

Moderating Role of Transformational Leadership on the Relationship between Entrepreneurial Orientation and SMEs Performance in Katsina State

By

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Abstract

This study examined the effect of entrepreneurial orientation on the performance of SMEs with the moderating role of transformational leadership (TL) behavior. On the grounds of Resource-Based view and Dynamic Capability theory, cross-sectional research design was used to collect data from the respondents. The sample of the study consists of 194 manufacturing SMEs operating in Katsina state, Nigeria. A PLS-SEM approach was used with aid of SmartPLS 3.2.8 to analyse the data. The result showed that entrepreneurial orientation dimensions (innovativeness, pro-activeness and risk taking) were significantly and positively related to the performance of SMEs in Katsina state. The result also indicated that transformational leadership strengthens the positive effect of proactiveness on SMEs performance; it was also revealed that TL weakens the relationship between risk taking and SMEs performance. Lastly, there was insignificant moderating effect of TL in the relationship between innovativeness and SMEs performance. This study recommends that owners/managers should continue to pursue creativity and innovativeness by being proactive and taking calculable risks in order to bring new offerings to the market thereby enjoying first mover advantage and subsequently increase their performance. The moderating effect of TL contributes to the resource-based view (RBV) and provides useful understandings to owner/managers of SMEs with regard to policy formulation and execution to improve the performance of business firms.

Keywords: Entrepreneurial Orientation, Transformational Leadership, Innovativeness, Pro-activeness, Risk taking, Katsina State, Nigeria

1. Introduction

Small and Medium Enterprises (SMEs) are universally regarded as critical tools for economic growth, development and sustainability. SMEs also play an important role in many economies around the world as engines of socio-economic transformation, including industrialisation. They provide an important platform for enhancing technical,

technological, and entrepreneurial abilities among key groups of the population, as has been widely established. SMEs if properly managed, can also help to create jobs, wealth, and redistribute income within society (Small and Medium Enterprise Development Agency [SMEDAN] & National Bureau of Statistics [NBS], 2017).

The advancement of the SMEs sector is one approach to support countries in achieving their aim of fostering entrepreneurship as a vehicle for accelerating industrialisation, reducing unemployment, and achieving overall economic growth and development. The SME sector is regarded as the birthplace of entrepreneurship, with its efficiency, flexibility, individual inventiveness, and overall entrepreneurial spirit driving it. It is therefore a significant measure of an economy's overall performance, as it is responsible for the majority of the jobs created and employment opportunities (Shettima, 2019).

The Nigerian government has devised and executed several policies, programs, and institutions in recent decades in order to reap the benefits of SMEs, the most notable of which is the founding of SMEDAN. The Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB), currently known as the Bank of Agriculture (BOA), the National Economic and Reconstruction Fund (NERFUND), the Bank of Industry (BOI), and the Nigerian Export Import Bank (NEXIM BANK) are among the others. According to Aderinto et al. (2019), Nigerian government has also established policy-oriented organisations to provide technical and financial support to SMEs, such as the

Small and Medium Enterprise Equity Investment Scheme (SMEEIS) and National Enterprise Development Program (NEDEP). Other efforts include the establishment of MSME National and State Councils, Youth Enterprise with Innovation in Nigeria (YouWiN), the amended National MSMEs Policy, and other finance access provided by the Central Bank of Nigeria and other development banks (Duru, Ehidiemhem & Chijioke 2018).

Despite several government initiatives and programs targeted at developing the SMEs sub sector in Nigeria, SMEs have not fared admirably well, as they have not contributed substantially to the nation's economic growth (Taiwo & Falohun, 2016). Additionally, there is a deficiency in the performance of SMEs in influencing accelerate job creation and alleviating poverty in order to promote and advance the Nigeria's economy (Olubiyi, et al., 2019). However, in Nigeria, SMEs experience performance that is characterized by low market share, poor sales growth, and low capability to innovation due to the turbulent nature of the business environment, which is a result of the existing rapid and constant fluctuation in the global business environment, technological opportunities, changes in consumer needs and fiercely competitive activities (Aminu & Mahmood,

2015; Olubiyi, et al., 2019). Faced with failure, SMEs must develop and implement strategies to survive and prosper in a constantly changing business environment. Entrepreneurial orientation (EO) is a critical concept in strategy formulation in the literature of entrepreneurship and strategic management, and has been identified as a factor affecting the performance of SMEs (Duru et al, 2018). As a result, it is projected that EO boosts the productivity of SMEs. Despite the extensive research on the association between EO and SMEs performance, the findings of the investigations remain unclear and conflicting (Su et al., 2015; Luu & Ngo 2019). While some research (Neneh & Van Zyl, 2017; Soares & Perin, 2019; Wiklund & Shepherd, 2003) indicated a favorable link between EO and firm performance, others (Gupta & Wales 2017; Kusumawardhani & McCarthy, 2013; Moreno & Casillan, 2008) indicated a negative link. However, several studies (Arbaugh et al., 2009; Hughes & Morgan, 2007; Kosa et al., 2018; Putninš & Sauka, 2020) discovered inconsistent results in the EO – performance relationship. As a result, the findings are seen as contradictory, inconsistent, and inconclusive. According to Baron and Kenny (1986) cited in Kristaunga and Riorini (2019), moderator variables should be added if there is a weak or

inconsistent link between a predictor and an outcome variable. Similarly, Herath and Mahmood (2013) proposed including a moderator in strategic direction to the relationship between corporate performance and profitability. Numerous researches asserted that examining the effect of transformational leadership on EO implementation is critical for achieving performance (Adomako, 2018; Engelen et al., 2015; Muchiri & McMurray 2015; Rose & Mamabolo, 2019). Thus, investigating transformational leadership as a moderator in the effect of EO on SMEs performance may help close the highlighted knowledge gap and contribute to a better understanding of the direct and indirect linkages between the EO and firm performance amongst Nigerian SMEs.

