

ENTREPRENEURIAL ORIENTATION AND INTERNATIONALIZATION OF INDIGENOUS FIRMS: THE MEDIATING ROLE OF INSTITUTIONAL ENVIRONMENT

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Abstract

Despite that several nations of the world have been able to generate wealth through internationalization, the Nigeria indigenous firms are far behind in internationalization. Hence, having observed that much has not been done by prior literature to examine the extent to which this could be as a result of entrepreneurial orientation and institutional environment of Nigeria indigenous firms, this study examines the mediating role of institutional environment in the relationship between entrepreneurial orientation and internationalization of indigenous firms in Nigeria. It explicates how indigenous firms that are entrepreneurially oriented can enhance internationalization by leveraging on institutional drivers and making efforts to overcome institutional barriers in the process of internationalization. Using a survey design and a snowball sampling method, 384 responses from respondents that have fulfilled the condition for internationalization were used in the analysis. Data were analyzed using percentages and the hypotheses were tested using partial least square structural equation modeling (PLS-SEM). Our findings revealed that entrepreneurial orientation has a statistically significant influence on internationalization and institutional environment. Also, institutional environment partially mediates between entrepreneurial orientation and internationalization. We concluded that indigenous firms in Nigeria need to consolidate on their entrepreneurial orientation strength in order to reduce the effect of institutional barriers that are capable of frustrating international expansion. Hence, we recommend a collaborative effort between government and indigenous firms in Nigeria towards international expansion of indigenous firms so as to create wealth for the nation.

Keywords: Entrepreneurial orientation, Internationalization, Institutional environment

1. INTRODUCTION

Internationalization can be traced to the first industrial revolution of 18th century in Great Britain which offered opportunity for mechanization of production processes and through which mass production of merchandise items became possible. This eventually gave rise to companies moving outside their home countries in order to sell their products abroad so as to generate wealth for the organisation in particular and for the country in general (Olukoju, Lawal & Faluyi, 2003). In the 19th century, this same process of wealth generation was applied in the United States of America, Germany, Japan, Italy and Korea, and it yielded the same result (Olukoju *et al.*, 2003).

Innovation is the major force that drives internationalization (Azari, Madsen & Moen, 2017). It, therefore, requires that firms that are entrepreneurially oriented should get fully involved in innovative activities so as to drive internationalization. Entrepreneurial orientation, according to Miller (1983), is simply about the strategic posture of a firm, i.e. the innovative, proactive, and risk-taking behaviour and management philosophies of a firm (Anderson, Covin & Slevin, 2009). Entrepreneurial orientation is specifically about organisational method and style for strategic decision making, implementation and guidance towards engagement in product innovation, willingness to take risks by introducing new products or services into the market, ability to discover new opportunities ahead of their competitors and embrace innovative technologies (Lan & Wu, 2010; Obeidat, Yousef, Nofal & Masa'deh, 2018). It is, therefore, required that organisations that are entrepreneurially oriented participate in emerging markets, take initiatives, envisage and pursue new market opportunities so as to beat their competitors to the punch (Lumpkin & Dess, 1996).

However, Fernández-Mesa and Alegre (2015) opined that entrepreneurial orientation on its own may not be enough to drive satisfactory level of internationalization. Other than being entrepreneurially oriented, internationalization of firms requires that such organisation operates within the ambient of laws that govern the rules of engagement. However, where the institutional environment in the home country offers certain benefits such as, access to trading partners, strong financial backup, network of contacts and so on in terms of institutional drivers, the firms can explore such benefits so as to overcome hurdles of international expansion (Landau, Karna, Richter, & Uhlenbruck, 2016).

Several studies have been carried out in the area of internationalization of firms (Awolusi, 2013; Monteiro, Soares & Rua, 2017; Romanello & Chiarvesio, 2019; Zander, McDougall-Covin & Rose, 2015), but studies in the Nigerian context that consider the institutional environment as an important aspect to be considered in the process of internationalization of indigenous firms are scanty and almost unnoticed in the literature. Having observed that many Nigerian indigenous

firms have not been able to internationalise, the extent to which this is as result of entrepreneurial orientation and institutional environment is not known. Therefore, this study seeks to examine the role of institutional environment in the relationship between entrepreneurial orientation and internationalization of indigenous firms, specifically in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual Review

Entrepreneurial orientation and internationalization

Entrepreneurial orientation is simply about the strategic posture of a firm, i.e. the innovative, proactive, risk taking behaviour and management philosophies of a firm (Anderson *et al.*, 2009; Miller, 1983). Entrepreneurial orientation is a firm-level disposition, a set of distinct but related behaviours characterized by innovativeness, pro-activeness, risk-taking, competitive aggressiveness and autonomy (Pearce, Fritz & Davis, 2010; Voss, Voss & Moorman, 2005). Internationalization is driven by the ability of entrepreneurially oriented organisations to commit resources and deploy capabilities towards international expansion in the face of competition as businesses strive to identify new and potential market in order to increase sales, profitability and sustainable competitive advantage (He, 2014).

