THE EFFECTS OF ORGANIZATION INTANGIBLE RESOURCES ON SMEs PERFORMANCE IN NIGERIA: THE ROLE OF ISLAMIC WORK ETHICS AS A MODERATOR

by

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LIST OF ABBREVATIONS

AVE	Average Variance Extracted
CB	Covariance Based
CMV	Common Method Variance
CR	Composite Reliability
EO	Entrepreneurial Orientation
f^2	Effect Size
HTMT	Heterotrait-Monotrait Ratio
IWEs	Islamic Work Ethics
KM	Knowledge Management
MENA	Middle East and North Africa
MO	Market Orientation
NASME	Nigerian Association of Small and Medium Enterprises
OC	Organizational Culture
OECD	Organization for Economic Cooperation and Development
PLS	Partial Least Square
R^2	Coefficient of Determination
RBT	Resource Based Theory
SEM	Structural Equation Modeling
SMEDAN	Small and Medium Enterprises Development Agency of Nigeria
SMEs	Small and Medium Enterprises
SMEP	Small and Medium Enterprises Performance
SPSS	Statistical Package for Social Sciences
UniMAP	Universiti Malaysia Perlis

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Kesan-Kesan Sumber Tidak Ketara Terhadap Prestasi Perusahaan Kecil Sederhana (PKS) di Nigeria: Peranan Etika Kerja Islamik Sebagai Pemboleh Ubah Penyederhana

ABSTRAK

Berdasarkan Teori Berasakan Sumber, kajian ini mengkaji peranan etika kerja Islam sebagai pemboleh ubah penyederhana terhadap sumber-sumber organisasi yang tidak ketara (pengurusan pengetahuan, orientasi pasaran, budaya organisasi dan orientasi keusahawanan) serta kesan-kesan tersebut terhadap prestasi Perusahaan Kecil Sederhana (PKS) di Nigeria. Sebanyak 531 pengurus PKS di enam buah negeri di Nigeria terlibat dalam kajian ini di mana setiap negeri mewakili salah satu daripada enam zon geo-politik di Nigeria. Data daripada 320 responden telah dapat digunakan dalam analisis kajian ini, iaitu sebanyak 60.3% daripada keseluruhan responden yang memberi maklum balas. Kajian ini menggunakan teknik-teknik SEM-Smart PLS untuk menguji hubungan hipotesis. Hasil kajian ini mendapati bahawa semua hipotesis tentang kewujudan hubungan langsung terhadap prestasi PKS disokong. Hasil yang lebih terperinci lagi mendapati bahawa pengurusan pengetahuan, orientasi pasaran, budaya organisasi dan orientasi keusahawanan mempunyai hubungan positif yang signifikan dengan prestasi PKS. Selain itu, penemuan ini juga menyokong dua daripada empat hipotesis iaitu etika kerja Islam didapati memberi kesan yang signifikan terhadap hubungan di antara pengurusan pengetahuan dan prestasi PKS, serta hubungan di antara budaya organisasi dan prestasi PKS. Walau bagaimanapun, etika kerja Islam tidak mempunyai hubungan penyederhana di antara orientasi pasaran dan prestasi PKS, serta hubungan di antara orientasi keusahawanan dan prestasi PKS. Secara keseluruhan, kajian ini menyimpulkan bahawa pelaksanaan dan penggunaan sumber-sumber tidak ketara secara cekap serta amalan etika kerja Islam akan memberi kesan terhadap peningkatan prestasi PKS. Akhir sekali, hasil kajian ini dapat memberi manfaat kepada pengamal dan ahli akademik dan ini dibincangkan di bawah sumbangan teoretikal dan praktikal, manakala cadangan yang diperlukan untuk penyelidikan masa depan adalah diusulkan.

Kata Kunci: orientasi keusahawanan, pengurusan pengetahuan, orientasi pasaran, budaya organisasi, sumber-sumber organisasi yang tidak ketara, prestasi PKS.

