEs), as it significantly influences their ability to create and sustain a competitive advantage, enhancing their overall performance. Firms with strong EO orientations tend to lead markets with innovative solutions, while firms lacking this orientation may struggle to adapt to fast-evolving industry demands. The advantages of a strong EO are profound and multifaceted. Research has shown that firms with a high

EO are better positioned to enhance overall performance through their ability to innovate, adapt quickly to market changes, and respond to competitive pressures (Wales et al., 2020). Such firms often experience increased market share as they introduce pioneering products and services that meet emerging consumer demands ahead of competitors, thereby solidifying their market leadership (Khan et al., 2022). EO also facilitates the creation of sustainable competitive advantages by enabling firms to cultivate distinctive competencies that are difficult for competitors to replicate, thus securing long-term profitability (Rezaei & Ortt, 2018).

### **Innovativeness**

Innovativeness is the capacity of an organization to conceive and implement new ideas, products, processes, or services that provide value and enhance its performance (Khan et al., 2022). It plays a pivotal role in helping firms gain a competitive advantage and achieve long-term success, especially in markets that are evolving rapidly (Rezaei & Ortt, 2018). Innovativeness offers numerous advantages for organizations. First and foremost, it provides competitive advantage by helping firms differentiate themselves from their competitors, enhancing their market position, and cultivating customer loyalty (Khan et al., 2022). Organizations that consistently innovate are perceived as leaders in their industries, often becoming the go-to brands for cutting-edge products and services. Furthermore, the introduction of new and innovative products or services can generate increased revenue by tapping into new market segments and creating fresh revenue streams (Rezaei & Ortt, 2018). Innovativeness also fosters adaptability, allowing firms to quickly adjust their strategies and offerings in response to changes in consumer preferences, technological advancements, or competitive pressures (Sofik et al., 2023).

### **Risk Taking**

Risk-taking in entrepreneurship is the willingness and ability to make decisions that involve uncertainty, potential loss, and the possibility of failure, a fundamental component of entrepreneurship. According to Khan et al. (2022), entrepreneurs face situations where decisions are made without complete knowledge, making calculated risks essential in navigating challenges. As Rezaei and Ortt (2018) asserts, risk-taking is an inherent aspect of entrepreneurship, shaping how business owners innovate and expand their ventures. Risk-taking brings numerous advantages to entrepreneurs and organizations, driving innovation and fostering long-term success. As Khan et al. (2022) suggests, risk-taking is critical to spurring innovation, enabling entrepreneurs to introduce disruptive products and services that meet evolving market demands. By embracing risk, firms gain the ability to achieve market leadership, often securing first-mover advantages and establishing a strong presence in new or untapped markets (HubSpot, 2023).

### **Proactiveness**

Proactiveness refers to the disposition of individuals or organizations to anticipate future challenges and opportunities and to take the initiative in addressing them before they emerge. This characteristic is distinguished by a forward-thinking approach that

involves actively shaping the environment, rather than passively responding to external stimuli (Sofik et al., 2023). Abbas et al. (2023) emphasizes that proactiveness entails not only recognizing emerging challenges but also devising and implementing strategic solutions and innovations to improve overall outcomes. In essence, proactive behavior reflects a commitment to driving change rather than merely reacting to it. Organizations that prioritize proactiveness often experience enhanced performance as a result of their ability to innovate and adapt to changing market conditions (Huang et al., 2023). By anticipating shifts in market trends and positioning themselves ahead of competitors, proactive organizations can achieve and sustain a competitive advantage (Abbas et al., 2023).

### **Opportunity Recognition**

Opportunity recognition is a foundational element in entrepreneurship, encompassing the ability to identify market gaps and envision innovative solutions that address these gaps. It involves perceiving potential entrepreneurial opportunities, which can lead to the development of new products, services, or ventures (Nafukho & El Mansour, 2023). According to George et al. (2016), opportunity recognition serves as the initial stage in the entrepreneurial process, where abstract ideas transform into viable business opportunities. This critical process not only requires entrepreneurial intuition but also involves systematic evaluation of the market to recognize trends and needs that have yet to be addressed, positioning the entrepreneur to act on those insights. The advantages of effective opportunity recognition are vast, contributing significantly to the development of innovation, market expansion, and resource optimization. First, recognizing opportunities allows entrepreneurs to design innovative products and services that meet emerging consumer demands, thereby gaining a competitive advantage (Nafukho & El Mansour, 2023).

