

Mediating Role of Entrepreneurial Mindset and the Relationship between Government Policies and SME's Success

Agu, Ugochukwu Anthony

¹ Faculty of Finance and Administrative Science, Al Madinah International University,
Taman Desa Petaling, 57100 Kuala Lumpur, Malaysia
ugo.snazzy@yahoo.com

Al-Harath Abdulaziz M. A.

² Faculty of Finance and Administrative Science, Al Madinah International University,
Taman Desa Petaling, 57100 Kuala Lumpur, Malaysia
alharath.ateik@mediu.edu.my

Abstract

This study explores the role of entrepreneurial mindset as a mediator in the relationship between government policies and the success of small and medium enterprises (SMEs) in Imo State, Nigeria. Previous research has largely focused on SMEs in mature economies, with limited attention to developing nations like Nigeria, particularly on the moderating role of the entrepreneurial mindset. To address this gap, the study formulated six objectives, six research questions, and thirteen hypotheses. A total of 334 questionnaires were distributed to SMEs registered in 2020, using stratified random sampling. Data were analyzed using both descriptive and inferential statistics, including regression analysis and Pearson Product Moment Correlation Coefficient (PPMC), at a 0.05 significance level. The findings revealed that government policies related to support, market pressure, and insecurity significantly impact SME success, with entrepreneurial mindset playing a crucial mediating role. The study concludes that fostering an entrepreneurial mindset strengthens the positive impact of government policies on SME success. It recommends targeted support for SME owners and policymakers to enhance SME performance in Imo State.

Keywords: *Entrepreneurship, Entrepreneurial Mindset, Government Policies, SME's Success*

1. Introduction

Small and medium-sized enterprises (SMEs) are crucial to global economic growth, driving job creation, innovation, and sustainable development. Governments worldwide support SMEs through funding, regulatory reforms, and tax incentives, but the success of SMEs also depends on internal factors, particularly the entrepreneurial mindset of leaders, which includes risk-taking, proactivity, and innovation. SMEs represent a significant portion of global businesses and employment, contributing substantially to GDP in countries like South Africa and Nigeria (Mansi, 2021; Pu, 2021). However, access to capital remains a key barrier for SMEs, especially in developing regions. Despite challenges, SMEs play a vital role in industrialization, value creation, and socioeconomic growth, making their success critical for policymakers. An entrepreneurial mindset, characterized by opportunity recognition, creativity, and risk management, is pivotal in driving SME performance and sustainability across economies (Ajayi, 2016).

Nigeria must focus on building a future beyond oil, as the oil industry currently dominates the economy. With 47 million people in the labor force and a 20% unemployment rate (SMEDAN & NBS, 2017), the nation needs to diversify its industrial and commercial sectors, leveraging its resources through the growth of SMEs. SME development is crucial for many economies, contributing

to job creation and economic progress (Kantur, 2016; Yang & Gao, 2022). Entrepreneurship, as a tool for development, generates income and supports rural growth (Abiodun, 2020). Over the last thirty years, Nigeria has introduced policies to foster entrepreneurship and SME growth.

However, SMEs face internal and external challenges, including government regulations and market competition (Abiodun, 2020). Despite SMEs accounting for around 90% of manufacturing businesses and 50% of industrial jobs, their development remains hindered (Peter, 2018). The sector's potential must be harnessed through improved government support and policies. Innovation and technology are essential for SME success and the transformation of economies (Taneo et al., 2022).

The role of entrepreneurship is significant in developing new businesses and industries, creating jobs, and promoting technological advancement (Bala, 2021). SMEs act as a catalyst for entrepreneurial aspirations, and an entrepreneurial mindset is vital for their growth. This mindset includes creativity, problem-solving, and risk-taking (Zarrouk et al., 2020), with positive effects on SME performance (Agwu, 2018). Policymakers should focus on fostering this mindset to enhance the entrepreneurial ecosystem and drive SME success.