According to Welch and Luostarinen (1988), internationalization is ability of a firm to conduct any operation of its value chain in foreign countries. Especially in today's global village, foreign expansion of smaller firms with limited resources has become a lot easier as a result of modern day internet-of-things, communication technology and so on that have brought about reduction in the cost of internationalization and made the required information about foreign markets easily accessible (Cavusgil & Knight, 2015).

These viewpoints collectively provide useful insight when researching the relationship between entrepreneurial orientation and internationalization (Kreiser, 2011). Therefore, this study aligns with entrepreneurial orientation theory which sees entrepreneurial orientation as a strong firm-level attribute (Covin & Slevin, 1989) since all the dimensions involved are required for internationally focused organisations to excel and expand their business operations beyond their localities. Hence, we hypothesized that:

H₀₁: Entrepreneurial orientation does not significantly influence internationalization of indigenous firms in Lagos State, Nigeria.

Entrepreneurial orientation, internationalization and institutional environment

Firms that are entrepreneurially oriented need to understand the institutional environment to a reasonable extent in order to be successful in their foreign market strategies (Goyal, McCord & Kappor, 2017). According to Oxley's (1999) definition of institutional environment, it is the set of political, legal, social and economic resolutions through which the foundational root of production

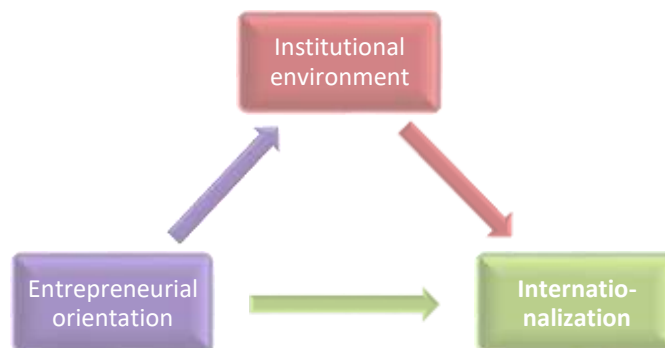
and exchanges are being established. According to Lasse, Olli, Sami and Kaisu (2018), a country's institutional environment may either promote or prevent the operations of certain businesses. The researchers suggested that SMEs may be able to develop network competence that is capable of delivering improved performance towards international expansion provided the institutional environment shows sure path reliance.

Meyer and Rowan (1977) construed that organisations that are institutionalized in the society and are able to incorporate their procedures and practices rationally will gain legitimacy and prospects for survival. Therefore, it is important that entrepreneurially oriented firms aiming to internationalize should consider both local and international institutional context in order to be better prepared. Hence, we hypothesized that:

H₀₂: Entrepreneurial orientation does not significantly influence institutional environment of indigenous firms in Lagos State, Nigeria.

Since, according to Fernández-Mesa and Alegre (2015), entrepreneurial orientation on its own may not be enough to drive satisfactory level of internationalization, the mediation of such concept as institutional environment is required to interact between entrepreneurial orientation and internationalization in order to enhance internationalization of firms, we, therefore, hypothesis that:

H₀₃: Institutional environment will not significantly mediate between entrepreneurial orientation and internationalization of indigenous firms in Lagos State, Nigeria.



Source: Researcher (2024).

Fig. 1: Conceptual Model

2.2. Empirical Review

Wach, Głodowska and Maciejewski (2018) carried out a study to investigate the existing relationship between entrepreneurial orientation and internationalization using knowledge

utilization as the mediating variable. Out of 7100 Polish small, medium and large firms that were randomly selected, the researchers were able to administer copies of questionnaire to 355 firms that have internationalized and have given their consent to participate in the survey. The questions were directed at those occupying managerial positions in these organisations since they were expected to have detailed knowledge of the firm's international expansion. Multivariate regression model with ordinary least square was used to test the hypotheses. The study revealed that innovativeness and risk-taking attitude of organisational managers have positive impacts on the companies' international expansion. It was, equally, found that entrepreneurial, market and network knowledge have positive association with firms' international expansion but only entrepreneurial knowledge is statistically significant. It was further established that entrepreneurially oriented firms intensively utilize different kinds of knowledge at different stages of international expansion.