### **Growth Orientation**

Growth orientation refers to an organization's strategic focus on expansion, with an emphasis on increasing market share and enhancing performance across various dimensions. It represents a mindset where growth is prioritized as a central goal, affecting all facets of decision-making, resource allocation, and organisational culture (Huang et al., 2023). According to Kurniasari et al. (2023), growth orientation is vital for firms seeking to remain competitive and sustain long-term success in dynamic business environments. This strategic approach encourages businesses to continuously adapt to emerging opportunities, thereby securing their position in the market. As such, growth orientation is considered a crucial driver for organisational success and sustainability. The adoption of a growth orientation often yields several advantages, including increased market share. As firms expand their operations and reach new customer segments, they can secure a larger share of the market, which contributes to greater visibility and brand recognition (Huang et al., 2023).

### **SME Performance**

According to Esator et al. (2025), SME performance refers to how well small and medium-sized enterprises (SMEs) achieve their business objectives, often measured through

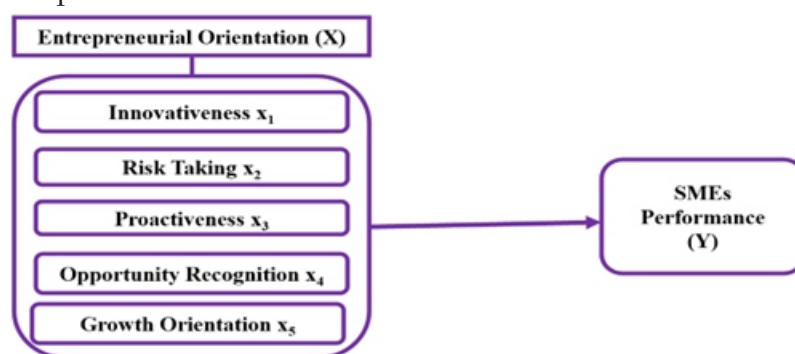


financial and operational metrics like revenue growth, profitability, employment growth, and innovation. SME performance refers to the ability of these enterprises to achieve key business objectives, including profitability, growth, market share, innovation, and sustainability. According to Hussain et al. (2020), SME performance is shaped by internal factors such as leadership, financial resources, and innovation capabilities, as well as external influences like market conditions and government policies. The measurement of SME performance often includes both financial indicators such as revenue growth and profitability and non-financial indicators, including customer satisfaction and employee engagement (Khan et al., 2022). Strong SME performance presents numerous advantages, both for individual businesses and the broader economy. One of the most significant benefits is its contribution to economic growth, as high-performing SMEs drive job creation and GDP expansion. Additionally, SMEs are often at the forefront of innovation due to their agility and ability to target niche markets effectively (Baker & Barlow, 2022). Another advantage is resilience during economic downturns, as SMEs with strong performance metrics are better equipped to navigate financial crises and market disruptions (Khan et al., 2022).

### Theoretical Underpinning

The Resource-Based View (RBV) serves as the foundational theory, asserting that a firm's sustained competitive advantage and superior performance stem from its distinctive portfolio of resources and capabilities, which are valuable, rare, inimitable, and non-substitutable (VRIN) (Barney, 1991; Wernerfelt, 1984). In the context of entrepreneurial orientation and the performance of small and medium-sized enterprises (SMEs) in Lagos State, Nigeria, RBV provides a robust framework for understanding how SMEs strategically deploy unique resources such as entrepreneurial innovativeness, proactiveness, and risk-taking to achieve enhanced market positioning and financial outcomes in dynamic and resource-scarce environments. In the context of entrepreneurial orientation (EO) and performance of small and medium-sized enterprises (SMEs) in Lagos State, Nigeria, RBV serves as a critical underpinning theory by emphasizing how SMEs leverage internal resources such as innovativeness, proactiveness, and risk-taking (core dimensions of EO) to achieve superior performance in a competitive and resource-constrained environment.