2. Problem Statement

The discovery of oil in the 1960s led to the neglect of Nigeria's SMEs, causing socioeconomic challenges. Despite efforts like SMEDAN, SMEs still struggle with a failure rate above 80%, contributing to unemployment and poverty (SMEDAN & NBS, 2017). Obaje (2020) highlights that SME leaders often lack the knowledge to prevent failures.

Globally, SMEs drive employment and economic growth, but in Nigeria, limited access to finance, poor infrastructure, and unstable policies hinder their success (Meressa, 2020; Olaore et al., 2021; Zaato et al., 2022). The rising unemployment rate (NBS, 2020) underscores the need for new strategies. An entrepreneurial mindset, fostering creativity and innovation, can improve SME performance and sustainability (Kim & Lee, 2018). To the best of the researcher's knowledge, no study has focused on the four independent variables (government support policy, entrepreneurial orientation, market pressure, and security policy) in relation to the mediating role of the entrepreneurial mindset and SME success in Nigeria. This study includes only registered SMEs due to time and cost constraints. While previous research has touched on related areas, none have addressed these specific variables in Nigeria. The study aims to explore how the entrepreneurial mindset mediates the relationship between government policies and SME success, shedding light on the dynamics influencing policy impact.

3. Research Questions

The following research questions guided the study:

1. What is the relationship between government support policy and SME success in Nigeria?
2. What is the relationship between entrepreneurial orientation policy and SME success in Nigeria?
3. What is the relationship between market pressure policy and SME success in Nigeria?
4. What is the relationship between security policy and SME success in Nigeria?
5. What role does entrepreneurial mind-set play in SME success in Nigeria?
6. What is the mediating effect of entrepreneurial mind-set on the relationship between government policies and SME success?

4. Hypotheses

The following hypotheses were proposed in this study based on the results of earlier studies:

H1: Government Support Policy (GSP) Significantly Affects SMEs success (SS).

H2: Entrepreneurial Orientation Policy (EOP) Significantly Affects SMEs success (SS).

H3: Market Pressure Policy (MPP) Significantly Affects SMEs success (SS).

H4: Insecurity Policy (IP) Significantly Affects SMEs success (SS).

H5: Government Support Policy (GSP) Significantly Affects Entrepreneurial Mindset (EM).

H6: Entrepreneurial Orientation Policy (EOP) Significantly Affects Entrepreneurial Mindset (EM).

H7: Market Pressure Policy (MPP) Significantly Affects Entrepreneurial Mindset (EM).

H8: Insecurity Policy (IP) Significantly Affects Entrepreneurial Mindset (EM).

H9: Entrepreneurial Mindset (EM) Significantly Affects SMEs success (SS).

H10: Entrepreneurial Mindset (EM) mediates the relationship between Government Support Policy (GSP) and SMEs success (SS).

H11: Entrepreneurial Mindset (EM) mediates the relationship between Entrepreneurial Orientation Policy (EOP) and SMEs success (SS).

H12: Entrepreneurial Mindset (EM) mediates the relationship between Market Pressure Policy (MPP) and SMEs success (SS).

H13: Entrepreneurial Mindset (EM) mediates the relationship between Insecurity Policy (IP) and SMEs success (SS).

5. Conceptual Framework

This study constructed a research framework to ascertain the connection between government policies and SMEs success in Nigeria due to the contradictions observed in the earlier studies. The framework uses SMEs success as the dependent variable, entrepreneurial mindset as the mediating variable, and government policies (government support policy, entrepreneurial orientation, market pressure, and insecurity) as the independent variable. The study focuses on the success of SMEs, which ultimately results in a firm's competitive edge and success. As shown by the contingency theory, government policies represent the firm's strategic balancing with the external environment and uncertainties to achieve the necessary competitiveness, business growth performance, and sustainability. The framework's thesis is that government policies have an impact on SMEs' ability to succeed. Figure 1 depicts the research systemic model's hypothesized direct and mediation impact.

