

Entrepreneurship and the Nigerian Informal Sector: The Role of Entrepreneurial Orientation

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Abstract

In explaining participation in the informal sector of any economy, scholars have used either the structuralist or the voluntarist approach but rarely consider the entrepreneurial approach. This study adopts the entrepreneurial approach and explores the influence of individual entrepreneurial orientation (IEO), as a behavioural attribute, on entrepreneurial performance in the informal sector of the Nigerian economy. This study was conducted in the Niger Delta Region of Nigeria using a randomly selected sample of 600 owners/managers of businesses operating in the informal sector. Data for this study were collected using an adapted questionnaire. Findings from the study indicate that though IEO has significant influence on entrepreneurial performance, the different dimensions of IEO exert varying levels of influence on entrepreneurial performance. Consequently, it was recommended that government at all levels in Nigeria should invest in this sector of the economy so as to enable the sector to thrive and continue to contribute to the economy of the nation.

Keywords: *Individual entrepreneurial orientation, Proactiveness, Risk-taking, Innovativeness, Entrepreneurial performance*

Introduction

In most emerging nations, the informal sector is a permanent and pervasive economic characteristic that plays a major role in production, revenue generation, and job creation. The informal sector comprises any economic activity or source of income that is not fully regulated by the government and other public authorities (BOI, 2022). This includes enterprises that are not officially registered, do not maintain a complete set of accounts, and employ workers who hold jobs lacking basic social or legal protection and employment benefits but contribute to the economy nonetheless.

The informal sector currently accounts for over half of global employment and as much as 90% of employment in some of the poorer developing countries. Due to its flexible nature, the informal sector can easily adapt to difficulties such as the global recession, providing some measure of support to those most in need. In Nigeria, the informal sector is an essential part of the economy, accounting for a significant portion of employment and national GDP. The IMF estimated that the Nigerian informal sector made up about 65 per cent of the country's 2017 GDP.

To explain participation in the informal sector, scholars have usually adopted either the structuralist theoretical approach, which portrays players in this sector as getting involved as a result of exclusion from the formal sector (Ibijoju and Akeke, 2022), or the voluntarist perspective, which sees players as making a voluntary decision to ‘exit’ the formal sector rather than a result of involuntary exclusion, so as to avoid the costs, time, and effort of formal registration due to state over-regulation of, or interventions in, the formal sector (Cross, 2000; Snyder, 2004). However, scholars rarely consider the entrepreneurial perspective, which posits that the players in the informal sector take calculated business risk, create and develop economic ventures, offer significant job creation and income generation potential, and the capacity to meet the needs of poor consumers by providing cheaper and more accessible goods and services.

Taking the entrepreneurial perspective, scholars argue that next to possible mediating elements such as demographics, networks, inferred policy, behavioural attributes such as individual entrepreneurial resilience (IER), individual entrepreneurial intention (IEI), and individual entrepreneurial orientation (IEO) may play a significant role in the dynamics of the informal sector (Mbeni and Yeboah, 2024). Specifically, individual entrepreneurial orientation (IEO), which is an extension of organisational level entrepreneurial orientation (EO) that acknowledges the importance of business managers/owners in driving entrepreneurship in their businesses, is defined as the propensity held by individuals towards engaging in entrepreneurial activities and encompasses entrepreneurial aspects of an individual’s decision-making styles, methods, and practices (Akpan and Amuamuziam, 2022). It represents specific individual-level behaviour that provides a basis for entrepreneurial actions (De Castro *et al.*, 2014).

For this study, we argue that beyond the structuralist and voluntarist view of the informal sector, there is an entrepreneurial view that motivates the individual player in this sector to start and sustain business(es) and that this entrepreneurial activity is facilitated by the individual entrepreneurial orientation (IEO) of the players in this sector. Therefore, this study is designed to empirically examine the influence of IEO on entrepreneurial performance in the informal sector in Nigeria. Consequently, it is hypothesised that:

Individual entrepreneurial orientation (IEO) significantly influences entrepreneurial performance in the informal sector in Nigeria.

Conceptual Review

Individual Entrepreneurial orientation (IEO)

The conceptualisation of IEO has its roots in EO. This is due to the fact that entrepreneurial behaviours were identified in the individual entrepreneur as well as the organisation (Otache *et al.*, 2022). In fact, IEO is an extension of the EO. It recognises the role of individuals (founders, owner-managers, managers, etc.) in generating entrepreneurship within their businesses.