**Figure 1:** Conceptual Model



**Source:** Researchers' Conceptualisation (2025)

## Methodology

The research was grounded in the positivist and objectivist philosophies. Positivism is based on the belief that reality is objective and can be observed and measured through empirical data, independent of the researcher's beliefs or interpretations. The study utilized a quantitative and deductive research approach. The study employed a survey research design to gather quantitative data from a large sample of SMEs in Lagos State, Nigeria. The survey design used questionnaires distributed to SME owners and managers to assess factors such as entrepreneurial orientation and SME performance. This approach is particularly suitable for this study as it allows for the collection of standardized data that can be analyzed statistically to test the proposed hypotheses. The population of this study comprised 11,663 registered owner-managers of selected small and medium scale enterprises SMEs in Lagos State, Nigeria. Lagos State is widely regarded as the commercial and economic hub of Nigeria, housing a significant proportion of the nation's business activities. An adapted and validated research instrument was used for the data collection. Simple random sampling technique was adopted to select respondents, ensuring that every business owner-manager in the sampling frame has an equal chance of being chosen. This method eliminated selection bias and enhanced the representativeness of the sample, leading to more generalizable findings.

## Model Specification

The equations of the study based on the research hypotheses are as follows:

### Variables Identification

X= Entrepreneurial Orientation (OE)

Y = SME Performance (SMEP)

$X = (x_1, x_2, x_3, x_4, x_5)$

$x_1$  = Innovativeness (IN)

$x_2$  = Risk Taking (RT)

$x_3$  = Proactiveness (PR)

$x_4$  = Opportunity Recognition (OR)

$x_5$  = Growth Orientation (GO)

$Y = f(x_1, x_2, x_3, x_4, x_5)$

$SMEP = \beta_1 IN + \beta_2 RT + \beta_3 PR + \beta_4 OR + \beta_5 GO + \mu_i \dots \dots \dots$  (Equation 1)

## Data Analysis, Results and Discussion

The researcher distributed 503 copies of questionnaire to the respondents of which 456 copies of the distributed questionnaire were duly filled and returned and was used for the analysis. This represents a response rate of 90.7% of the population employed in the study, which was considered an excellent response rate. Before performing the multiple regression analysis, diagnostic tests such as normality, linearity, and homoscedasticity were conducted to verify the data's appropriateness.

### Restatement of Hypothesis

H<sub>0</sub>: SME's performance is not significantly affected by entrepreneurial orientation

**Table 1:** Multiple Regression analysis of the effect of entrepreneurial orientation on SME's performance of selected SME's in Lagos State, Nigeria

Model	N = 456							
	B	T	Sig.	R	R <sup>2</sup>	Adj. R <sup>2</sup>	F (5, 451)	ANOVA
(Constant)	1.797	9.663	0.000	0.637 <sup>a</sup>	0.406	0.400	61.747	0.000 <sup>b</sup>
Innovativeness	-0.009	-0.151	0.880					
Risk-Taking	0.064	1.168	0.243					
Proactiveness	0.205	3.539	0.000					
Opportunity Recognition	0.174	2.908	0.004					
Growth Orientation	0.209	3.463	0.001					
a. Dependent Variable: SME's Performance b. Predictors: (Constant), Innovativeness, Risk-Taking, Proactiveness, Opportunity Recognition, Growth Orientation								

**Source:** Researchers' findings 2025

### Interpretation

The multiple regression analysis results presented test the relationship between entrepreneurial orientation dimensions and SME performance. The findings reveal significant effects for certain entrepreneurial orientation components while showing no significant impact for others. Three dimensions demonstrate statistically significant positive effects on SME performance: proactiveness ( $\beta = 0.205$ ,  $t = 3.539$ ,  $p < 0.001$ ), opportunity recognition ( $\beta = 0.174$ ,  $t = 2.908$ ,  $p < 0.01$ ), and growth orientation ( $\beta = 0.209$ ,  $t = 3.463$ ,  $p < 0.01$ ). These results indicate that SMEs with greater forward-looking strategic posture, superior ability to identify market opportunities, and stronger growth aspirations tend to achieve better performance outcomes. Conversely, innovativeness ( $\beta = -0.009$ ,  $t = -0.151$ ,  $p > 0.05$ ) and risk-taking ( $\beta = 0.064$ ,  $t = 1.168$ ,  $p > 0.05$ ) show no statistically significant relationship with SME performance. The negative coefficient for innovativeness, though insignificant, suggests potential resource allocation challenges when pursuing innovation without corresponding performance benefits.