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The Effects of Organization Intangible Resources on SMEs Performance in Nigeria: The Role of Islamic Work Ethics as a Moderator.

ABSTRACT

Drawing upon the Resource Based Theory, this study examined the role of Islamic work ethics in moderating the effects of organization intangible resources (i. e. knowledge management, market orientation, organizational culture and entrepreneurial orientation) on SMEs performance in Nigeria. A total of 531 managers of SMEs in six states, with each state representing one of the six geo-political zones in Nigeria participated in the study. A usable data of 320 resulting to 60.3% response rate was finally used for the analysis and Smart-PLS SEM (Partial Least Squares and the Structural Equation Modeling) techniques were used to test the hypothesized relationships. The findings supported all the hypothesized direct relationships to SMEs performance. Precisely, knowledge management, market orientation, organizational culture and entrepreneurial orientation were found to have significant positive relationship with SMEs performance. Furthermore, the findings supported two out of the four hypothesized interaction effects. Islamic work ethics was found to have significant effect on the relationships between knowledge management and SMEs performance as well as organizational culture and SMEs performance. However, Islamic work ethics did not moderate the relationships between market orientation and SMEs performance, and entrepreneurial orientation and SMEs performance. Overall, the study concluded that effective and efficient implementation and utilization of organization intangible resources with the adoption of Islamic work ethics practice will result to the enhancement of the performance of SMEs. Finally. key benefits for practitioners and academia was finally discussed under the theoretical and practical contributions, while necessary suggestions for future research were recommended.

Keywords: Entrepreneurial Orientation, Knowledge Management, Market Orientation, Organizational Culture, Organization Intangible Resources, SMEs Performance.

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CHAPTER 1: INTRODUCTION

1.1 Background of the study

The global perspective about Small and Medium Scale Enterprises (SMEs) as the pivotal of economic growth and development remains emphatic to both developed and developing countries (Agwu & Emeti, 2014; Jasra, Hunjra, Rehman, Azam & Khan, 2011; Nkwe, 2012; Ongori & Migiro, 2010; Zakaria, Zainal & Nasurdin, 2011). This is evident in the significant attention and the volume of investment directed toward SMEs by most countries globally. Policies that could engender SMEs were being developed by the government of various countries to boost their economy through the multiplier effects of job creation, production of goods and services, wealth creation, economic growth and poverty alleviation (11th Malaysia Plan, 2015; Expert Group, 2010; Osotimehin, Jegede, Akinlabi & Olajide, 2012; SMEDAN & NBS, 2013).

Conspicuously, while many nations have achieved tremendously in this sector, quite a lot of countries are still struggling to have meaningful outcome. Realizing the potential of SMEs in nation building, government of many countries are not hesitant to include this sector as part of the Plans for National Development (Moffat & Kapunda, 2015; Muhammad, Char, Yasoa & Hassan, 2010; Uma, 2013). SMEs constitute highest percentage of business enterprises in most of the countries around the world and serve as the major source of creating job opportunities (Mahmood & Hanafi, 2013; Rahnama, Mousavian Eshghi & Alaei, 2011; Syed, Shah, Shaikh, Ahmadani & Shaikh, 2012), and innovation (Uwalomwa & Ranti, 2009).