Using organisational resource based view theory i.e (RBV) (Barney, 1991; Wernerfelt, 1984) and Dynamic capability View theory (DCV) (Teece et al., 1997) as a framework to investigate the influence of EO and transformational leadership on SMEs performance, the purpose of this research is to explore the moderating role of transformational leadership (TL) in the effect of EO on performance of SMEs.

2. Literature Review

2.1 Small and Medium-Sized Enterprises (SMEs)

There is no commonly agreed definition of a small business. There are two ways that are frequently used to define SMEs: quantitative and qualitative techniques (Berisha & Pula, 2015). Researchers and other interested parties examined the issue using a variety of specific criteria, including value added and asset value (Adebayo et al., 2013).

The World Bank defines SMEs as any small firm with more than ten employees but fewer than 300 employees and total assets of more than \$10,000 but less than \$15,000,000. (Berisha & Pula, 2015). Similarly, the African Development Bank's definition of a SME says that it is any small enterprise with fewer than 50 employees, while in Nigeria, the Central Bank of Nigeria (CBN) defined SMEs according to their total asset value and staff count (Chendo, 2013). Nonetheless, the National Council of Industries (2009) defines SMEs as a business enterprise having total cost of less than N200, 000,000, excluding land, and between 11 and 100 people (Aremu, 2011). Additionally, the Small and Medium Industries Equity Investment Scheme [SMIEIS] (2006), as cited in Abdullahi et al. (2015), defined SMEs as businesses with a total capital employed of

less than one million five hundred thousand Naira (N1, 500,000.00) but greater than two hundred million Naira (N200, 000,000.00), including working capital but excluding land costs, and with a workforce strength of not below ten (10) and not above three hundred (300). SMEDAN and NBS (2017) defined SMEs as follows: Small enterprises with 10 to 49 workers or annual revenue of N5 million to N50 million; and Medium-sized firms with 50 to 199 workers or annual revenue of N50 million to N500 million.

2.2 Concept of SMEs Performance

SMEs performance is viewed as an important dependent variable by researchers in practically all fields of management (Richard et al., 2008), as it reflects firm's overall health (Obiwuru et al., 2011). Different authors approached the topic of firm performance from a variety of angles, and as a result, there is no consensus on a single definition. Therefore, the concept was defined differently by numerous authors. According to Olabisi et al., (2013), a firm's performance is defined by the firm's ability of providing acceptable outcomes and activities. According to Bature and Cheng (2017), firm performance is defined as the actual financial or non-financial results of a firm's attempts to achieve its declared goals and objectives.

According to Santos and Brito (2012), there are two techniques to measuring firm performance: one-dimensional and multi-dimensional techniques. According to them, one-dimensional view specifies that in all, the indicators illustrate the firm's performance in a nearly transposable manner, implying that all indications are interrelated. However, a multidimensional view implies that each dimension represents a distinct constituent of the firm's overall success and is reflected by a distinct set of indicators.

Kim (2006) stated that several scholarly works classified firm performance measurement as objective or subjective. The objective measures deal with financial statistics, whereas the subjective measurements evaluate respondents and focus on the organisation's overall performance. Whether objective or subjective performance measurements are used is determined by the researcher's preference and the study's objective (Singh, Darwish & Potocnick, 2016). Thus, this study uses subjective performance measurement indicators because researchers (Ghadas et al., 2015) claimed that subjective performance measures are superior to objective performance measures when evaluating the performance of SMEs.

2.3 Transformational Leadership Style

According to Tarsik et al., (2014), transformational leadership style (TL) is exemplified by leaders who are motivated by the desire to bring out the best in their followers, hence increasing production and morale throughout the organisation. On that topic, the authors concluded that a transformational leadership style is a critical component for businesses seeking to reduce absenteeism, resistance to change, and unfavorable levels of turnover. Additionally, Kwasi (2015) defined transformational leadership as a leadership style in which a leader takes an inclusive approach to accomplishing goals. Transformational leaders are positive, enthusiastic, and place a premium on dedication to a common purpose (Lai, 2011). Lai et al., (2020) reported that Bass (1985) defined transformational leadership as a combination of five factors: inspiring motivation-charismatic influence, idealised influence, intellectual stimulation, and individualised concern.

Similarly, Gilbert et al., (2016) asserted that transformational leadership has five factors. The first is expressed in idealised influence or attributed charisma, which describes how followers perceive their leader, which influences their perceptions of the leader's confidence, power, and transcendent

aspirations. The second part is represented by idealized impact or charismatic conduct (i.e., the unique leader's behaviors that reflect his values, beliefs, sense of mission and purpose, and ethical and moral orientation). The third factor is inspirational motivation, which refers to a leader's ability to urge and inspire their followers to pursue ambitious goals, raise expectations, boost confidence, and nurture a sense of self-worth. The fourth factor is intellectual stimulation, which relates to how leaders question the current quo and appeal to their followers' brains. It is also the course of innovatively and creatively resolves problems. The individualised attention represents the fifth aspect, which deals with leaders who provide tailored socio-emotional support to their followers while also empowering and growing them. Thus, transformational leadership is suitable in this study due to its factors applicability in SME settings that motivates and guides subordinates to perform to their full potential and to build their confidence through consistent support (Engelen et al., 2015).