Individual entrepreneurial orientation (IEO) could be described as the measure of EO at the individual level and has been identified as a major capability for an individual that affects his or her disposition to become an entrepreneur (Bolton and Lane, 2012). It refers to the processes, practices, and decision-making activities leading to new venture creation or opportunity for an individual in the marketplace (Covin and Slevin, 1989) or the tendency of an individual to

employ entrepreneurial attitude and behaviour which is important for the process and practices as well as decision-making of new venture creation (Akpan, Okwudu, and Imagha, 2021).

At the individual level, the dimensions of entrepreneurial orientation are similar to those of organisation-level EO. As such, IEO is considered a multi-dimensional construct as defined by Lumpkin and Dess (1996). However, Bolton and Lane (2012), having explored IEO using the EO dimensions of Lumpkin and Dess (1996), found that of the five dimensions of EO—innovativeness, proactiveness, risk taking, competitive aggressiveness, and autonomy—only three, i.e., innovativeness, proactiveness, and risk taking, are the dimensions most prominently displayed by entrepreneurial individuals. They opined that the autonomy and competitive aggressiveness measures did not hold up at the individual level, perhaps due to the fact that these two traits are learned behaviours and might develop more as individuals mature in business or as they face a more competitive environment.

Dimensions of Individual Entrepreneurial Orientation (IEO)

a. Innovativeness

Innovativeness is the predisposition to creativity and experimentation through the introduction of new products and services (Bolton and Lane, 2012). It is an act that sees creative ideas through, resulting in new products or processes. Kuratko *et al.* (2015) refers to innovation as the process of creatively destroying an “old order” in order to create a “new order” as a result of new combinations. Innovative individuals see things the way others see them but do things differently. It is the ability to translate creative ideas into something concrete, unique, or novel. Innovation could be product-market innovation or technological innovation. Innovation could also be making strategic renewals or improvements to existing products, processes, or systems. According to Soetjipto *et al.* (2022), innovative acts result in new products, markets, processes, sources of raw materials, and organizations.

b. Risk-taking

Risk-taking is the willingness and readiness to commit resources (own or borrowed) to pursue identified market opportunities that have a reasonable possibility of losses (Akpan and Amuamuziam, 2022). Risk-taking, as an important feature of entrepreneurship, is not about taking extreme or uncontrollable risks; it is about taking calculated risks. Risk-taking and innovativeness are related. This is because innovation involves risk-taking, and the higher an individual innovates, the more risks he or she takes (Kuratko *et al.*, 2015).

c. Proactiveness

This refers to an opportunity-seeking, forward-looking perspective characterised by new products and services ahead of the competition and acting in anticipation of future demand (Akpan and Amuamuziam, 2022). Proactiveness is concerned with an individual’s ability to identify or anticipate market opportunities and marshal out resources to exploit identified opportunities before other competitors notice the presence of such opportunities (Khan *et al.*, 2021). It is about being the first or among the first to spot the presence of market opportunities and exploit them. A proactive person has the ability to see opportunities where others see none. An individual can be proactive by anticipating potential market needs and taking actions, in the form of delivering quality products, to meet the market needs. According to Ibidunni (2018), proactive firms act on rather than react to their environments.

Entrepreneurial Performance

Entrepreneurial performance is a multidimensional construct that refers to the measurement and evaluation of an entrepreneur's effectiveness and productivity in achieving their business goals. It plays a crucial role in determining the success and growth of a business venture and encompasses the financial and strategic dimensions (Callaghan and Venter, 2011). From the financial dimension, entrepreneurial performance may be assessed based on key indicators such as revenue growth, profitability, return on investment, and market share, while the strategic dimension encompasses factors such as innovation, market positioning, competitive advantage, and adaptability to changing market conditions. However, Ejiofor and Ramsey (2021) introduced a new dimension of entrepreneurial performance—the operational dimension. They explained that entrepreneurs need to continuously assess and enhance their ability to identify and capitalise on new opportunities, stay ahead of competitors, and navigate challenges in the business landscape; as such, the financial and/or strategic dimensions may not completely cover the spectrum of performances in the informal sector, hence the operational dimension.