Torkkeli, Kuivalainen, Saarenketo and Puumalainen (2018) studied the role of institutional environment in successful internationalization of SMEs through network-related dynamic capability of firms in a developed market. The study used 119 samples of SMEs drawn from an online database and data were collected through online web survey. The collected data were analyzed using linear regression modeling and the study found that institutional drivers and network competence are extremely important for firms seeking international expansion whether at the first entry level or further than the initial stage.

3. METHODOLOGY

Population of the study

The study focused on indigenous firms that have internationalized their business activities in Lagos state, Nigeria since Lagos state is the hub of commercial activities in Nigeria where majority of business headquarters are located. Their internationalization involvement could be through licensing, joint venture, outward foreign direct investment, import, franchise, export and/or other means of international business activities to be qualified for the study. According to Kale (2019), the total number of registered small and medium enterprises in Lagos State is 8,395. However, every attempt to identify registered Nigerian indigenous firms that have internationalized proved abortive. Therefore, since there is no proper record for this category of business in Nigeria, all

indigenous firms that are involved in internationalization across all industries in Lagos State form the population of the study which is an infinite population.

Sample Size and Technique

The sample size used for this study follows the recommendation of Krejcie and Morgan (1970) where it was argued that as the population increases from the range of 10 to 1,000,000 and above, the sample size also increases but at a diminishing rate from the range of 10 until it becomes relatively constant at slightly above 380 which may not exceed 384 for any population. Since there is no proper record of internationalized indigenous firms in Nigeria, the study worked with 384 maximum samples recommended by Krejcie and Morgan (1970) which were drawn from the population of internationalized indigenous firms operating in various industries using snowball sampling method. The snowball sampling method is a non-probability sampling method that allows the researcher to receive information about the location of other internationalized indigenous firms from previously contacted internationalized indigenous firms until satisfactory sample size is achieved.

	Frequency	Percent	Cumulative Percent
Service	141	36.7	36.7
Manufacturing	102	26.6	63.3
Agriculture	5	1.3	64.6
Construction	34	8.9	73.4
Healthcare	33	8.6	82.0
ICT	50	13.0	95.1
Textile	19	4.9	100.0
Total	384	100.0	

Source: Researcher's Field Survey (2023)

Data collection instrument

In order to elicit response from respondents, questionnaire was employed for data collection. The questionnaire was segmented into two sections comprising the demographic information of the respondents in section A while questions on each of the variables of the study were arranged in section B of the questionnaire according to their dimensions. The questionnaire items in section B were adapted from previous studies in the relevant areas (Hughes & Morgan, 2007; Ko, Chen, Chen, Wu & Liu, 2021; Lasse, Olli, Sami & Kaisu, 2018).

Measures

The total variables used in this study are three. We present the mean, standard deviation, Cronbach's alpha and correlations among variables in Table 2 for statistics summary and correlation significance. Following the recommendation of Nunnally and Bernstein (1994), the coefficients of alpha for all items are above 0.70.

A five-item on a seven-point likert scale was used to measure internationalization as the response variable. The predicting variable which is Entrepreneurial orientation was measured as a reflective construct using adapted scale based on its five dimensions as evident in the literature (Covin & Slevin, 1989; Lumpkin & Dess, 1996). Institutional environment which is the mediating variable was measured on a 6-item and 7-point likert scale. Internationalization is the response variable. Measurement scale for the internationalization of indigenous firms were adapted from the work of Ko, Chen, Chen, Wu and Liu (2021) in which five items were used to measure internationalization activities from both inward and outward-looking perspectives

Table 2. Statistics Summary and Correlation significance

Variable	Mean	s.d	α	1	2
Internationalization	4.48	1.245	0.88		
Entrepreneurial Orientation	5.58	.676	0.73	.293**	
Institutional environment	3.99	.940	0.80	.169**	-.036

** Correlation is significant at $p < 0.01$

The reliability scores show that the scales were dependable for further analyses of data and there are internal consistencies within the items in each of the constructs (Nunnally, 1978).

Analytical techniques

Consistent with the approach of Latif, Pérez and Sahibzadac (2020), we tested the hypothesis to determine the relationship between entrepreneurial orientation and internationalization using Partial Least Square Structural Equation Modeling (PLS-SEM) statistical method in SmartPLS 4.0 to test the cause and effect relationship between observed and latent variables. Next, we established the relationship between entrepreneurial orientation and institutional environment which the mediating variables between entrepreneurial orientation and internationalization. Lastly, we controlled for the independent variable by entering the mediating variable simultaneously with the experimental variable as a predictor of the dependent variable.