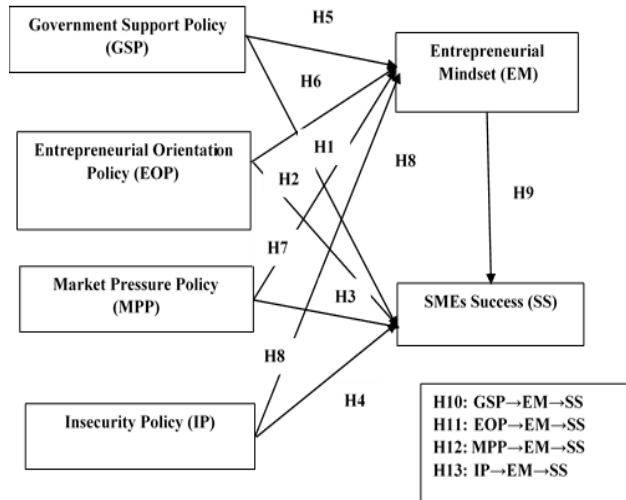


Figure 1: Proposed Research Hypothesis in Research Structural Model

6. Methodology

This research employed a quantitative analysis methodology. The population list of the study was collected from SMEDAN being the body registering SMEs in Nigeria. The researcher identified 7690 owners/managers of SMEs that participated in the study. The study adopted SMEDAN report on SME’s to draw a purposive sample from the population. Therefore, a convenience sampling method was used to justify a true representation of the population across states in Nigeria comprising 380 participants for the study (using Taro Yamane formula). Questionnaire was used as primary source of data the research instrument for the study. The data generated for the study were analyzed using both descriptive and inferential analytical techniques, using Statistical Package for Social Sciences (SPSS version 20). A multivariate method of mathematical analysis used to examine structural relationships is the modelling of structural equations. Additionally, tables and Bar-Chart graph were used in the descriptive analysis study while Pearson Correlation Coefficient and regression analysis were used to test the stated hypotheses at 0.05 level of significant.

7. Results

Table 1: Results of Descriptive Statistic for Variables

Variable	Mean	Standard Deviation	Minimum	Maximum
Government Support Policy (GSP)	3.670	1.006	1	5
Entrepreneurial Orientation Policy (EOP)	3.603	1.192	1	5
Market Pressure Policy (MPP)	3.573	1.273	1	5
Insecurity Policy (IP)	3.419	1.212	1	5

Entrepreneurial Mindset (EM)	3.393	1.358	1	5
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Table 2: Examining Results of Hypothesized Direct Effects of the Variables

Path	Unstandardized Estimate	Standardized Estimate	p-value	Hypothesis Result
	Estimate	S.E. Beta		
GSP→SS	0.0363	.040 .366	.000	H1) Supported
EOP→SS	0.0273	.030 .427	.000	H2) Supported
MPP→SS	0.0306	.030 .486	.000	H3) Supported
IP→SS	0.0042	.033 -.060	.000	H4) Supported
GSP→EM	0.0345	.086 -.357	.000	H5) Supported
EOP→EM	0.0005	.065 -.009	.894	H6) Rejected
MPP→EM	0.0098	.064 .162	.016	H7) Supported
IP→EM	0.0146	.072 .211	.005	H8) Supported
EM→SS	0.0171	.121 -.064	.242	H9) Rejected
GSP→EM→SS	0.0363	.041 .357	.000	H10) Supported
EOP→EM→SS	0.0273	.030 .427	.000	H11) Supported
MPP→EM→SS	0.0309	.030 .490	.000	H12) Supported
IP→EM→SS	0.0039	.034 -.055	.001	H13) Supported

*p< 0.05 is supported otherwise it is rejected

The study's findings demonstrated that the government support policy (GSP), entrepreneurial orientation policy (EOP), market pressure policy (MPP), and insecurity policy (IP) all had considerable beneficial direct influence on the success of SMEs. Hypotheses H1, H2, H3, and H4 are a result. According to the findings, market pressure policy (MPP) was the best indicator of SMEs' success (SS).