The operational dimension recognises that there is no one-size-fits-all approach to achieving entrepreneurial success and that entrepreneurs need to balance four aspects of their performance. The variables of the operational dimensions are effectiveness, efficiency, and impact. Effectiveness refers to the extent to which entrepreneurs achieve their desired outcome and goals. It is about doing the right things and creating value for the customers, stakeholders, and society. Some indicators of effectiveness are customer satisfaction, retention, loyalty, referrals, revenue, profit, market share, and social impact. Efficiency is the extent to which entrepreneurs use their resources optimally and minimize their costs and waste. Some indicators of efficiency are productivity, profitability, return on investment, cash flow, breakeven point, and environmental impact. Impact is the extent to which entrepreneurs make a positive and lasting difference in their immediate environment. Impact is about doing things that matter and creating value beyond profit. Some indicators of impact are social, environmental, or economic benefits, stakeholder engagement, advocacy, and recognition. To understand and improve entrepreneurial performance, it is essential for entrepreneurs to make informed decisions that will lead to the achievement of business goals, optimize their resources and be efficient about the use of the same, and drive sustainable business growth that will create value beyond profit. This study is based on the operational dimension of entrepreneurial performance.

Methodology

This study was a survey carried out in the Niger Delta region of Nigeria. The target population was the business operators in the informal sector of the region. A sample of 600 owners/managers of businesses operating in the informal sector was randomly selected for this study. Participation in this study was voluntary.

The research instrument was a structured questionnaire, which was made up of both bio-data items and items that specifically measure the study variables: individual entrepreneurial orientation (IEO) and entrepreneurial performance. IEO was evaluated along three dimensions: innovativeness, risk-taking, and proactiveness. The items that made up the IEO scale were adapted from Bolton and Lane (2012). Entrepreneurial performance was evaluated along three dimensions: effectiveness, efficiency, and impact. The instrument was scored on a 5-point

Likert scale and was subjected to validity and reliability tests. The overall reliability coefficient for the instrument was 0.731. The research instrument was administered to respondents during official hours at their business places. Data collected for this study were analysed using simple percentages and means, while the hypothesis formulated was tested using hierarchical multiple regression.

Results and Interpretation

Out of the 600 copies of the questionnaire administered, 493 were completed and returned. Demographic data collected from the respondents indicates that 59.2% were male and 40.8% were female. The average age of the respondents was approximately 36 years. For the respondents surveyed, their average years of experience in the informal sector was approximately 6 years.

Table 1: Correlation matrix

Variables	1	2	3	4	5	6
1 Innovativeness	1					
2 Risk-taking	0.24	1				
3 Proactiveness	0.36	0.25	1			
4 Effectiveness	0.41	0.29	0.63	1		
5 Efficiency	0.33	0.22	0.48	0.34	1	
6 Impact	0.37	0.24	0.53	0.38	0.37	1

*Correlation coefficients $>.19$ were considered significant at $p < .05$
SupEmpRship – Supportive Employment Relationship

Table 1 shows the correlation matrix for the variables of IEO and entrepreneurial performance. The results reveal that all the variables of IEO correlate significantly with all the variables of entrepreneurial performance. Specifically, the results reveal that there are significant positive correlations between innovation and effectiveness ($r = 0.41$, $p < 0.000$), innovation and efficiency ($r = 0.33$, $p < 0.000$), and innovation and impact ($r = 0.37$, $p < 0.000$). Also, there are significant positive correlations between risk-taking and effectiveness ($r = 0.29$, $p < 0.000$), risk-taking and efficiency ($r = 0.22$, $p < 0.000$), and risk-taking and impact ($r = 0.24$, $p < 0.000$). Furthermore, there are significant positive correlations between proactiveness and effectiveness ($r = 0.63$, $p < 0.000$), proactiveness and efficiency ($r = 0.48$, $p < 0.000$), and proactiveness and impact ($r = 0.53$, $p < 0.000$). These results indicate that individual entrepreneurial orientation (IEO) significantly correlates with entrepreneurial performance. However, the level of correlation between IEO variables and efficiency relative to others (i.e., effectiveness and impact) was slightly lower.

Table 2: Summary of hierarchical multiple regression analysis between IEO on entrepreneurial performance

Independent variables	Dependent Variables			
	Overall Entrepreneurial Performance	Effectiveness	Efficiency	Impact
Innovativeness	0.297** (3.164) [0.073]	0.323** (3.629) [0.089]	0.172** (2.234) [0.077]	0.209** (3.119) [0.067]
Risk-taking	0.231** (3.122) [0.069]	0.258** (3.307) [0.078]	0.0101 (1.364) [0.024]	0.125 (1.262) [0.099]
Proactiveness	0.468** (5.778) [0.076]	0.511** (6.083) [0.084]	0.257** (3.173) [0.081]	0.336** (4.098) [0.082]
Constant(α)	0.454	2.138	0.899	1.054
F-value	111.106**	66.680**	33.093**	52.751**
R²	0.396	0.287	0.106	0.180
Adjusted R²	0.384	0.276	0.099	0.171
N	342	342	342	342

Note: ** value is significant as $p < 0.05$

Values in the first parenthesis are t-scores and those in the second parenthesis are standard error.

