

ENTREPRENEURIAL ORIENTATION AND SME CAPACITY BUILDING IN NIGER DELTA REGION OF NIGERIA

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Abstract

Despite the Local Content Law provisions, entrepreneurial orientation and capacity seem lacking among the people who ought to build indigenous SMEs needed to appropriate the Law for the intended improvement of the socio-economic wellbeing of the people of Niger Delta area of Nigeria. This suggests that people of the area are yet to appreciate how the Local Content Law could help in the socio-economic development of the area, and will impair the realisation of the aim of the Law. This study examines how entrepreneurial orientation could help capacity building in indigenous SMEs in the Niger Delta area of Nigeria within the context of the Local Content law provisions. Based on extant literature and indirect observations, the conceptual study found that the indigenous SMEs are not availing themselves of the opportunities created by the

Local Content Law when measured against the objectives of the law. The study argues that entrepreneurial orientation of indigenous SME owners is needed to enable them acquire strapping risk-taking propensity for aggressive, competitive and innovative strategic decision making capabilities. Implications of the study calls for a deliberate effort towards building an enterprising culture amongst Niger Delta indigenous SME owners with a view to enhancing their entrepreneurial activities and by so doing contribute to the sustainable development of the region through the Local Content Law.

Keywords: *Entrepreneurial orientatition, Entrepreneurial capacity, Business development support services, SME development*

Introduction

The Niger Delta area of Nigeria is presently facing developmental challenges which question the expected gains associated with exploitation of the oil and gas bestowed on the region by nature. The resultant effect of the neglect of the area gives credence to the Resource Curse paradigm which has become a characteristic feature of resource-abundant nations of the developing world. As noted by Sachs and Warner (2001: 828), “casual observations also confirm that extremely resource-abundant countries such as the oil states in the Gulf, or Nigeria or Mexico and Venezuela have not experienced sustained rapid economic growth”.

To solve the problem of natural resources becoming a curse on oil bearing communities, various stakeholders in the oil and gas industry (OGI) in Nigeria are engaging in one programme or the other. One of such intervention programmes by the federal government is the Local Content Policy which is aimed at domesticating oil and gas servicing jobs through the use of indigenous small and medium enterprises (SMEs).

But there is sufficient empirical evidence to show that indigenous SMEs in Nigeria are not availing themselves of the lucrative opportunities

created by the Local Content Law. As contained in a BGL report (in Balouga 2012: 24), seventy percent of contracts awarded to Nigerian companies are executed overseas. In another instance, indigenous SMEs are victims of staff poaching by multinational oil companies after training them in specialised areas. The list appears endless on the competitive disadvantage of indigenous SMEs when compared with their foreign counterparts.

It is leveraging on this understanding that this conceptual study sought to situate the quest to enhance SME capacity building in Niger Delta on entrepreneurial orientation within the context of the Local Content Law provisions. The broad objective of the study, therefore, was to demonstrate the strategic link between entrepreneurial orientation and building SME capacity in order to gain competitive advantage for exploiting opportunities in the Local Content Law provisions for improvement of well being of the people of Niger Delta region of Nigeria.

Review of related literature

Entrepreneurial Orientation (EO)

According to Lumpkin & Dess (as cited in Wikland and Shepherd, 2003: 1308), Entrepreneurial Orientation (EO) refers to “a firm’s strategic orientation, capturing specific entrepreneurial aspects decision making, methods and practices”. It is also defined as “a multidimensional construct applied at the organizational level, which characterizes firm’s entrepreneurial behaviour, and includes one or more of these three, of risk taking, innovativeness and pro-activeness.” And if entrepreneurship is aimed at exploiting opportunities in the business environment which leads to production and distribution of goods and services to targeted clientele in a competitive marketplace, then it is important to agree with Wikland and Shepherd (2003) that EO could be an important measure of the way a firm is organized as well as one that enhances the performance benefit of a

firm. In the same vein, Mahmood and Hanafi (2013: 83) argue that EO is a significant contributor to a firm's success.

The concept of EO was developed by Miller (as cited by Mahmood & Hanafi, 2013) as consisting of three dimensions, namely, innovativeness, pro-activeness and risk-taking. The dimensions were later increased to five with addition of autonomy and competitive aggressiveness (Lumpkin & Dess, 2001). There is a positive relationship between entrepreneurial orientation and business performance (Al-swidi & Al-hosan, 2012; Kabiri & Salchi, 2013; Mahmood & Hanafi, 2013; Okta, Umar, Al Mahmood, Tajudin & Abdullah, 2014).