The model explains a substantial portion of performance variance, with an R value of 0.637 indicating a strong relationship between the predictors and SME performance. The adjusted R<sup>2</sup> of 0.400 demonstrates that these entrepreneurial orientation dimensions collectively account for approximately 40% of performance variation among the surveyed SMEs. The highly significant ANOVA result ( $F = 61.747$ ,  $p < 0.001$ ) confirms the model's overall robustness. These findings suggest that SME performance in this context depends more on proactive market positioning, opportunity identification, and growth ambitions than on innovation or risk-taking propensities. The results provide valuable

insights for SME owners and policymakers regarding which entrepreneurial orientation aspects most strongly influence business success in this emerging market setting.

Predictive Model:  $SMP = 1.797 + -0.009INN + 0.064RT + 0.205PR + 0.174OR + 0.209GO + U_i$  --- Equation (i)

Prescriptive Model:  $SMP = 1.797 + 0.205PR + 0.174OR + 0.209GO + U_i$  --- Equation (ii)

Where:

- SMEP = SMEs' Performance
- INN = Innovativeness
- RT = Risk-Taking
- PR = Proactiveness
- OR = Opportunity Recognition
- GO = Growth Orientation

The regression analysis reveals that when all entrepreneurial orientation dimensions are held constant at zero, SME performance would register at 1.797, indicating a positive baseline value. The model demonstrates significant predictive power, with an adjusted R<sup>2</sup> of 0.400 (F(5, 451) = 61.747, p < 0.001), explaining approximately 40% of the variance in SME performance. Among the predictor variables, proactiveness ( $\beta = 0.205$ , p < 0.001), opportunity recognition ( $\beta = 0.174$ , p = 0.004), and growth orientation ( $\beta = 0.209$ , p = 0.001) emerge as statistically significant positive contributors to SME performance. This suggests that a one-unit increase in these dimensions would enhance SME performance by 0.205, 0.174, and 0.209 units respectively, with proactiveness and growth orientation showing particularly strong effects. Conversely, innovativeness ( $\beta = -0.009$ , p = 0.880) and risk-taking ( $\beta = 0.064$ , p = 0.243) show no statistically significant relationship with SME performance. The negative coefficient for innovativeness, though insignificant, warrants further investigation as it potentially suggests an inverse relationship that didn't reach statistical significance in this sample.

The overall model's high significance (p < 0.001) confirms that entrepreneurial orientation dimensions collectively influence SME performance, with proactiveness, opportunity recognition, and growth orientation being particularly impactful. These findings suggest that SME managers should prioritize developing proactive strategies, enhancing opportunity recognition capabilities, and fostering growth-oriented mindsets to improve business performance, while potentially reconsidering their allocation of resources towards innovativeness and risk-taking activities. The null hypothesis stating that entrepreneurial orientation dimensions have no effect on SME performance is rejected.

### **Discussion of Findings**

The findings of this study, which demonstrate that entrepreneurial orientation (EO) has a positive and significant effect on the performance of selected SMEs in Lagos State,

Nigeria, align with a substantial body of empirical research. Muhammad et al. (2021) highlight that EO enables firms to capitalize on opportunities, fostering a sense of purpose and security among employees, which enhances retention and overall organizational performance. This supports the current study's conclusion that EO-driven firms are better positioned to leverage market opportunities, leading to improved SME performance. Similarly, Zulkifli and Rosli (2020) assert that EO enhances competitive advantage by leveraging firm-specific resources, which aligns with the Lagos SMEs' ability to outperform competitors through innovative and proactive strategies. These studies collectively affirm that EO's dimensions innovativeness, proactiveness, and risk-taking – are critical drivers of SME success. Regarding customer retention, the study's findings resonate with Wales et al. (2023), who argue that EO drives firms to proactively address customer needs, enhancing satisfaction and loyalty. Zhang and Aumeboonsuke (2023) add that EO fosters a knowledge-driven culture, enabling SMEs to anticipate and meet evolving customer expectations. This aligns with the Lagos SMEs' ability to retain customers through innovative and adaptive strategies. Hidayat et al. (2024) further highlight that continuous service innovation, a key EO outcome, ensures relevance in dynamic markets, reinforcing the study's conclusion that EO significantly boosts customer retention. These studies collectively underscore EO's role in building customer-centric SMEs that thrive on innovation and responsiveness.