2.4 Concept of Entrepreneurial Orientation

EO has a foundation in strategy literature and is being used in strategic management to refer to the approach taken by businesses with entrepreneurial tendencies (Eggers et al., 2013). Numerous studies were conducted on

EO as an organisational approach (Fernández-Mesa & Alegre, 2015; Lomberg et al., 2017; Semrau et al., 2015). Additionally, it was discovered as a motivator for organisations to engage in entrepreneurial activity, resulting in extensive research in the field of entrepreneurship studies (Covin & Wales, 2012; Gupta & Wales 2017).

According to Wiklund and Shepherd (2005), EO is one of the components of an organisation's strategic orientation that focuses on certain characteristics of entrepreneurial decision-making styles, techniques, and activities. Entrepreneurial orientation means a business's proclivity for inventive, proactive, and risk-taking behavior so as to accomplish its stated goals (Covin & Wales, 2019). EO is a measure of a firm's entrepreneurialism, and it is among the few characteristics that firms can stably rely on (Semrau et al, 2015). As a result, EO is regarded as a critical variable in increasing business performance.

Despite widespread agreement on the influence of EO on firm performance, there are still some disagreements about the concept's definition and operationalisation (Lyon et al., 2000). Additionally, these authors maintained that previous researchers' conceptualisations implied that EO is a one-dimensional concept (e.g., Miller, 1983).

Similarly, Covin and Slevin (1989) viewed all three dimensions established by Miller (1983) as components of a unidimensional EO construct (i.e., innovation, risk-taking, and proactiveness). However, Lumpkin and Dess (1996) defined and operationalised EO as a multidimensional construct. According to their paradigm, EO is a multidimensional construct consisting of five aspects (innovation, proactiveness, risk-taking, competitive aggressiveness, and autonomy) that each has an impact on performance separately (Aminu, 2015). Lumpkin and Dess (2001) noted that many entrepreneurship researchers viewed all EO aspects as components of a single construct, they maintained that distinct dimensions of EO can be investigated individually for their effect on company performance. Additionally, these researchers maintained that the connection among each dimension and performance is context-dependent (Aminu, 2015).

Therefore in this study EO is conceptualised as having three primary dimensions: innovativeness, proactiveness, and risk-taking, as introduced by Miller (1983) and developed by Covin and Slevin (1989). Lumpkin and Dess (1996)'s two additional dimensions (competitive aggressiveness and autonomy) are excluded in this research

because Kuratko et al., (2005) argued that competitive aggressiveness shares the characteristics of proactiveness, whereas autonomy is viewed as a relative variable that enables entrepreneurialism and is closely related to proactiveness (Kreiser & Davis, 2010).

2.5 Entrepreneurial Orientation and SMEs Performance

Scholars have demonstrated the critical role EO plays in enhancing firm performance (Covin, & Slevin 1988; Wiklund, & Shepherd 2005). Covin and Wales (2019) assert that managers with a higher EO will contribute to improved organisational performance. Firms that established a greater EO value over time looked to do better than competitors with the same EO value or a lower EO value. Because of the multidimensional nature of EO, researchers can examine its effect on company performance. While some researchers discovered a positive correlation concerning EO-firm performance, others did not (Kreiser & Davis, 2010; Wiklund & Shepherd, 2005).

2.5.1 Innovativeness and SMEs Performance

The first EO dimension is innovativeness. It means the readiness to invest in creation of profitable new products, services, and processes (Certo et al., 2009; Lumpkin & Dess, 1996). It was argued that innovation is

critical to the development of corporate success since it promotes sustainability and growth (Fowowe, 2017) and can aid in firm success (Budiarto & Pramudiati, 2018). Numerous forms of inventive activities are connected to many aspects of performance. Financial and non-financial metrics can be used to determine the influence of innovativeness on corporate performance (Mashal, 2018).

***H₀₁:** Innovativeness has a significant effect on the performance of SMEs.*

2.5.2 Proactiveness and SMEs Performance

Proactiveness is the second aspect of EO. It is defined by Lumpkin and Dess (1996) as enterprises' timely responsiveness to market needs or wants, and their generation of market opportunities. Proactivity as an aspect of entrepreneurial orientation refers to an opportunity-seeking and forward-looking posture that entails spending resources in anticipation of future demand and trends and then capitalising on these opportunities. Proactiveness enables SMEs to forecast future market needs and also to anticipate rival demands (Covin, & Slevin 1989).

Proactiveness, empirically, results in increased sales and staff growth, profitability, and product and customer performance (Baba & Elumalai, 2011). Researches on the influence of EO on firm performance found

that proactiveness has a significant favorable effect on the SMEs business performance (Akbar et al., 2020; Cannavale & Nadali, 2019; Ibrahim & Abu, 2020; Unver, 2016).

***H₀₂:** Proactiveness has significant effect on the performance of SMEs.*

2.5.3 Risk taking and SMEs Performance

In this study, the third and last dimension of EO is risk taking. It is the business's willingness to chase chances with an uncertain outcome (Deakins & Freel, 2012). It requires behaving courageously in uncertain situations. Risk taking may also be defined as a company's management purposefully investing huge resources to initiatives in the expectation of significant returns, but it also entails higher chances of failure (Mahmoud & Hanafi, 2013). Previous studies (Haider et al., 2017; Lu & Zhang, 2016; Olaniran et al., 2016; Wang & Yen, 2012) proved that risk taking has an effect on firm performance.