In general, the results in Table 2 provide support for the hypothesis stated above. Collectively, the three dimensions of IEO explained a significant amount of variance in entrepreneurial performance. Specifically, the amount of additional variance explained was 38.4% in the equation predicting overall entrepreneurial performance, 26.6% in the equation predicting effectiveness, 10.6% in the equation predicting efficiency, and 17.1% in the equation predicting impact. However, only innovativeness and proactiveness had significant influence on the three dimensions of entrepreneurial performance. In contrast, risk-taking did not significantly influence the efficiency and impact dimensions of entrepreneurial performance.

Also, the overall fit of the regression model was good, with F-value of 111.106, which is significant at the 0.05 level. As a result, the regression model fit the data at the 0.05 level of significance. In other words, this model accurately depicts the influence of the predictor variable (individual entrepreneurial orientation (IEO)) on the dependent variable (entrepreneurial performance). This implies that individual entrepreneurial orientation (IEO) significantly influences entrepreneurial performance in the informal sector in Nigeria.

Discussions and Conclusion

This study sought to understand the link between the individual entrepreneurial orientation (IEO) and entrepreneurial performance in the informal sector using a sample of businesses operating in the informal sector in the Niger Delta region of Nigeria. The results of analysis from the data collected confirmed the hypothesis that individual entrepreneurial orientation (IEO) significantly influences entrepreneurial performance in the informal sector in Nigeria. It further highlights IEO dimensions that can be deemed important towards informal sector

entrepreneurial performance. For instance, a critical look at Table 1 indicates that the three dimensions of IEO under study have significant positive influence on the entrepreneurial performance variables. However, the extent of influence of risk-taking on the entrepreneurial performance variables was low relative to other IEO variables. These findings corroborate the findings of Kuratko *et al.* (2015), who found that firms in the informal sector seldom take risk, i.e., commit their resources to market opportunities with a reasonable likelihood of incurring losses; as such, these firms rarely enhance their entrepreneurial performance through risky entrepreneurial activities. This position they attributed to the fact that most firms in the informal sector have limited resources at their disposal and require “cautious prudence” management. In line with the position of Kuratko *et al.* (2015), Lambert and Friend (2021) opined that though the act of risk-taking presents a viable approach to cultivating opportunities and making progress, this may not apply to businesses in the informal sector. This, according to them, is because most businesses in the informal sector tend to be “risk averse”; they prefer and go into investment with greater clearer chances of yielding profit. A position supported by Callagher and Venter (2011) and Akpan and Okwudu (2022), who unanimously agreed that while calculated and manageable risk-taking is an essential variable of EO, entrepreneurs in the formal sector appear to be more risk-friendly than the entrepreneurs in the informal sector.

As earlier stated, the objective of this study was to examine the influence of individual entrepreneurial orientation (IEO) on the entrepreneurial performance in the informal sector. The findings of the study support the idea that IEO has a significant positive influence on entrepreneurial performance in the informal sector in Nigeria. Based on these findings, we conclude that individual entrepreneurial orientation (IEO) has significant influence on informal sector entrepreneurial performance in Nigeria.

Policy Implications

This paper offers new insights on the influence of individual entrepreneurial orientation (IEO) on entrepreneurial performance in the informal sector. It extends the conceptualization of informal sector entrepreneurship by providing empirical evidence of the extent of influence of the variables of IEO on informal sector entrepreneurial performance in Nigeria and supports the idea that the success of businesses in Nigeria’s informal sector is enhanced by the entrepreneurial orientation of the individual owners/managers. Given the above, a derived policy implication is that government at all levels, rather than continuing to overlook this sector, should invest in this sector. These investments should be by way of regular training and the provision of needed resources for the informal sector to thrive. Specifically, the trainings should be targeted at the ability of the players in this sector to innovate (i.e., product-market innovation, technological innovation, strategic renewals or improvements to existing products, processes, or systems) and take calculated risk to enhance business performance. These investments will, to a large extent, increase the entrepreneurial capacity of the informal sector and enhance their ability for continued employment generation and contribution to the nation’s economy.

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