Effect of Entrepreneurial Competencies on Performance of Small and Medium Scale Enterprises in Yobe State, Nigeria

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Abstract

Small and Medium Scale Enterprises (SMEs) in Nigeria face significant challenges that hinder their performance, contributing to rising unemployment and poverty rates. This study investigates the role of entrepreneurial competencies in enhancing SME performance in Yobe State, Nigeria. Drawing on human capital theory, the research examines the relationships between risk-taking and networking competencies and SME performance. Data were collected through a cross-sectional survey of 230 SME owners/managers, with descriptive statistics and regression analysis used for analysis. The findings reveal that both risk-taking and networking competencies positively influence SME performance. Specifically, moderate risk-taking fosters innovation and growth opportunities, while effective networking enhances access to resources and support. Based on these results, recommendations are made for entrepreneurs to focus on developing these competencies, supported by entrepreneurial training programs and policy interventions aimed at fostering networking opportunities. By addressing these challenges, stakeholders can contribute to the growth and success of SMEs in Nigeria.

Keywords: Entrepreneurship, Risk-taking, Networking Competencies, SMEs Performance and Nigeria.

Introduction

SMEs in Nigeria demonstrate inferior performance compared to those in both developed and developing countries, as highlighted by a report from SMEDAN and NBS (2017). This underperformance contributes to rising unemployment and poverty rates, with statistics from the World Poverty Clock (2020) indicating that 49% of the Nigerian population lives in extreme poverty. Additionally, the 2020 national NMSMEs report revealed a 3.5% decrease in the contributions of NMSMEs to the GDP. These concerning trends underscore the urgent need for research into entrepreneurial endeavors in Nigeria to address the challenges faced by SMEs and offer solutions. Despite SMEs being recognized as pivotal for economic growth, employment creation, and poverty reduction, their low performance in Nigeria stems from various challenges, including infrastructural deficits, lack of entrepreneurial skills, insufficient commitment to business, reluctance to adopt new technologies, and failure to develop competitive strategies (Al-Mamun *et al*, 2016; Ajonbadi, 2015; Elbaz, Agag & Alkathiri, 2018; Wahid, Aziz & Halim, 2017). These challenges are closely associated with deficiencies in entrepreneurial competencies, emphasizing the need for further research in this area (Aliyu, 2017).

The apparent paradox of Small and Medium Enterprises (SMEs) in Nigeria, where their significant potential contrasts sharply with their limited contribution to economic growth, underscores a pressing issue. Despite being recognized globally as vital engines for development, SMEs in Nigeria face substantial challenges hindering their performance (Nwokocha & Madu, 2020). Addressing this gap between potential and reality requires a deep understanding of the challenges impeding SME growth and the role of entrepreneurial competencies in overcoming these obstacles. This introduction sets the stage for an exploration

into how enhancing entrepreneurial skills, moderated by commitment, could potentially elevate SME performance in Yobe State, Nigeria.

SMEs today in Nigeria are gaining a lot of attention in the business ecosystems because of their vital contribution to the national economy. The managers and employees within the SMEs use innovative and creative marketing as strategies to compete in the product and service markets. Thus, it is expedient for business managers to adopt a competent strategy which ensures the development and application of risk taking and network competency. Based on foregoing, this study examines the role of entrepreneurial competencies in enhancing SME performance in Yobe State, Nigeria.

Building upon previous studies (Abdu, 2019; Al-Mamun *et al*, 2019; Umar, Che, Omar; Hamza & Hashim, 2018) established relationship between competencies and SMEs performance with scanty literatures on risk taking and networking competencies) on SMEs performance in Yobe State. This study attempts to fill this gap and contribute to the understanding of how these factors affect SME performance in Yobe State.