The role of dynamic capabilities in amplifying EO's impact on performance is also well-documented. Esator et al. (2025) found that dynamic capabilities (sensing, seizing, reconfiguring, and managing market threats) significantly enhance the performance of MSMEs in Lagos State. This aligns with the current study's findings, as EO enables SMEs to sense and seize opportunities while mitigating risks, thereby improving adaptability and resilience. Gede et al. (2020) further emphasize that risk-sharing practices associated with EO foster employee engagement and ownership, which contributes to operational efficiency and long-term performance. These insights corroborate the study's results, demonstrating that EO, when coupled with dynamic capabilities, creates a robust framework for SME growth in competitive markets like Lagos. Also, the profitability of SMEs is another area where EO's impact is evident. Kusa et al. (2024) demonstrate that EO-driven innovation and proactiveness lead to operational efficiencies, directly enhancing profitability. This mirrors the Lagos SMEs' experience, where EO has streamlined processes and improved resource allocation. Anderson et al. (2023) emphasize the moderating role of digitalization, showing that integrating EO with digital tools amplifies profitability – a finding relevant to Lagos SMEs adopting technology for competitive advantage. Additionally, Masa'deh et al. (2023) link EO-induced service innovation to cost reduction and operational optimization, further validating the study's results. These studies illustrate how EO transforms SMEs into agile, profit-generating entities.

Organizational learning and competitive advantage are also critical outcomes of EO. Bapoo et al. (2021) find that EO enhances employee skills through organizational learning, reducing turnover and improving performance. This aligns with the Lagos

SMEs' ability to foster a learning culture that drives innovation. Majeed et al. (2020) and Aftab et al. (2022) highlight EO's role in creating competitive differentiation, which resonates with the study's findings on SMEs outperforming peers through unique value propositions. These insights confirm that EO not only improves internal capabilities but also positions SMEs as market leaders. The long-term sustainability of EO-driven SMEs is another key alignment. Panjaitan et al. (2021) show that transformational leadership, combined with EO, fosters a customer-centric culture, ensuring sustained growth. Galbreath et al. (2023) propose a unified framework where EO's innovation management and business adaptability contribute to long-term success. These findings support the Lagos SMEs' ability to maintain performance over time, leveraging EO for continuous improvement and market relevance.

Theoretically, the findings of this study align with the Resource-Based View (RBV) theory, which posits that a firm's unique resources and capabilities, including its entrepreneurial orientation (EO), are crucial for gaining a competitive advantage and improving performance. According to RBV, firms that possess valuable, rare, inimitable, and non-substitutable resources can outperform their competitors. In this context, EO is considered a strategic resource that enhances a firm's ability to innovate, take risks, and proactively seek opportunities. The results of this study demonstrate that EO positively influences the performance of SMEs in Lagos State, suggesting that firms with a strong EO are able to leverage their internal capabilities to respond effectively to market challenges and seize new opportunities. This supports the RBV theory, as EO enables firms to build and deploy resources such as creative ideas, strategic actions, and organizational culture that are critical for sustaining long-term competitive advantages. By focusing on dimensions of EO like innovativeness and proactiveness, firms are not only enhancing their resource base but also improving their overall market performance, reinforcing the view that intangible resources like entrepreneurial orientation can drive sustainable success.

### **Conclusion**

The study confirms that entrepreneurial orientation (EO) significantly enhances the performance of SMEs in Lagos State, Nigeria, by fostering innovation, proactiveness, and risk-taking. These EO dimensions enable SMEs to capitalize on market opportunities, improve customer retention, and achieve operational efficiencies, ultimately driving profitability and long-term sustainability. The findings align with global research, demonstrating that EO equips SMEs with the agility and competitive edge needed to thrive in dynamic business environments. By cultivating an entrepreneurial mindset, SMEs in Lagos can better navigate challenges, adapt to market shifts, and sustain growth.

### **Recommendations**

To maximize the benefits of EO, SME owners should prioritize fostering an entrepreneurial culture through leadership commitment, employee training, and investment in innovation. Policymakers can support this by creating enabling environments, such as access to funding, digital infrastructure, and business

development programs. Additionally, SMEs should leverage technology to enhance EO-driven strategies, ensuring they remain competitive in an evolving market. Future research could explore sector-specific applications of EO or its integration with emerging technologies like AI and blockchain to further optimize SME performance in Nigeria and similar economies.

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