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In the United State of America, 99.8% of businesses and over 50% of employment are provided by SMEs (Firoozmand, Haxel, Jung, & Suominen, 2015), while 99.8% and 99.5% of enterprises and 67% and 86% of total employment are accounted for by SMEs in the European Union and Japan respectively (Muller, Caliandro, Peycheva, Gagliardi, Marzocchi, Ramlogan & Cox, 2015; Annual Report of EU SMEs 2015; 2016). Similarly, over 90% of enterprises and between 50% and 60% of employment in many of the African countries are accounted for by SMEs (Afande, 2015; Guido, Marcati & Peluso, 2011). In the Organization of Economic Cooperation and Development (OECD) countries, over 95% of enterprises were SMEs (Alrousan & Jones, 2016), while in the Middle East and North African (MENA) region, this sector constitutes over 90% of the businesses (Bouazza, Ardjouman & Abada, 2015). Whereas in Nigeria, SMEs represent 98% of businesses and contribute 75% of total employment (SMEDAN & NBS, 2013). Importantly, in most of these countries, micro enterprises represent the highest figure for businesses and employment, while small and medium enterprises occupied small portion, for example, in the EU, micro enterprises represent 92% of the businesses and 37% of the employment, while small and medium occupied only 6% and 1% of businesses and 17% and 15% of employment respectively (Annual Report of EU SMEs 2015; 2016). Whereas in Nigeria, micro enterprises represent 99.8% whilst small and medium enterprises is only 0.2% (SMEDAN & NBS, 2013).

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Despite the immense potentials of this sector and its enormous impact toward attaining and sustaining a competitive and virile economy, SMEs in most countries of the world, such as Africa, OECD and MENA are facing huge challenges that are affecting their performance (Alrousan & Jones, 2016; Arinaitwe, 2006; Bouazza *et al.*, 2015). Academic studies and survey reports portend that the factors militating against the success as well as causing low rate of performance of SMEs are similar across developing

countries. Bouazza *et al.* (2015), and Alrousan and Jones (2016) emphasize that the factor affecting SMEs are tough economic situation, government instability, inconsistent polices, lack of transparency and corruption, lack of infrastructural facilities, lack of managerial and entrepreneurial skill, high cost of operation, low technology capacities, inadequate finance and difficulty in accessing credit facilities. While most of these factors are not common in the developed countries, access to credit facilities is a major challenge faced by SMEs and this is due to the global financial crisis (Annual Report of EU SMEs, 2016; Muller *et al.*, 2015).

Existing researches have shown that the performances of SMEs in developed countries are higher than the developing ones (Hashim, 2015). As shown in Figure 1.1, Hashim (2015) corroborated this by specifying the average contribution of SMEs to GDP based on the classification of countries into three income levels with low income countries (16%), middle income countries (39%) and high-income countries (51%). Additionally, the International Trade Centre Annual Report (2015) emphasizes that there is a wide gap between SMEs productivity relative to large firms in the developing nations than in the developed ones. The report reveals that this productivity gap in the developing countries is usually double the gap in the developed ones and in some developing countries, large companies are about 10 times more productive than small companies. More so, SME Competitiveness Outlook (2015) shows that the capability gaps between SMEs and large firms are often widest in less developed countries and one vital reason for this is the differences in businesses' connectivity performance. Therefore, revealing that weak business environment is another factor that hinders the performance of SMEs in developing countries.