***H₀₃:** Risk taking has significant effect on the performance of SMEs.*

2.6 Entrepreneurial Orientation, Transformational Leadership, and SMEs Performance

The dynamic environment, which requires SME managers to be entrepreneurial, prompted a new strategic imperative to rethink leadership (Morrisette & Oberman

2013); in particular, transformational leadership has been shown to boost entrepreneurial activities (Yang, 2008), particularly where SMEs serve as an impetus for the future and sustainability of large firms (Hamburg et al., 2013). As has been demonstrated in the research, the critical determinant of failure or success of SMEs is leadership (Quan, 2015). Transformational leadership presupposes an efficient synthesis of holistic and personal techniques so as to accomplish a group's common aims and desires and also to evaluate follower's motivation (Cheng & Sheu, 2017; Muralidharan & Pathak, 2018). Additionally, transformational style of leadership can significantly alter an organisation's strategy, vision, attitude, and culture through product and service innovation (Chen, 2017).

Transformational leaders foster innovation inside organisations and boost organisations' proclivity to innovate. The inspiring drive and intellectual stimulation of leaders are critical for organisations to innovate (Nardelli, 2017). Transformational leaders are proactive; they strive to be market leaders, they build environments rather than react passively, and they actively guide their organisations toward achieving their strategic goals and objectives (Lopez-Cabrales et al., 2017).

Numerous experts felt that transformational leaders bolster corporate organisations' risk-taking proclivity. Morrisette and Oberman (2013) argued in this direction that transformative leaders create a safe environment for followers to take risks. Numerous empirical studies also asserted that transformational leadership enhances an organisation's risk-taking capacity (Arham, 2014; Rose & Mamabolo, 2019). In light of these reasons, this study hypothesizes that:

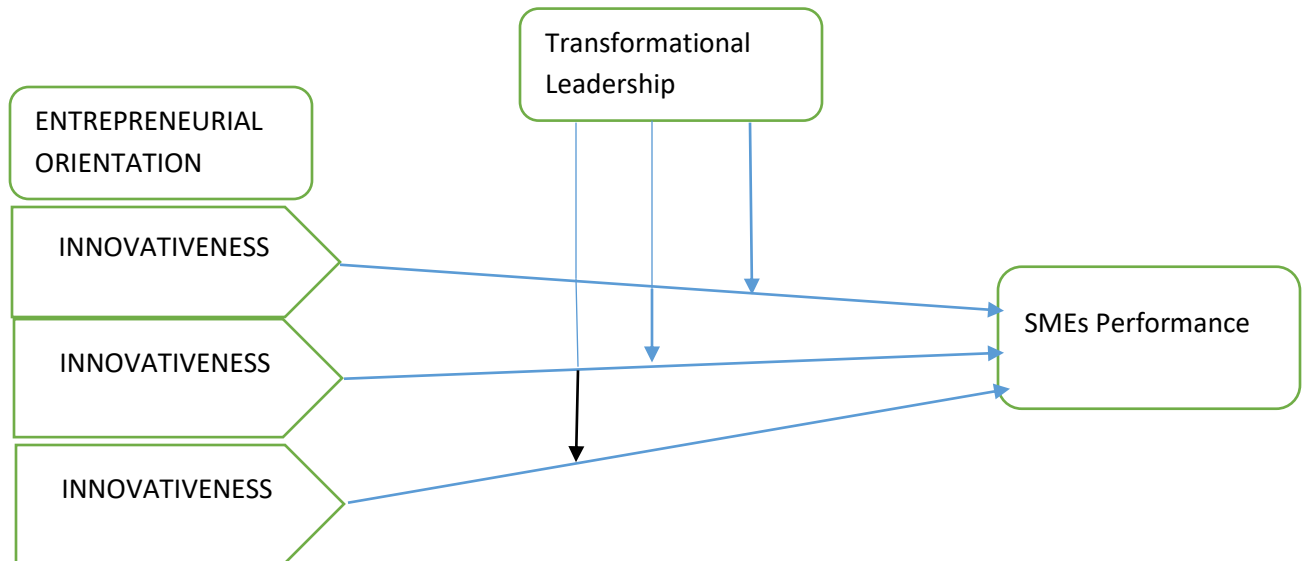
H_{o4}: Transformational leadership behavior moderates the influence of innovativeness on the performance of SMEs.

H_{o5}: Transformational leadership behavior moderates the influence of proactiveness on the performance of SMEs.

H_{o6}: Transformational leadership behavior moderates the influence of risk taking on the performance of SMEs.

2.7 Proposed Research Framework

Building on the foregoing discussion and literature review, this paper proposes a conceptual framework as depicted in Figure 1.



The framework for this research is depicted in Figure1. The independent variables in this study are innovativeness, risk taking, and proactiveness, while firm performance is the dependent variable. Between the dependent and independent variables, transformational leadership acts as a moderating variable.

3. Methodological approach

3.1 Sample selection

The present study purposively selected 231 manufacturing SMEs firms operating in Katsina state. The study received only 214 responses, out of which 20 were excluded due to missing values. This makes the final sample size 194 for the data analysis.