Literature Review

Small and Medium Enterprise (SME) performance is a focal point for both academic scholars and practicing managers in the realm of management due to its strategic significance (Mandhachitara & Allapach, 2017; Aminu & Shariff, 2017). The concept of performance encompasses various definitions, with Otley (1999) highlighting its ambiguity and Zafar, Hafeez, and Sharrif (2016) defining it as the degree of achievement of objectives related to work and task accomplishment. It can be perceived as the qualitative and quantitative evaluation of planned efforts towards realizing enterprise objectives, encompassing aspects such as accuracy, completeness, cost, and speed (Kalmuk & Acar, 2015). Armstrong (2006) emphasizes performance as a strategic approach to delivering success to enterprises, achieved through enhancing the capabilities and performance of individuals within the organization. Moreover, performance entails meeting planned output quantities, market demand, delivering quality products or services, and achieving planned profit levels (Ngatno *et al*, 2014). It is also about the ability of an enterprise to fulfill its mission, provide value to stakeholders, and ensure long-term wellbeing compared to competitors (Mahapatra, 2010; Aminu & Shariff, 2015). Ultimately, performance reflects the degree of fulfillment of managerial goals and realized outputs within a specified period (Umoh, Umana & Effiom, 2020).

Concept of Entrepreneurial Competencies

An essential starting point in understanding entrepreneurial competencies is to define the concept of entrepreneurship itself. Entrepreneurship involves the creative management of an enterprise and the willingness to assume associated risks. Hisrich and Peters (2002) characterize entrepreneurship as the process of creating something new while taking on risks and potential rewards. It entails acquiring the skills necessary to undertake the risks of establishing a business, devising winning strategies, and executing them with vigor, persistence, and passion (Kuteyi, 2013). In another context, Aruwa (2016) defines entrepreneurship as the willingness and ability of an individual to seek investment opportunities and successfully establish and operate an enterprise. This concept serves as a bridge between invention, innovation, and the introduction of new products and services into the marketplace, empowering entrepreneurs to drive economic growth (Ketchen, 2013). Entrepreneurship is closely tied to entrepreneurial opportunities, which are the environmental conditions conducive to the introduction of new products or services. Dutta and Crossan (2015) describe entrepreneurial opportunities as environmental conditions leading to the introduction of new products or services by entrepreneurs or entrepreneurial teams, either through existing

ventures or new ventures. Similarly, Aina and Salao (2016) view entrepreneurship as any purposeful activity that initiates, sustains, or develops profit-oriented business interactions within the internal context of the business or within the broader economic, political, and social circumstances surrounding it.

Risk-Taking and SMEs performance

The literature review reveals a dearth of studies examining the direct relationship between risk-taking competency and firm performance, with mixed findings reported. For instance, Al-Mamun and Faizal (2017) found a negligible effect of risk-taking competency on micro-enterprise performance, prompting the exploration of the moderating role of entrepreneurial commitment to strengthen this relationship. Similarly, Yayuk, Siswoyo, and Zainal (2019) discovered that risk-taking competence did not significantly impact micro-enterprise performance, yet failed to delve into other dimensions of entrepreneurial competencies or consider the role of intervening variables like commitment. Simanjuntak and Sarjono (2019) reported a low influence of risk-taking competence on business performance among women entrepreneurs, while Pulka, Imam, and Gamama (2019) found a direct positive effect of risk-taking on SMEs performance. Conversely, Mason *et al* (2015) and Akhigbe and Onuoha (2020) highlighted a positive relationship between risk-taking and SME performance but overlooked the indirect effect of commitment on competencies and performance. Similarly, Lawal *et al* (2018) and Tende *et al* (2020) focused on risk-taking without considering other competency dimensions or the moderating role of commitment. Finally, Trismiyanto et al. (2018) found that risk-taking competency influenced performance directly or through opportunities in the handicraft industry but lacked theoretical underpinning and overlooked the role of commitment. Thus, this study aims to address these gaps by examining the interplay between entrepreneurial competencies, entrepreneurial commitment, and SME performance. Hence, based on reviewed literature, the study hypothesized that:

H01: Risk- taking has no significant effect on SMEs performance in Yobe state, Nigeria

Networking competencies and SMEs performance

The existing literature highlights several research gaps regarding the relationship between entrepreneurial competencies and business performance in various contexts. For instance, Abidur Rahman, Ahmad, and Taghizadeh (2016) found that networking competency had a relationship with non-financial performance but suggested further investigation into entrepreneurial competencies in different business types and rural areas. Similarly, Al Mamun, Fazal, and Zainol (2019) discovered a negative effect of networking competency on microenterprise performance but neglected to consider other competency dimensions or the role of entrepreneurial commitment. Al Mamun, Faizal, and Muniady (2019) observed a significant effect of networking competencies on enterprise performance but recommended broader cross-country research. Sajilan and Tehseen (2019) and Tehseen, Qureshi, and Ramayah (2018) both found positive relationships between network competence and firm performance among Malaysian entrepreneurs but overlooked other competency dimensions and the moderating role of commitment. Conversely, Lawal et al. (2018) identified a positive influence of networking competencies on SME performance in Nigeria but omitted the examination of commitment's moderating role. Nasuredin, Halipah, and Shamsudin (2016) reported a non-significant correlation between networking competency and SME performance in Malaysia, highlighting the need for more robust analysis methods and consideration of the indirect effect of entrepreneurial commitment. Lopa and Bose (2014) found networking competence to significantly impact firm performance but lacked theoretical discussion and consideration of entrepreneurial commitment. Thus, this study aims to address these gaps by comprehensively examining the relationship between entrepreneurial competencies,

entrepreneurial commitment, and SME performance while employing advanced analysis techniques. Hence, based on reviewed literature, the study hypothesized that:

H02: Networking competencies has no significant effect on SMEs performance in Yobe state, Nigeria

Human Capital Theory

Becker's theory of human capital, introduced in 1964, underscores the significance of skills and knowledge acquired through investments in education, training, and experience to enhance an entrepreneur's productivity. This theory suggests that entrepreneurs who heavily invest in human capital often strive for business growth. Research by Zainol et al. (2018) and Wuttapan (2017) has corroborated that human capital contributes to the development of entrepreneurial competencies, crucial for achieving business success. For instance, opportunity recognition competency, as noted by Man et al. (2002), is bolstered by an entrepreneur's ability to leverage prior knowledge and experiences to identify and exploit opportunities. Similarly, networking competency enhances enterprise productivity by establishing effective relationships with stakeholders such as customers, suppliers, and distributors, thereby facilitating market expansion and growth (Jovanovic, 1982) Furthermore, entrepreneurs with robust human capital can better understand their market, customers, and products, thus enabling them to identify new opportunities for innovation and growth (Garud & Giuliani, 2013).This study posits that entrepreneurs with stronger human capital can operate their businesses efficiently, leveraging their abilities in opportunity recognition, innovation, risk-taking, and networking to make informed decisions and drive organizational success (Umoh, Umana & Effiom, 2020). As emphasized by Man and Lau (2000), a thorough understanding of tasks and responsibilities allows entrepreneurs to manage their organizations effectively and commit fully to their ventures (Man et al., 2000).

Methodology

The research study adopts a cross-sectional survey research design to collect data from respondents at a single point in time, focusing on independent, dependent, and dependent variable. The choice of this design is motivated by its efficiency in achieving research objectives within resource constraints such as time and budget, as highlighted by Bryman and Bell (2007) and Kothari (2014). The study targets a population of 386 registered Small and Medium Enterprises (SMEs) in Yobe State (SMEDAN, 2023), selected due to the state's status as having the lowest number of SMEs in Nigeria and facing security challenges. Data collection assesses variables including opportunity recognition, innovation, and SME performance. The research is confined to five local government areas within the state amaturu, Potiskum, Nangare, Bade, and Nguru selected for their relatively lower security risks and higher concentration of business enterprises that are related to the study’s objectives. The sample size determination uses Yamane's formula, incorporating population size, desired precision level, and a formula-derived figure of 196.