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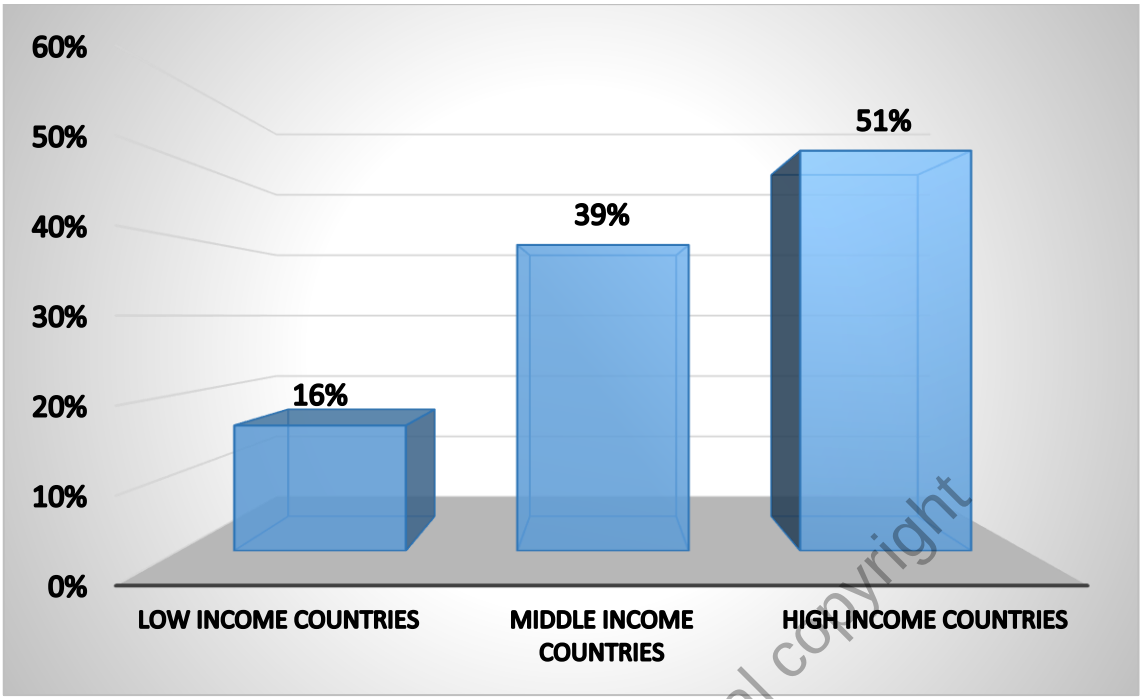

Figure 1.1: Contribution of SMEs to GDP Based on Countries Level of Income
Source: Hashim (2015), SME Development Framework. The Malaysian Case

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Nigeria as a developing country is richly blessed with abundant human and natural resources that can enormously benefit the economy in positive ways and avail SMEs sector greater opportunity to attain full potential (Afolabi, 2013; SMEDAN & NBS, 2013; Onugu, 2005). But, unlike some African and Asian countries such as Ghana, South Africa, Algeria, Malaysia, China, Thailand and so on, all of which are classified as emerging and developing nations, SMEs in Nigeria is suffering huge set back in terms of growth, development, and performance as its contributions to economy is small in relative terms (Ofoegbu, Akanbi & Joseph, 2013). For example, in most of the African countries, SMEs contribute more than 50% to their respective GDP (Abor & Quartey,2010; Van Scheers, 2011), and SMEs in Malaysia contribute 36.3% to GDP (SME Corporation Malaysia, 2016), the Nigeria SMEs could only contribute as low as 9.33% to GDP (SMEDAN & NBS, 2013).

The former Minister of Trade and Investment in Nigeria, Olusegun Aganga also lamented on the poor performance of Nigerian SMEs in terms of contribution to GDP which he says is less than 10% as against 50% in India (SME NEWS, 2011, p. 1 & 2). Furthermore, Grover and Suominen (2014) explicate that SMEs grow at almost twice the rate of GDP in some developed and Asian countries such as United Kingdom over 50%, United State of America about 60%, Taiwan 55%, and China 60%, while the case of Nigeria is in reverse (SME Digest, 2015, p. 15). In Table 1.1 below, it can be observed that the percentage contribution of SMEs to the GDP of Nigeria is the lowest (9.3%), even among the African counterparts, while the contribution to employment is high (75%). The closest to Nigeria at low level of contribution to GDP is India (18%), however, India SMEs dependency on employment (40%) is the lowest among the countries stated in the table.

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Table 1.1: Contribution of SMEs to GDP and Employment

Country	% Contribution to GDP	% Employment
USA	60	52
UK	50	53.6
China	60	80
Nigeria	**9.3**	**75**
Taiwan	55	78
India	18	40
Malaysia	36.3	65.5
South Africa	57	74
Ghana	53	80

Source: *SMEDAN & NBS (2013), SME Corporation Malaysia (2016), Malaysia SME Annual Report (2016), Annual Report on European SMEs (2016).*

Although, for the past decades, SMEs have been providing higher volume of employment opportunities to the people of Nigeria like other countries of the world (Dauda & Akingbade, 2010; Irefin, Abdul-Azeez & Tijani, 2012). The sector is faced with challenges that are seriously affecting its performance, such as production

technology, cost structure, access to finance, entrepreneurship, firm characteristics, management structure, and marketing strategies, poor infrastructures (e.g. roads, electricity, energy, communication), manufacturing environment, economic environment (e.g. venture capital, fluctuating value of the Naira), production inputs (e.g. raw materials, equipment, land, energy), government policies; and political considerations (SMEDAN & NBS, 2013).