3.2 Research design

The data were collected using the survey in this study. This study is quantitative in nature, and the primary data of the SMEs

were collected through the distribution of questionnaire. The questionnaires were distributed from first week of September 2021 to the last week of November 2021. The questionnaire and a cover letter mentioning the clear intention of the research and ensuring the respondents' confidentiality were administered to the respondents of the study.

3.3 Measurement of variables

The questionnaire was divided into three parts. The first section of the questionnaire mentions the purpose of the study. The second section was related to the demographic profile of the respondents. The third section is related to constructs items. All the items of constructs were measured with a 5-point Likert scale. The instrument consists of previously established scales (Covin & Slevin, 1989; Miller, 1983; Matzler et al. 2008; Tan et al., 2007)

3.4 Instrument validation

To ensure content validity, the instrument was evaluated by five academic experts in the field of strategic management. They suggested minor changes in the structure, layout and sentences of the items. Further, a pilot study was conducted on 30 managers working at various SMEs in Katsina state

4. Results and Data Analysis

For the data analysis in this work, structural equation modeling using partial least squares (PLS) was used. PLS is a non-parametric tool

for small sample sizes that does not require the analysis to be based on the assumption of data normality (Hair et al., 2014). Version 3.2 of the Partial Least Square (PLS) program was used in this work to evaluate the measurement and structural models. PLS is a good technique since it investigates several relationships between the components at once (Hair et al., 2014). The 5000 bootstrapping approach was utilised in this study to test the hypotheses that were put forth.

Table 1. : Testing convergent validity and composite reliability

Variables	Items loadings	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Performance	0.810 0.802 0.872 0.803	0.888	0.918	0.691
Innovativeness	0.927 0.916 0.900	0.902	0.938	0.836
Proactiveness	0.861 0.892 0.724	0.768	0.867	0.687
Risk Taking	0.914 0.917 0.888	0.891	0.932	0.821
Transform Leadership	0.789 0.793 0.811 0.773 0.813 0.686 0.806 0.801	0.913	0.928	0.616

Table 2: Measurement Model: Discriminant Validity using Fornell-Larcker Criterion (n=194)

Variables	Innovate	PF	ProAc	RiskTk	TL
Innovate	0.914				
PF	0.237	0.831			
ProAc	0.106	0.442	0.829		
RiskTk	0.227	0.478	0.219	0.906	
TL	0.171	0.169	0.073	-0.043	0.785

Note: Diagonal elements (figures in bold) are the square root of the variance (AVE) shared between the constructs and their measures. Off diagonal elements are the correlations among constructs

Table 3: Discriminant Validity Using HTMT

Variables	Innovate	PF	ProAc	RiskTk	TL
Innovate					
PF	0.271				
ProAc	0.124	0.534			
RiskTk	0.249	0.526	0.264		
TL	0.184	0.178	0.101	0.093	

Reliability is the internal consistency of the data, and in this study, it was assessed through Cronbach's alpha and composite reliability values. The reliability values are shown in Table 2. According to Hair et al. (2014), reliability is established when the values of Cronbach alpha and composite reliability exceed 0.70. Table 2 depicted that reliability values are above 0.70, thus confirms internal consistency in the data. Further, Table 2 showed the values of average variance extracted (AVE). The values of AVE above 0.50 represent the presence of convergent validity. Convergent validity is the extent to which constructs are

related to each other. In this study, convergent validity is assured as the values fall between 0.519 and 0.773, as shown in Table 2.

Further, the assessment of discriminant validity was done through two methods proposed by Fornell & Larcker's (1981) criterion and Heterotrait–Monotrait (HTMT). Discriminant validity is the extent to which constructs in the study are unrelated to each other. The diagonal values in Table 3 are the square root of AVEs, and they are more significant than their corresponding correlation values (Farrell, 2010), confirming discriminant validity through Fornell &

Larcker's (1981) criterion. Based on the traditional discriminant analysis (Fornell & Larcker's) and more comprehensive discriminant analyses (HTMT), it is acceptable to claim that the discriminant

validity is well established as the reflective latent constructs of this study have discriminant validity either as a criterion or as a statistical inference with any other construct.