Nigeria's Local Content Policy

The Local Content Policy is an initiative of the federal government of Nigeria to enable indigenous SMEs to participate in the lucrative OGI. It is a strategic move and in line with steps taken by other oil producing countries, such as Sao Tome and Princi. The Nigeria's Local Content Policy refers to "the quantum composite value added or created in the Nigerian economy through the utilization of Nigerian human and material resources for the provision of goods and services to the petroleum industry" (NNPC, 2016).

Appropriate legislative processes gave legal backing to the local empowerment strategy which gave birth to 'The Nigerian Oil and Gas Industry Content Development Law 2010'. Its scope covers all operations or transactions carried out in or connected with the Nigerian OGI and equally established the Nigerian Content Management Development Board. In addition, the law stipulates the amount of Nigerian created content that must be achieved in various categories of activity across the OGI (Weli, 2012).

As noted by Warner (as cited in Ihua, Ajayi & Eloji, 2009), Local Content Policy is a universal strategy and is not in any way a short-cut or a guarantee for local SMEs to access lucrative oil servicing contracts on a

platter of gold or bypassing stipulated procedures. Rather, the Local Content Policy requires “oil companies to give greater preference to those nationals and national suppliers who can compete internationally on cost, quality and timeliness” thus making it not an all-comer affair.

The areas local SMEs can compete for jobs in the OGI include “fabrication and construction, well construction and completion, modification, maintenance and operation, transportation, control systems and ICT, Design and Engineering and consultation” (Heum et al, as cited by Monday & Agorzie, 2014). All these areas require a reasonable amount of training and specialization.

Only a little success has been achieved since the commencement of the programme. Adedeji, Sidique, Rahaman and Law (2016) report that “local value created in the Nigerian oil industry as a consequence of local content policy is lower than expected target”. This development is expected due to the fact that SMEs in Nigeria are finding it difficult to achieve organizational performance due to many several factors, such as low capacity, financing gap, one-man business structure, fear of expansion, adverse business environment, etc.

To benefit from the veritable business opportunities created by Local Content Policy of the federal government of Nigeria, local SMEs must be entrepreneurial and enhance their capacities. Therefore, two propositions were derived for the study:

P1. Entrepreneurial Orientation (EO) will improve SME capacity building in Nigeria.

P2. Local Content Law will mediate the relationship between EO and capacity building of SMEs in Nigeria.

Theoretical framework

Figure 9.2.1 capture the conceptual framework of the study, involving EO dimensions, Local Content Law and SME capacity building. EO leads to

competitive aggressiveness, pro-activeness, risk-taking and innovativeness. When combined with Local Content Law, these will SME capacity building involving human capital development, strategic networking/partnership, business development and organisational development.

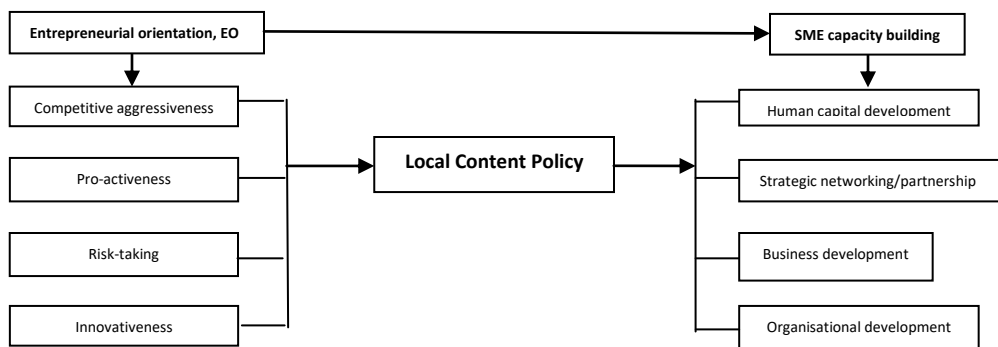


Figure 9.2.1: Conceptual framework on Entrepreneurial Orientation dimensions, Local Content Law and SME capacity building

Innovativeness

Innovativeness is described by Lumpkin & Dess (2001: 430) as “a willingness to support creativity and experimentation in introducing new products/services, novelty, technological leadership and research & development (R&D) in developing new products”. Popadiuk & Choo (as cited in Madhoushi, Sadati & Delavari, 2011: 310) argue that innovative strategies are becoming strategic imperatives for organizations as a result of competition unleashed on the business environment by forces of globalization. The implication of the foregoing calls for differentiated products and services and processes with a view to achieving sustainable competitive advantage in the marketplace.