8. Discussion

The findings of this study provide insights into how government policies, entrepreneurial orientation, market pressures, and insecurity affect SME success in Imo State, Nigeria. The study reveals a significant positive relationship between government support policies and SME success, confirming that interventions such as financial aid and tax relief help businesses thrive (Kantur, 2016; Yang & Gao, 2022). However, this study also shows that entrepreneurial orientation—such as innovation and risk-taking—is equally critical, aligning with Ibrahim et al. (2016). SMEs that respond to market pressures through adaptability experience a 0.486 increase in success, suggesting that both internal and external business factors drive growth.

The study also finds a complex relationship between insecurity and SME performance, where insecurity policies show positive effects, but insecurity itself slightly reduces success by 0.060 standard deviations. This supports Zaato et al. (2022), highlighting the need for stable environments for business growth. The entrepreneurial mindset plays a mediating role between these factors and SME success, though its direct impact is weaker than expected, contrasting Zarrouk et al. (2020). This suggests that

external factors like government support and market conditions have a greater influence on SMEs than entrepreneurial attitudes alone (Taneo et al., 2022). Ultimately, the study calls for comprehensive policies that integrate entrepreneurship education, security measures, and market adaptability programs to fully support SME success.

The findings of this study have significant implications for business management and administration, particularly regarding the importance of an entrepreneurial mindset in mediating the relationship between government policies and SME success in Imo State. The study provides empirical evidence that SMEs with an entrepreneurial mindset can improve their chances of success by acquiring skills and knowledge through education and entrepreneurship programs. Businesses are encouraged to consider government policies—including market pressures, support, entrepreneurial orientation, and insecurity—to enhance their success. As a result, the government can prioritize entrepreneurship education to equip SMEs with the tools needed for sustainability.

Policymakers could invest in programs promoting entrepreneurial education, aligning government policies with entrepreneurial principles like innovation and risk-taking. Educational institutions and business support organizations can play a crucial role by offering training programs that focus on developing these entrepreneurial skills. Regular assessments and feedback from the entrepreneurial community will ensure that policies are flexible and adaptive to the unique needs of SMEs in Imo State. Furthermore, initiatives such as mentorship programs, networking events, and resources that encourage innovation should be integrated into SME support strategies.

The study is also relevant for practitioners, particularly government organizations and decision-makers in Nigeria's SME development sector. It can guide investors and partners in choosing SMEs with a strong entrepreneurial attitude, reducing investment risk. The research highlights that fund providers must consider factors like firm characteristics, human resources, and network links when assessing the risks involved in financing Nigerian SMEs. In sum, the findings emphasize the need for strategies that consider the entrepreneurial mindset to maximize the impact of government policies on SME success.

9. Recommendations

Based on the findings, the following recommendations are made:

1. In the field of SMEs development in Nigeria, there should be assistance for practitioners, particularly for government organizations and decision-makers. This work will serve as a helpful resource for SME owner-managers.

2. The government should prioritize those involved in running entrepreneurial ventures and work to provide the fundamental skills needed for people to become entrepreneurs, which will improve the performance of businesses.
3. The government should make sure that security spending is effectively managed in a way that will increase security in order to increase the nation's capacity for production and support SMEs in Nigeria.

10. Conclusions

The study's findings highlight the intricate relationship between government policies, entrepreneurial orientation, market pressures, insecurity, and the entrepreneurial mindset in driving SME success. Government interventions play a vital role, but their impact is maximized when business owners are equipped with an entrepreneurial mindset that allows them to innovate, adapt, and thrive in competitive markets. The entrepreneurial mindset mediates the effects of policies on business outcomes, emphasizing the need for a holistic approach that combines policy support with capacity building to ensure the sustained success of SMEs in Nigeria.

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