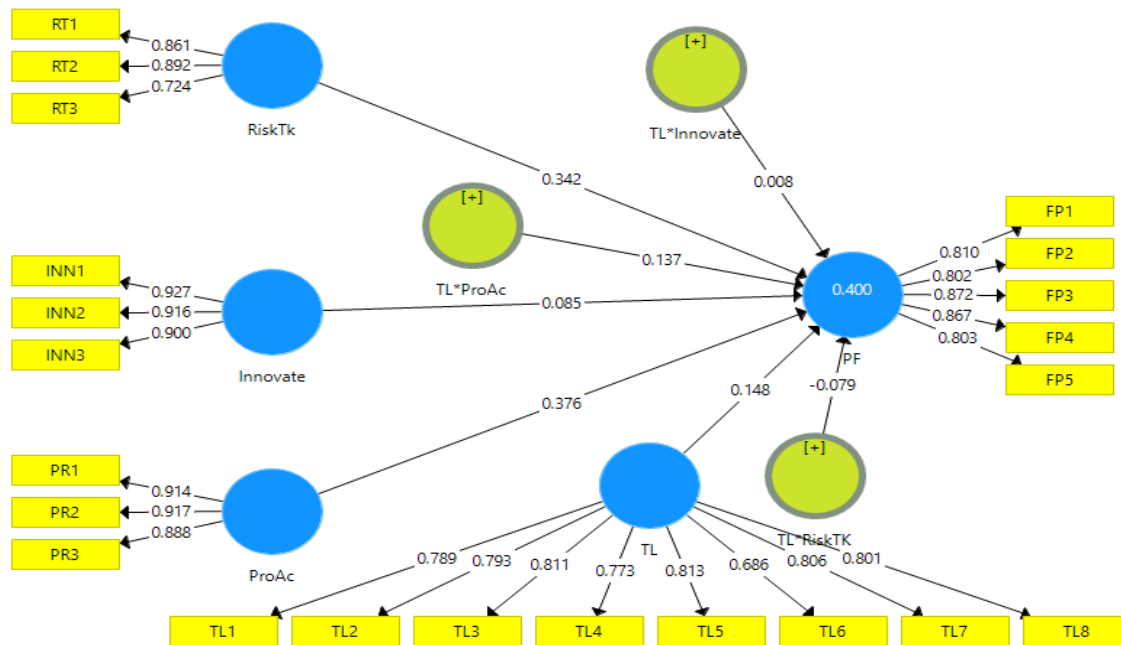


Figure 4.2: Measurement Model (PLS Algorithm)

4.1 Analysis

PLS-SEM has been used for testing the proposed hypotheses. Model fit was assessed through the value of cross-validated redundancy (Q^2) and R-square (R^2). The value of Q^2 for endogenous constructs indicates predictive relevance. In this study, the value of Q^2 is 27%, indicating the model's predictive relevance. Besides, the value of R-square (R^2) has been considered for the predictive accuracy of the model. The

value of R^2 40% represents the predictive accuracy of the model and depicts total variance explained by exogenous constructs on endogenous constructs (Hair et al., 2014; Henseler et al., 2009). Further, path coefficients, p-values and t-values were used to assess the relationship among variables. Path coefficients values near +1 indicate high and strong effects, and p-values less than 0.05 and t- values greater than 1.96 refer to

the acceptance of hypotheses. In this study, the conceptual model contains three hypotheses for direct relationships and three hypotheses for indirect relationships.

The results of direct and indirect path analysis were summarized in Table 6. The direct effect results show that innovativeness has positive impact on the performance of SMEs ($\beta=0.085$, $t=2.078$, $p< 0.05$), supporting H1. The positive influence of proactiveness on SMEs performance was also confirmed ($\beta=0.376$, $t=8.547$, $p< 0.01$), supporting H2. The positive impact of risk taking on SMEs performance was confirmed ($\beta=0.342$, $t=8.542$, $p < 0.01$), supporting H3.

The result for the indirect relationship which

measures the moderation effect of TL in the relationship between the EO dimensions and Firm performance produced inconsistent results. First TL strengthens the relationship between Proactiveness and firm performance ($\beta=0.137$, $t=3.292$, $p< 0.05$), secondly TL does not moderate the relationship between innovativeness and firm performance ($\beta=0.008$, $t=0.203$, $p > 0.05$), and finally, TL weakens the relationship between risk taking and firm performance ($\beta= -0.079$, $t=2.033$, $p < 0.05$), by altering the direction of the relationship. Figure 1, 2 and 3 (Moderation interaction simple slopes) confirmed these findings further.

Table 5: Size and Significance of Path Coefficients

Hypotheses	Original Sample (O)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Decision
Innovate -> PF	0.085	0.041	2.078	0.038	Accept
ProAc -> PF	0.376	0.044	8.547	0.000	Accept
RiskTk -> PF	0.342	0.040	8.542	0.000	Accept
TL*Innovate -> PF	0.008	0.040	0.203	0.839	Failed to Accept
TL*ProAc -> PF	0.137	0.041	3.292	0.001	Accept
TL*RiskTK -> PF	-0.079	0.039	2.033	0.043	Accept

Figure 1: Simple slope plot for the interaction effect of TL on Innovate and Performance of Firms – Smart PLS3