Unfortunately, several programs and policies put in place by the government to improve the growth and performance of SMEs did not yield the expected outcome. For instance, the Industrial Development Centers (IDC) was set up to provide the technical, managerial and accounting assistance, the Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) that are responsible for promoting small business sector of the country, Small and Medium Enterprises Equity Investment Scheme (SMEEIS), and the Small Scale Industries Credit Scheme (SSICS) that are to provide soft loan and other financial assistance, and many others to mention (SMEDAN & NBS, 2013).

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However, existing organizational research argued that the effective and innovative management of intangible resources owned and controlled by a firm will greatly determine the firm's performance (Penrose, 1959). Barney (1991), Lonial and Carter (2015), and Ringim (2012) also portend that superior performance is attained if an organization effectively and efficiently utilize the intangible resources its owned distinctively. Penrose (1959), further stressed that ignorance of these intangible resources will result in firm's failure as well as inability to compete in the business environment. Interestingly, literatures have established that the ignorance and/or inadequate utilization of organization intangible resources are among the problems causing the lack of performance of SMEs in Nigeria (Aminu, Mahmood, & Muharram 2015).

Various authors in the past decades have used different combination of resources that are both internal and external to organization to determine the impact on performance. However, with ethics being considered as one of the major factor in organization management (Yesil, Sekkeli & Dogan, 2012), so are knowledge management, market orientation, organizational culture and entrepreneurial orientation (Deb & Wiklund, 2017; Giampaoli, Ciambotti & Bontis, 2017; Jogaratnam, 2017). Existing research argued that, even at the instance of effective management of these four resources, many organizations in recent time are faced with performance issues to the extent of running into bankruptcy due to ethical crises in workplace (Manan, Kamaluddin & Puteh Salin, 2013; Marri, Sadozai, Zaman, Yousufzai & Ramay, 2013). Example are the cases of Arthur and Anderson, Enron, and WorldCom from the West. In the case of Nigeria are public enterprises such as, NEPA, Nigeria Airways, Nigeria Railway Corporations and private enterprises like Banks and others.

The perilous circumstances that befell these organizations did not just occurred by itself, but due to unethical practices of the managements in most cases (Sanusi, 2010). These issues of unethical practices cut across various types of organizations with no exception of SMEs, thereby affecting their performance in terms of contribution to GDP and economic development. Given that SMEs performance is crucial to the development of any country (Eniola, 2014), and with the fact that moral and ethical issues which can deplete the performance of organizations to the extent of jeopardizing their survival have become rampant in developing and developed countries (Almoharby, 2011). It is imperative to examine the ethical practice of managers of SMEs in Nigeria and how it can influence the performance of the SMEs.

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Knowledge management is one of the key intangible resources emphasized by Daud and Yusoff (2010) that the ignorance and/or inadequacy will strongly affect the performance of SMEs. Andreeva and Kianto (2012) corroborates that knowledge management significantly influences firm's performance. Birasnav (2014) emphasizes the cruciality of knowledge management to the performance attainment of any organization. Ajmal and Helo (2010), and Holsaaple and Wu (2011) portend that a crucial precondition to firm's performance achievement in today's intense, dynamic and vibrant business environment is knowledge management.