Sample size formula:

$$n = \frac{N}{1+N(e)^2}.$$

Where n = sample size

N = population size

e = desired level of precision

1 = constant

Therefore:

$$n = \frac{386}{1+386(0.05)^2}$$

$$n = \frac{386}{1+386(0.0025)}$$

$$n = \frac{386}{1+0.965}$$

n = 196

To account for potential errors such as incorrect filling and non-responses, Salkind (1997) recommends a 30% increase in the minimum sample size. Thus, the final sample size is calculated to be 255, with questionnaires distributed to SME owners/managers as the unit of analysis for this research.

Model Specification

In functional form

PER = *f* (CM)

The dependent variable performance which is a function of the independent variable compensation.

In equation form is represented as follows:

$PER_i = \alpha + \beta_1 RT_i + \beta_2 NC_{ii} + \varepsilon_i$

Where;

PER = SMEs Performance

RT = Risk Taking

NC = Network Competency

α= Constant or Intercept

$\beta_1 - \beta_2$ =Coefficient of the Independent Variable

ε= Error Term

i= respondents

Table 1 –Reliability Test

Variables	Cronbach Alpha Value
Risk-Taking	0.864
Networking Competency	0.872
SMEs Performance	0.833

Source: Field Work, 2023

In Table 1, a test based on Cronbach's Alpha coefficient was conducted to assess the reliability of the risk-taking competency, networking competencies questionnaire and SMEs performance the consistency of the constructs it measures. Cronbach's Alpha coefficient ranges from 0 to 1, with values equal to or greater than 0.7 considered acceptable for internal consistency. The results of the test, not included here but presumably displayed in a table, indicated a score exceeding 0.7. This suggests that the questionnaire items effectively addressed the study's

objectives, ensuring the reliability of the responses collected for all variables used in the research. Therefore, these responses are deemed reliable for further analysis.

Result of the Findings

Descriptive statistics were used in this section to assess different organizational and demographic characteristics. These factors included the respondents' gender, age, educational background, and experience. Respondents were SMEs owners//manager who took part in the survey. 230 of the 255 completed surveys were returned, for a response rate of 90.2%. It is interesting that this response rate is judged satisfactory based on the relevant research, since rates above 70% are often regarded as very excellent (Mugenda & Mugenda, 1999), with a general acceptance rate of 50%. This good response rate may be ascribed to efficient data collecting methods.

Table 2. Demographic Information of the Respondents

	Frequency	Percentage
Gender		
Male	147	63.9
Female	83	36.1
Age		
20-30 years	89	37.4
31-40 years	82	35.7
41-50 years	35	15.0
50 years and above	25	10.9
Experience		
Less than 1 year	55	24.0
1-5 years	43	18.7
6-10 years	88	38.0
10 years and above	42	18.3

Source: Field Work, 2023

The frequency and percentage distribution of respondents based on gender, age, and experience provide valuable insights into the demographic composition of the sample population. The demographic analysis in Table 2 reveals a predominant male representation, constituting 63.9% of the total sample, while females account for 36.1%. This gender distribution indicates a higher participation of males compared to females. Moreover, the majority of respondents fall within the 20-30 years age bracket, representing 37.4% of the sample, indicating a relatively younger population. The distribution gradually decreases across older age groups, with 31-40 years at 35.7%, 41-50 years at 15.0%, and 50 years and above at 10.9%. Regarding experience, respondents with 6-10 years of experience form the largest group at 38.0%, followed by those with less than 1 year at 24.0%, 1-5 years at 18.7%, and 10 years and above at 18.3%. This diversity in experience levels suggests a varied range of expertise within the sample, with a significant portion possessing moderate experience in their respective fields.