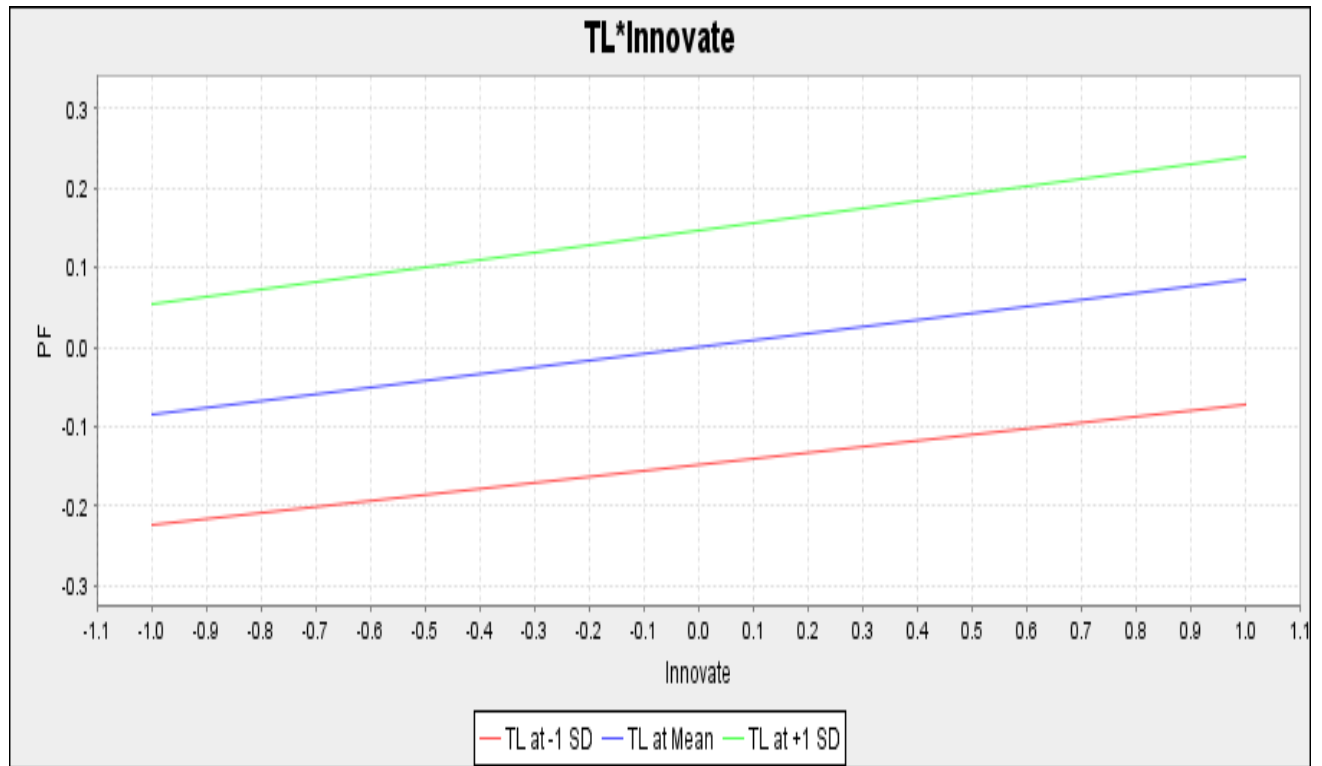


Figure 2: Simple slope plot for the interaction effect of TL on ProAc and Performance of Firms – Smart PLS3

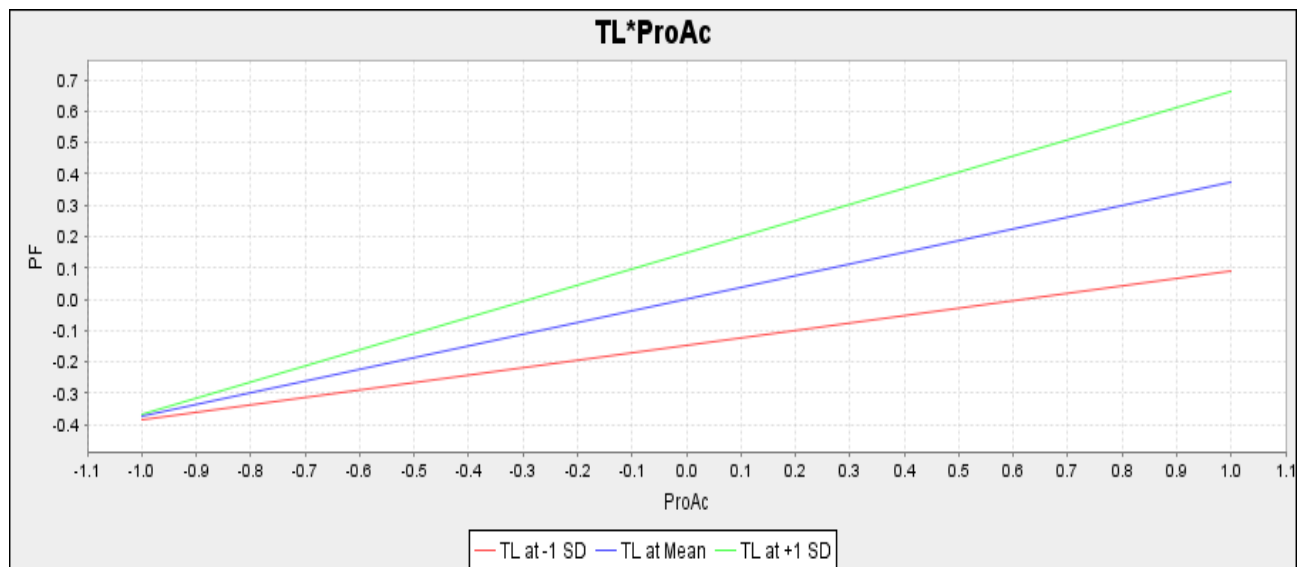
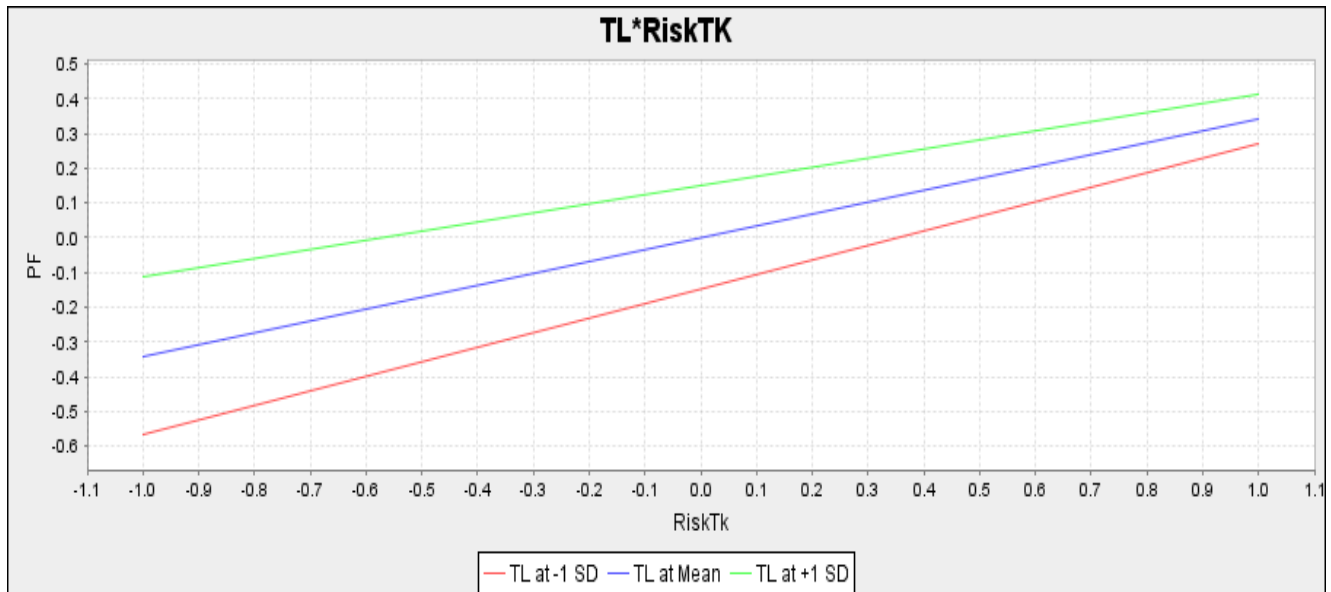