The study used percentile bootstrapping option to determine the mediating relationship among constructs in the distribution of indirect effects and the method of variance accounted for (VAF) which, according to Putra (2022), is the most suitable technique for assessing the mediating effect of connecting variable between the predicting and response variable. The bootstrapping was set at 5000 resampling randomly drawn at 0.05 significant levels. Lastly, when the VAF ranges from 20% to 80%, it is considered that there is partial mediation. Otherwise, values below 20% indicate that the mediation is weak and negligible, whereas, values above 80% indicate a full mediation.

4. RESULTS

Hypothesis one

Ho1: Entrepreneurial orientation will not significantly influence internationalization of indigenous firms in Lagos State, Nigeria.

Outer model –reliability and convergent validity

Table 3: Outcome of the Measurement Model

Hypotheses		α	Rho_a	CR	AVE
Ho1	Entrepreneurial Orientation	0.876	0.878	0.890	0.342
	Internationalization	0.726	0.838	0.820	0.548
Ho2	Entrepreneurial Orientation	0.864	0.874	0.887	0.380
	Institutional Environment	0.804	0.912	0.845	0.656

Source: Researcher's computation (2024)

The above table 3 shows that Cronbach's Alpha, composite reliability (CR) and Rho_A are within the recommended threshold of 0.7 and above, and not exceeding 0.95 (Hair, Risher, Sarstedt & Ringle, 2019), thereby establishing that there is reliability and internal consistency in the measures adapted for the study. Similarly, in order to establish the convergent validity of the study constructs, average variance extracted (AVE) was considered. The study revealed that the calculated average variance extracted for internationalization and institutional environment are 0.548 and 0.656 respectively while that of entrepreneurial orientation is 0.342 and 0.380 in both hypotheses which is adequate. According to Fornell and Larcker (1981), average variance extracted should be 0.5 for both a single measure and the construct, however, for the construct, where average variance extracted for the reliability of the construct is above 0.3 it can be concluded that the convergent validity of the construct is adequate.

Heterotrait-Monotrait ratio (HTMT) criterion

Table 4: Heterotrait-Monotrait ratio (HTMT) criterion

Hypothesis		Entrepreneurial Orientation	Internationalization
H ₀₁	Entrepreneurial Orientation Internationalization	0.582	
		Entrepreneurial Orientation	Institutional Environment
H ₀₂	Entrepreneurial Orientation Institutional Environment	0.320	
<i>Source:</i> Researcher’s computation (2024)			

In the Heterotrait-Monotrait ratio table above, it was revealed that HTMT ratio is 0.582 and 0.320 for both hypothesis which are below 0.90 and thereby reconfirming discriminant validity in the study analysis.

Path coefficient of the tested model

Table 5: Path coefficient of the tested model

Hypothesis	Relationship	Beta	R ²	f ²	t-statistic	P-value
H ₀₁	Entrepreneurial Orientation→ Internationalization	0.559	0.313	0.457	22.798	0.000
H ₀₂	Entrepreneurial Orientation→ Institutional Environment	- 0.345	0.127	0.146	3.712	0.000
<i>Source:</i> Researcher’s computation (2024)						

In the table above, the beta value of 0.559 indicates that there is a moderate positive relationship between entrepreneurial orientation and internationalization. Also, the beta value of 0.345 indicates that there is a moderate positive relationship between entrepreneurial orientation and institutional environment. The R-square of 0.313 and 0.127 is the variance in response variable explained by predicting variable which is above 10% threshold set by Falk and Miller (1992). Similarly, the f-square value of 0.457 is large enough and 0.146 is in the medium range to indicate that removal of items in predicting variable did not have a significant effect on the response variable (Fawad, 2022). Further, the t-statistic value of 22.798 and 3.712 are above the +1.96 threshold predicted by Putra (2022) and it is significant at p<0.001. Consequently, the null hypotheses were rejected and the alternative hypotheses were accepted.

*Hypothesis three***Table 6: Mediating relationship of dynamic capability between entrepreneurial orientation and internationalization**

Type of effect	Effect	Path coefficient	T stats	P-value	Remark
Total effect	EO → Intl	0.530	18.138	0.000	Sig. total effect
Indirect effect	EO → IE → Intl	0.147	2.488	0.013	Sig. Indirect effect
Direct effect	EO → Intl	0.327	3.548	0.000	Sig. direct effect
VAF	Indirect effect/total effect	27.74%			

Conclusion: Institutional Environment has a partial mediation between Entrepreneurial orientation and internationalization

Note: VAF – variance accounted for
Source: Researcher’s computation (2024)

The study used bootstrapping in the distribution of indirect effects and the method of variance accounted for (VAF) which, according to Putra (2022), is the most suitable technique for assessing the mediating effect of connecting variable between the predicting and response variable. The table showed that the direct effect of entrepreneurial orientation on institutional environment is significant at $p < 0.001$, where t-statistic is 3.548 and path coefficient is 0.327. Similarly, the table showed that indirect effect of entrepreneurial orientation on institutional environment and institutional environment on internationalization is significant at $p < 0.05$, where t-statistic is 2.488 and path coefficient is 0.147. Further, the total effect of the mediating relationship is significant at $p < 0.001$, where t-statistic is 18.138 and path coefficient is 0.530.