Another intangible resource according to literature is organizational culture. Ajmal and Helo (2010), Coffey (2010), and Yazici (2010) argue that the organizational culture can have huge positive impact on firm's success. A well-articulated culture can possess the ability to enhance the performance of the organization continuously for long time (Gambi et al., 2015; Prajogo & McDermott, 2011). Prajogo and McDermott (2011) further emphasize that cultural elements are most closely linked with performance excellence. Thus, Gorondutse and Hilman (2016) reveal that organizational culture is one of the problems that affect the performance of SMEs in Nigeria.

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However, Arief, Thoyib, Sudiro & Rohman (2013), Jogaratnam (2017) explicate market orientation as another vital intangible resource that affects the performance of SMEs. Oyedijo, Idris and Aliu (2012), and McLarty, Pichanic and Sipova (2012) portend that poor market orientation will hamper the performance of SMEs. Lee et al. (2015), and Wang, Chen and Chen (2012) opine that market orientation will enhance firm ability to satisfy customers better and then achieve the objective of firm performance. Thus, Jogaratnam (2017) posits the market orientation is an intangible resource that can increase the performance of any firm.

Boso, Story and Codigan (2013) emphasize the important role of entrepreneurial orientation on firm performance in the developing countries. Aminu *et al.* (2015) buttress that successful utilization of entrepreneurial orientation will enhance the performance of SMEs in Nigeria. Thus, a comprehensive and in-depth entrepreneurial orientation practice will engender the performance of SMEs (Idar & Mahmood, 2011; Zainol & Daud, 2011). Kassimu (2013, p.29) argues that SMEs in Nigeria are challenged by poor entrepreneurship skills. Thereafter, Omeje (2013, p. 16) conclude that lack of basic management skills is prohibitive to the growth of SMEs in Nigeria and makes them uncompetitive. Accordingly, Jogaratnam (2017) explicate the importance of entrepreneurial orientation as key intangible resources with an immense influence on the firm performance.

Therefore, based on existing literature on marketing, management and SME, this study has identified the major problems stifling the performance of SMEs in Nigeria as lack of knowledge management, poor and inadequate market orientation, lack of organizational culture and poor entrepreneurial orientation, lack of finance, high cost of operation, low technology capacities, difficulty in accessing credit facilities, inadequate infrastructural facilities (Elem, 2012; Gorondutse and Hilman, 2016; Kassimu, 2013, p.29; Oguntuga, 2013; Oyedijo *et al.*,2012). This study avails the entrepreneurs, managers of SMEs firm in Nigeria the opportunity to develop, initiate and implement strategies that will effectively improve the business operations and enhance organizational performance thereby enhancing the contribution to GDP.

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1.2 Problem Statement

The SMEs in Nigeria have not been able to leverage on the abundant resources available at their disposal to attain full potential (Afolabi, 2013). This has inadvertently hindered the SMEs from fulfilling the vital role of boosting the economic growth and development of the nation, hence generating unreserved and persistent concern to the academic, practice, government and the entire Nigerians (Afolabi, 2013; Agwu & Emeti, 2014). According to SMEDAN & NBS (2013), the major factors hindering the performance of SMEs in Nigeria are production technology, cost structure, access to finance, entrepreneurship, firm characteristics, management structure and marketing strategies, unethical practices, poor infrastructures, manufacturing environment, economic environment, production inputs, government policies, and political considerations.

Additionally, the Director-General of SMEDAN admitted that the performance of SMEs in Nigeria has been decreasing over the years, stating that in addition to factors such as lack of entrepreneurship, inadequate management structure, marketing strategies and others, multiple taxes and expensive infrastructure also affect the growth of SMEs (SME Digest, 2015, p.15). More so, it was specifically emphasized that the neglect of the SMEs sector in Nigeria has greatly jeopardized the economic growth (Elem, 2012; Oguntuga, 2013).

Relatedly, poor performance of SMEs in Nigeria is related to poor financing, inadequate infrastructure, unfriendly business environment, lack of managerial skill, obsolete technology, and multiple taxation (Agwu & Emeti, 2014; Gbandi & Amissah, 2014). Financial inadequacy is another factor that hampers the effective performance of

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