Innovation could be exploited in different forms, such as new product/service development and commercialization, new processes, new organizational structure, among others. The essence of being innovative should be to add value to the target audience with regard to transactions with customers. And when viewed in the light of the Local Content Law provisions, innovative SMEs in Nigeria will embark on innovative programmes capable of building a new organization to effectively exploit the opportunities inherent in the OGI. From the foregoing, we could derive the following proposition:

P2a: Local content law will mediate the relationship between innovativeness and organizational development

Pro-activeness

Pro-activeness is defined by Lumpkin & Dess (2001: 430) as “an opportunity-seeking forward-looking perspective involving introducing new products or services ahead of the competition and acting in anticipation of future demand to create change and shape the environment”. It is the act of being proactive that enables entrepreneurs to search for opportunities, anticipate the introduction of new products and services, embark on actions to create change and also model the environment through anticipating tendencies. This is considered a must because it is indicative of forward perspective view which is usually followed by innovative activities (Lumpkin and Dess, as cited in Boohene, Marfoliadam & Yaboah, 2012: 28). Boohene et al (2012) argue that pro-activeness is achievement-oriented and emphasizes initiative taking, anticipating and creation of change, predicting evolution towards a critical situation, and prior preparation in view of occurrence or unprecedented events (including risks) in the business environment.

Based on the foregoing, entrepreneurs in the Niger Delta who are pro-active in their business decision making will see the Local Content

Law as an enviable business opportunity and therefore embark on strategic business development process to enable them enhance their value delivery capacity and thus achieve competitive advantage in the oil and gas business environment. Also, to enhance carrying capacity, SMEs could form strategic partnerships to enable them execute large volume contracts in the OGI, instead of taking such jobs overseas. Therefore, the following prepositions may apply:

P2b: Local Content Law will mediate the relationship between pro-activeness and business development by SMEs in the Niger Delta area.

P2c: Local content law will mediate the relationship between pro-activeness and strategic networking and partnership by SMEs in the Niger Delta region.

Competitive aggressiveness

Competitive aggressiveness is “a deliberate attempt by entrepreneurs to overcome competitors” (Boohene et al, 2012: 29). It is characterized by a combative attitude or aggressive response which seeks a better positioning in the market to defeat threats. Venkaramum (as cited in Lumpkin & Dess, 2001) argues that competitive aggressiveness is characterized by a strong offensive posture directed at overcoming competitions as well as being reactive when a firm defends its market position or aggressiveness in a particular market that a rival has identified. Competitive aggressiveness is positively associated with higher performance in a firm operating in a more mature industry stage (Lumpkin & Dess, 2001). Gautan (2016) reports that competitive aggressiveness is positively correlated with business performance.

To be competitive in the OGI, SMEs in the Niger Delta area will need to build very strong skill and competences in various engineering core areas. This will engender human capital development capable of utilizing resources of the organization to deliver value to clients and

achieve competitive edge over foreign oil servicing firms. Accordingly, the following propositions became discernable:

P2d: Local Content Law will mediate the relationship between competitive aggressiveness and human capital development

P2e: Local Content Law will mediate the relationship between competitive aggressiveness and business development.

Risk-taking

When SMEs embark on business activities or transactions in an environment that is not business-friendly, they are exposed to risks which may lead to loss of investments. Risk-taking is defined by Lumpkin & Dess (2001: 430) as “a tendency to take bold actions such as venturing into unknown new markets, committing a large portion of resources to ventures with uncertain outcomes, and/or borrowing heavily”. Risk is associated with, and is a unique characteristic of, entrepreneurship. It is so common with entrepreneurs to the extent that it forms part of the definition for entrepreneurship and entrepreneurs. Cantillion (as cited in Boohene et al, 2012: 18) defined an entrepreneur as “a person who takes the risk of profit or loss”. Every opportunity the entrepreneur seeks to exploit is fundamentally risky because it is not all innovations that succeed in the market place. Lumpken & Dess (as cited in Boohene, 2012: 79) observed that “organisations that have an entrepreneurial orientation are normally characterized by a risk-taking behaviour, assuming greater fundamental commitments and looking forward to obtaining high results through market opportunity grasp”.