The table above revealed that VAF is 27.74%. In conclusion, having fulfilled all the required conditions for mediating relationship (see Hair et al., 2017; Putra, 2022), the study found that institutional environment partially mediates the relationship between entrepreneurial orientation and internationalization. Hence, the null hypothesis which stated that institutional environment will not significantly mediate between entrepreneurial orientation and internationalization of indigenous firms in Lagos State, Nigeria is hereby rejected since the study has found that institutional environment partially mediates between entrepreneurial orientation and internationalization of indigenous firms in Lagos State.

Discussion of findings

In this study, the researcher examined how internationalization of entrepreneurially oriented indigenous firms can be enhanced in Nigeria using institutional environment as mediating variable.

The reason being that, the level of Nigeria participation in international business is very low and requires improvement. As such, the study examines how entrepreneurial orientation of Nigeria indigenous firms in terms of their pro-activeness, risk taking attitude, innovativeness, competitive aggressiveness and autonomy influences their ability to internationalize.

It further examined the mediating role of institutional environment towards the enhancement of internationalization of indigenous firms in Nigeria. Having examined the extent to which entrepreneurial orientation influences the internationalization of indigenous firms in Nigeria using partial least square structural equation modeling (PLS- SEM), the study found that entrepreneurial orientation has a positive significant influence on internationalization of indigenous firms in Lagos State, Nigeria. This result corroborates the findings of previous studies in this regard (see NuelOkoli et al., 2021; Osei-Bonsu, 2020; Wach *et al.*, 2018).

The study carried out analysis to determine if entrepreneurial orientation will have influence on institutional environment in terms of institutional drivers which represent the driving force as a result of which an organization may seek international market and institutional barriers which represent the impediments against an organization which would have made efforts to internationalize. The study revealed that all items constituting institutional drivers do not have any statistically significant support for institutional environment which led to the removal of all items on institutional drivers. However, items constituting institutional barriers have statistically significant support for institutional environment and as such they were used to measure institutional environment in the study. It was found that there is a negative relationship between entrepreneurial orientation and institutional environment, however, entrepreneurial orientation has a significant influence on institutional environment of indigenous firms in Lagos State, Nigeria.

This implies that as firms' decision makers continue to be proactive, innovate, risk taking, autonomous and competing aggressively, barriers that serve as impediments will be reducing. This result provides support for Gil-Barragan, Belso-Martínez and Mas-Verdú (2019) where the researchers opined that entrepreneurially oriented company that is located in an environment where the institution is weak should keep focus, preferably, on weak domestic ties so as to reduce the level of risks involved and effectively manage their scarce resources by utilizing the resources of its partners and gain access to new market information in order to speed up the process of international expansion.

Lastly, the study examined the mediating role of institutional environment in the relationship that exists between entrepreneurial orientation and internationalization of indigenous firms in Nigeria. It was found that institutional environment has a significant partial mediation between entrepreneurial orientation and internationalization of indigenous firms in Nigeria. The meaning is that entrepreneurial orientation on its own can influence international expansion among indigenous firms, but where institutional environment is friendly and supportive to entrepreneurial orientation of indigenous firms, international expansion will be enhanced. This result is in line with what was found by Melo, Borini and Ogasavara (2019) that internationalization of entrepreneurially oriented firms require the most preferable institutional environment with openness and ease of business operational processes and procedures.

5. CONCLUSION AND RECOMMENDATION

The study examined entrepreneurial orientation of indigenous firms in Nigeria in relation to internationalization; while institutional environment was used as the mediating variable of the study. Entrepreneurial orientation, in terms of innovativeness, proactiveness, risk taking attitude, competitive aggressiveness and autonomy of indigenous firms in Nigeria, is capable to deliver internationalization. However, firms need to increasingly embrace entrepreneurial orientation in order to reduce the effect of institutional barriers capable of impeding internationalization. Lastly, government agencies and indigenous business operators in Nigeria should realize that active participation in international business will go a long way to create jobs, reduce poverty level in the country and make Nigeria great. Therefore, they must be intentional in their roles to actively participate in international business.

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