

Entrepreneurial risk taking and performance of small and medium scale enterprises (SMEs) in Kano State, Nigeria

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Abstract. Risk taking is a dominant attribute of entrepreneurial activities, as the higher the risk-taking orientation, the higher a firm's profitability and growth. The main purpose of this study was to establish the effect of entrepreneurial risk taking on performance of small and medium scale enterprises (SMEs) in Kano State, Nigeria. Data for the study was obtained through questionnaire and interview from 393 owners, managers and staff of SMEs in Kano state, Nigeria, on a cross sectional research design. Results using Pearson linear correlation and regression analysis have a positive significant relationship between entrepreneurial risk taking and performance of SMEs. Entrepreneurial risk taking has a positive impact on performance of SMEs in Kano State, Nigeria. Entrepreneurial risk taking had a significant effect ($F - \text{statistic} = 35.959$; $t - \text{statistic} = 5.997$) $P = 0.001$. The study adds value to the growing body of knowledge in the field of entrepreneurial development activities. The study recommends that operators should always identify and assess the trends of the opportunities impending before taking risk not just dare risk, this will help to address the rate at which SMEs managers, owners and staff take risk, so that risk taking will relate and significantly influence their

performance. The study serves as a reference to anyone who is interested in establishing his personal business as it provides insight into the importance of entrepreneurial risk taking in starting a business and also for any organization that is interested in achieving profitability or continue sustaining effective business venture.

Key words: entrepreneurial risk taking, small and medium scale enterprises (SMEs), Performance of SMEs.

1. Introduction

In many developing countries, small and medium scale enterprises (SMEs) constitute the bulk of industrial base (Kormawa, Wohlmuth and Devlin, 2011). SMEs play an increasingly important role as they address poverty by creating jobs; disperse economic activities in the countryside and provide broad-based sources of growth (Wolcott et al., 2008; Maad and Liedholm, 2008; Karpak and Topcu, 2010; European Commission, 2011; Mohammad and Ezaz, 2012). Despite these importance, SMEs are faced by global competition, market liberalization, rapid technological advances and the introduction of stringent quality and

safety regulations (Da silva, Baker, Shepherd, Jenane and Miranda da Cruz, 2009). Today's dynamic environment requires SMEs to be entrepreneurial if they are to survive, grow to have superior performance (Fairoz, Hirobumi and Tanaka, 2010). Firm's level entrepreneurship is key to enhancement of firm performance of small and medium firms (Patel and D'Souza, 2012). Empirical studies done in developed and transition economies suggest that risk taking at a firms' level strategic posture has constituted a potential source of competitive advantage and has positive, long-term effect on growth and financial performance of SMEs (Wang and Poutziouris, 2010).

In Nigeria many SMEs are winding up due to a number of factors and challenges such as inadequate preparation of the entrepreneurs in form of training (Oyebola, Irefin and Olaposi, 2015); Failure of government in providing a conducive business environment (Amanda, 2012); Poor intellectual capital resources and leadership development (Funsho, 2015) Widespread corruption and harassment (Aminu, Salau and Pearse, 2013); Internal and external factors such as the carrying capacity of the environment, government policy or competition, government regulations and bureaucratic procedures, restricted autonomy as well as lack of freedom of doing business (Ebitu, Basil & Alfred, 2016; Eniola and Entebang, 2015; Adisa, Abdulraheem and Mordi, 2014; Bubou et al., 2014; Oni and Daniya, 2012). These challenges currently have led to gradual collapse of the sector that no vibrant SME with the capacity to absorb unemployed youths, (Olubukola, 2013; Okafor, 2011). This problem is more visible particularly in Kano state, that some years now SMEs have not performed creditably well and hence have not played the expected vital and

vibrant role in the economic growth and development of Nigeria rather they are meandering up (Taiwo, Agwu and Falohun, 2016; Kabiru and Kabir, 2014). This has led to unemployment, serious current wave of kidnappings, political thuggery and youth restiveness in the nation as reported by Nigerian Bureau of statistics (News, 2016).

No study has been conducted to specifically establish the effect of entrepreneurial risk taking on performance of SMEs particularly in Kano state Nigeria. Therefore, the need for this study to answer the following research question "What is the effect of entrepreneurial risk taking on the performance of SMEs in Kano State, Nigeria?" and hence the following null hypothesis **H₀** "Entrepreneurial risk taking has no significant effect on the performance of SMEs in Kano State, Nigeria.