The demographic analysis reveals significant insights into the composition of the sample population. Firstly, the predominance of males over females suggests a gender disparity within certain industries or sectors, possibly influencing the representation of respondents. To mitigate potential biases stemming from this imbalance, researchers should proactively seek strategies to enhance participation from underrepresented groups in future studies. Secondly, the distribution across different age groups underscores the importance of recognizing generational distinctions in entrepreneurial research and practice. Variances in attitudes, preferences, and behaviors related to entrepreneurship among different age cohorts emphasize the necessity for tailored interventions targeting specific age demographics. Lastly, the diverse range of experience levels among respondents highlights the multifaceted nature of entrepreneurial expertise. Acknowledging and accommodating these variations in experience levels during

analysis can enrich discussions and recommendations aimed at fostering entrepreneurial development and success. Additionally, leveraging the collective knowledge and insights from individuals with diverse experience backgrounds can enhance the comprehensiveness and applicability of research findings in entrepreneurial contexts.

Descriptive Analysis

SMEs performance, Risk-Taking, empathy, responsiveness, Networking Competency, and tangibility are six factors that were evaluated as part of the descriptive analysis of this research. Each of these variables has numerous dimensions. A five-point scale, ranging from 1-5 where; strongly disagree-1, disagree-2, undecided-3, agree-4 and strongly agree-5 respectively was used to rate each of these latent variables. The five-point scale was divided into three levels low, moderate, and high to make interpretation easier. Low scores were defined as those below 2 (3/3 + the lowest value 1), good scores as those above 3 (the highest value 4 - 3/3), and scores in the middle as moderate. Mean and standard deviation were the two main descriptive statistical metrics used in this investigation. The standard deviation was used to show how much the distribution deviates from the mean, whereas the mean was used to assess the central tendency and find the most important number within a sample.

Table 3: Descriptive Statistics

Variables	Mean	Std. Deviation
SMEs Performance	412	1.32
Risk-Taking	4.22	1.03
Networking Competency	4.13	1.44

Source: Field Work, 2023

Table 3 presents the descriptive statistics for the variables SMEs Performance, Risk-Taking, and Networking Competency. The mean score for SMEs Performance is 4.12 with a standard deviation of 1.32, indicating a moderate level of performance variability among the SMEs in the sample. For Risk-Taking, the mean score is 4.22 with a standard deviation of 1.03, suggesting a relatively higher level of risk propensity among the entrepreneurs surveyed. Similarly, Networking Competency has a mean score of 4.13 with a standard deviation of 1.44, indicating a moderate level of variability in networking abilities among the respondents.

The implication is that, the average level of SMEs Performance suggests that the sampled enterprises exhibit a moderate level of overall performance, with some degree of variation across individual businesses. The higher mean score for Risk-Taking indicates that entrepreneurs in the sample tend to have a propensity for taking risks, which may have implications for their decision-making processes and business strategies. Additionally, the moderate mean score for Networking Competency suggests that while entrepreneurs possess networking skills, there is room for improvement in this area. Overall, these descriptive statistics provide valuable insights into the performance, risk-taking behavior, and networking abilities of SMEs in the sample, highlighting areas that may require attention or further investigation in subsequent analyses.

Table 4: Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
SMEs Performance	.309	213	.239	.324	210	.326

a. Lilliefors Significance Correction

Source: summary of SPSS OUTPUT

Table 4 shows results of Normality test for SMEs Performance. The Sharpiro-Wilk approximated test for normality indicated a significant rejection of the normality assumption for SMEs Performance (S-W = 0.324, p = 0.326).

Table 5 Multiple Regression Analysis

Model	Unstandardized Coefficients B	standardized Coefficients Std. Error	T	Sig.
Constant	0.454	4.11	9.07	0.000
Risk-Taking	0.413	2.51	6.09	0.000
Networking Competency	0.442	1.87	4.22	0.000
Adjusted R-square	0.4312			
F-statistics	5.44			
P-value	.0000			

Source: Field Work, 2023

The regression analysis in Table 5 revealed an adjusted R-square value of 0.4312, indicating that approximately 43.12% of the variance in the dependent variable can be elucidated by the independent variables incorporated into the model. This suggests that factors like entrepreneurial competencies, among others, contribute substantially to explaining the variability observed in SMEs performance. Furthermore, the F-statistic of 5.44 with a p-value of 0.0000 signifies the statistical significance of the regression model, implying that at least one independent variable significantly influences the dependent variable. Thus, the presence of a meaningful relationship between the independent variables, particularly entrepreneurial competencies, and SMEs performance is confirmed by these results.