Figure 3: Simple slope plot for the interaction effect of TL on RiskTk and Performance of Firms – Smart PLS3



5 Discussion and conclusion

This study is based on resource-based view (RBV) theory to assess the SMEs' performance. Resource-based view theory argues that firm capabilities lead to better performance and create a competitive advantage. In this study, innovativeness, proactiveness, risk-taking and transformational leadership style are taken as internal resources of a firm that drive performance. It can be understood from the literature that innovativeness, proactive and risk-taking are important dimensions of entrepreneurial orientation (Covin & Wales, 2019; Wiklund & Shepherd, 2005; Shah et al., 2019; Mahmood & Hanafi, 2013; Lumpkin & Dess, 1996; Kusa, 2020). This study contributes to the literature of entrepreneurship and SMEs by incorporating

the moderation effect of transformational leadership in the context of manufacturing SMEs in Katsina state.

The findings of this study reveal that the firm innovative approach has a positive influence on firm performance, which is in line with the findings of Arham (2014) which suggested that TL plays an important role between entrepreneurial orientation and firm performance. Organisational risk-taking has a positive influence on firm performance; this is consistent with the findings of Chen et al. (2017); their study argues that the risk-taking propensity of the organisation increases firm performance. The positive influence of proactiveness on firm performance was also proved in this study, which matches with the findings of past studies (Chen et al., 2017; Wang, 2008). The recent studies also

confirmed the positive influence of proactiveness on firm performance (Mahmood & Hanafi, 2013; Covin & Wales., 2019). Furthermore, the findings reveal that TL as a moderator variable strengthens the relationship between proactiveness and firm performance, which is consistent with past studies (Rose & Mamabolo, 2019; Arham, 2014). The study's findings are also consistent with earlier research by Hayat and Riaz (2011), Matzler et al., (2008). The same conclusion was reached by Matzler et al., (2008) and Ling et al. (2008) that TL style is crucial for SMEs' performance. According to Engelen, et al. (2015), TL also has a moderating effect on the link between EO and firm performance. According to Arham et al. (2013), TL is necessary for SMEs to operate at their peak efficiency. Chen (2004), Soriano and Martinez (2007), Wang and Poutziouris (2010), Kang et al. (2010), Bhattacharyya (2006), Todorovic and Schlosser (2010) all came to the same conclusions.

Given the outcome of this study, the researchers at this juncture, concluded that firm performance is predicted by proactiveness, risk taking and innovativeness. The study also concludes that transformational leadership behaviour moderates the relationship between firm

performance and proactiveness and so also between risk taking and SMEs performance. However, transformational leadership behaviour does not act as a moderator between innovativeness and firm performance. The study concludes that transformational leadership behavior is a moderator in the relationship between proactiveness and risk taking, and SMEs performance. Hence, in order for business enterprises to benefit from superior performance, emphasis should be attached to proactiveness and risk taking.

8 Limitations and future Research

This study presented a unique framework by including transformational leadership as an internal organisational resource that creates a competitive edge for SMEs in Katsina state. However, there are several limitations in this study that need to be addressed in future studies. First, the study assessed firm performance using subjective criteria. Such subjective measures may skew performance evaluations (Fayaz, 2019). In the future, researchers may evaluate firm performance using objective measures such as accounting performance. Second, the study used a cross-sectional research design with data collected all at once. As a result, the researcher cannot draw causal conclusions from such research. In the future, researchers may be able to

circumvent this limitation by employing a longitudinal research design that collects data from both the dependent and independent variables at two or more points in time.

Third, the study collated data from the owners of SMEs which may limit researchers' ability to generalise their findings. It is also suggested that future research look into the EO, leadership, and performance of SME leaders from the employees' point of view. A comparison study of EO, firm performance, and effective

leadership results obtained from the leaders themselves and employees' perceptions may result in a better understanding of how SMEs' performance can be improved further. Finally, the research was carried out in Katsina state, Northwestern Nigeria. Researchers may replicate the same findings in other regions or geo-political zones of Nigeria in the future.

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