Ventures that are highly profitable are associated with high-risk potential. And entrepreneurs who take ‘calculated risk’ through ‘critical innovations’ that tend to add value to customers in the marketplace are expected to reap greater reward than those who are risk averse. With the Local Content Law provisions, which give preferential treatment to

indigenous SMEs in the award of contracts, business owners can enhance their various capacities to enable them compete with foreign oil servicing companies in the OGI because the Local Content Law by implication goes a long way to reduce the exposure to risk associated with this type of business. Accordingly, we make the following propositions:

P2f: Local content law will mediate the relationship between risk-taking and business development.

P2g: Local Content Law will mediate the relationship between risk-taking by SMEs and strategic networking and partnership.

Discussion and implications for policy and management

The purpose of this paper is to situate the ability of indigenous SMEs to build capacity and take advantage of the Local Content Law provisions through entrepreneurial orientation. The adoption of entrepreneurial behaviour engenders significant business performance in terms of sales growth, profitability and organizational resilience. This study revealed that local SMEs operating in the oil and gas industry are greatly disadvantaged due to their inability to compete with foreign oil service companies in the annual \$18 billion Nigerian oil and gas servicing business.

This requires a developing country like Nigeria to build or develop further policy framework to support practical and full implementation of the Local Content Policy of the federal government. The first area of focus is institutional linkage and support to enhance the process of SME capacity building in the oil and gas sector. For example, the inability of SMEs to access funding from commercial banks has strategic implications for loan syndication by several banks and guarantee arrangements by relevant agencies of government. Such arrangement is capable of closing

the ever widening financing gap associated with SME growth in developing countries and thus enhance the stability of indigenous SMEs.

Closely related is the issue of macroeconomic policy thrust of the government. Of great concern here is the prevailing monetary policy of the government. A reviewed monetary policy that can guarantee the access at single digit interest rate aimed at enhancing easy access to cheap funding is desirable.

What requires clear understanding is that the oil industry is operating at the global level with stipulated standards and regulations. The implication is that contractors are expected to play by the rules with regard to job description and specifications. The Nigerian Local Content Law recognizes this important feature of the oil industry with a stipulation that in no circumstance is quality of job expected to be compromised in order to favour the local contractor. The implication is that local SMEs must update their facilities and build other capacities with a view to acquiring competitive advantage in the oil and gas servicing industry.

Conclusions and Recommendations

Entrepreneurial orientation (EO), which is a strategic construct that directs the behaviour of entrepreneurs with regard to their strategic thinking and management philosophies, has the capacity to engender capacity building in indigenous SMEs in the Niger Delta region within the context of the Local Content Law. It is the deliberate need for achievement that is capable of enabling individuals to be innovative, pro-active and take risks in the business environment. Put differently, such a need acts as a motivational force that stimulate commitment and goal-oriented actions by entrepreneurs. EO, as a strategic entrepreneurial behaviour, is capable of enhancing the capacity building of indigenous SMEs in the Niger Delta region of Nigeria within the context of the Local Content Policy.

The study, therefore, recommends as follows:

1. Stakeholders in the oil and gas sector should promote an enterprise culture amongst the indigenes of the Niger Delta region.
2. Indigenous entrepreneurs should endeavour to critically examine the opportunities inherent in the oil and gas sector within the context of the local content law and strategically position themselves to compete.
3. Indigenous entrepreneurs should be prepared to form strategic partnerships and networks in order to build capability and therefore be in a position to execute big contracts in the oil and gas sector.
4. Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and other relevant government agencies should midwife an institutional framework capable of offering entrepreneurial education to indigenous entrepreneurs.
5. Stakeholders in the oil and gas industry should lobby the relevant agencies for the establishment of an energy bank.
6. A favourable momentary policy to stimulate growth and capacity building for indigenous SMEs should be put in place to grant single digit interest loans to SMEs.

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