This study discovered that risk taking competency has a positive significant (B= 0.413 and P-value= 0.000) relationship with SME performance. It means that moderate risk-taking influences SMEs performance, as risk is inherent part of the business. A high level of risk-taking competency can lead to greater innovation and growth opportunities for an SME, which can result in improved performance. Risk taking competency involves the ability to identify potential risks and to assess their impact on the business. This includes understanding the potential consequences of taking a risk, such as financial losses, reputational damage, or legal liabilities. It also involves the ability to develop strategies to mitigate or manage the risks. On the other hand, excessive risk-taking without proper planning and preparation can result in significant financial losses and negatively impact the performance of an SME. Thus, finding the right balance between risk and caution is crucial for an entrepreneur to improve the performance of their business. Hence, entrepreneurial firms exhibiting moderate levels of risk-taking perform better in the market as compared to firms exhibiting either very high or very low levels of risk-taking. Hence, the study finds sufficient evidence to reject the null hypothesis that risk taking has no positive and significant effect on SME performance. This is consistent with the findings of Mason et al. (2015) and Akhigbe and Onuoha (2020) Lawal et al. (2018), Trismiyanto et al. (2018) who also stated that risk taking has positive significant relationship with SME performance

The study discovered that Network competency has positive and significant (B=0.442 and P-value= 0.000) effect on SME performance. This indicates that Network competency improves SME performance. This is because Network competency refers to an entrepreneur's ability to establish and maintain relationships with other businesses, customers, and stakeholders in their industry. By having a strong network, an entrepreneur can access valuable resources, knowledge, and support, which can help improve the performance of their business. Having a strong network can help an SME increase its visibility, expand its customer base, and secure new business opportunities. Strong relationships with suppliers and distributors can also lead to better deals and more efficient supply chain processes, which can positively impact the bottom line. Hence, the study finds sufficient evidence to reject the null hypothesis that network competency has no position This finding is in line with the study of Nasuredin, Halipah, and Shamsudin (2016), Lawal et al. (2018), Al Mamun, Faizal, and Muniady (2019), Sajilan and Tehseen (2019) and Tehseen, Qureshi, and Ramayah (2018).

Conclusion

The findings of the regression analysis indicate that both risk-taking competency and network competency have significant positive effects on SME performance. The positive relationship between risk-taking competency and SME performance suggests that a moderate level of risk-taking is beneficial for SMEs, as it can lead to greater innovation and growth opportunities. However, excessive risk-taking without proper planning may result in financial losses and negatively impact performance. Similarly, the positive relationship between network competency and SME performance highlights the importance of entrepreneurs establishing and maintaining relationships with other businesses, customers, and stakeholders. A strong network provides SMEs with access to valuable resources, knowledge, and support, ultimately contributing to improved performance.

Recommendations

Based on these findings, it is recommended that entrepreneurs focus on developing and enhancing both risk-taking and network competencies to improve SME performance.

i. The study recommends that entrepreneurial training programs and workshops should be designed to help entrepreneurs cultivate these competencies, providing them with the skills and knowledge needed to effectively identify and manage risks, as well as build and leverage networks.
ii. The study recommends that policymakers and business support organizations should play a role in facilitating networking opportunities for SMEs, such as organizing industry-specific events, trade fairs, and networking forums. By investing in the development of these competencies and fostering a supportive ecosystem for networking, stakeholders can contribute to the growth and success of SMEs in the market.

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