2. Literature Review

2.1 Entrepreneurial risk taking

Risk represents a kind of uncertainty where it is possible to quantify the probability of different outcomes (Martijn and Daan, 2017). Business risk is perceived as the possibility that the values of the real business outcomes will differ from anticipated values, while these deviations may be desirable (company achieves higher profits than planned) or not desirable (company suffers loss instead of planned profit) and where the magnitude of the variation may be variable (Hnilica and Fotr, 2009). Risk occurs only at a certain period or stage and it is difficult to specifically determine the period and phase when it will appear. This illustrates that risk is also uncertain, which requires the SMEs to constantly strengthen the consciousness of risk to improve management so that they can reduce the possibility of the occurrence of

the risk. Entrepreneurial risk taking is an important entrepreneurial trait which includes both determination and courage to exploit resources effectively (Scheepers, 2008). Entrepreneurial risk taking is often used to describe the uncertainty that results from entrepreneurial behavior (Tajeddini, 2010). Tajeddini (2010) explained that such uncertainties include the ability of an entrepreneur in using new methods to produce and deliver new product or services, meeting up with competitors and customers' demand, ability of making strategic plans (setting targets for three years and above) and seeking for business linkages/ networking. Entrepreneurial risk categories faced by SMEs are four major types, these categorizations are developed with the emergence of Enterprise Risk Management (ERM) (Fetisovova and Kol, 2012; Yusuf and Dansu, 2013). The authors further listed the four major entrepreneurial risks to include hazard risk, financial risk, operational risk and strategic risk. To the authors, Hazard risks are risks that are traditionally insurable which are sometimes called pure or insurance risks; financial risks comprises of potential losses as a result of fluctuations in the operations of the various financial markets like the capital market, foreign exchange market and the commodity market; Operational risks arises from a number of situations like product development, product failure, information technology, management fraud, and employees' agitation. To them, strategic risks relates to factors like competition, customer preferences, technological innovation and regulatory/political issues. According to Kuratko and Covin (2008) entrepreneurial risk taking involves engaging in calculated and manageable risks in order to obtain benefits, rather than taking daring risks which are detrimental for firm performance. To Kuratko and Covin (2008) such actions include obtaining finance for

business activities, taking legal matters like business registrations and engaging in research and development for new products/services.

To Wang and Poutziouris, (2010), entrepreneurial risk taking also entails a willingness to commit significant resources to opportunities having a reasonable chance of costly failure and a willingness to break away from the tried-and-true path. Avlonitis and Salavat (2007) indicated that active entrepreneurs unlike passive entrepreneurs adopt a more aggressive willingness to undertake actions of high risk than that of competition. To Eggers, Kraus, Hughes, Laraway and Snycerski (2013), to drive firm's growth, the firm will need to deploy a strategy centered on entrepreneurial risk stagnation. Entrepreneurial firms' propensity to take risks is between low and moderate levels, firms that adopt a modest level of risk taking are high performers when compared to those firms that assume very high or very low levels of risk taking (Otieno, Bwisa and Kihoro, 2012). Entrepreneurial risk taking skills therefore remains the prerogative of the SMEs owners, managers and staff to handle properly. Nonetheless, entrepreneurial risk-taking is found to be an important contributor to the performance of SMEs. In this present study entrepreneurial business risk expected for the owner/manager are these business risks as conceptualized and categorized by Enterprise Risk Management (ERM) cited in (Hoffman 2009; Fetisovova and Kol, 2012; Yusuf and Dansu 2013). This is because the categories encompass all the risk sets an entrepreneur can take to enhance business performance. The employee on the other hand can concentrate on some of operational risks and strategic risks which are associated with product development, product failure, information technology, and employees' agitation,

competition, customer preferences, technological innovation and regulatory/political issues or any other risks taking ability assigned to him/her.

2.2 Small and Medium Enterprise (SMEs)

There is no single definition of small and medium scale enterprise business that is universally accepted. For instance, different sectors of the economy have different interpretations of the SMEs business. Although different countries define SMEs businesses differently, it is accepted practice to make use of quantitative and qualitative criteria when attempting to define small and medium scale enterprise business (Gibson and Holmes, 2001; Nieman, Hough and Nieuwenhuizen, 2006). In the European Union the most frequent upper limit designation of SME is 250 employees, while the United States considers SMEs to include firms with fewer than 500 employees (Organization for Economic Cooperation and Development, 2005). In South Africa, SME is regarded as the ones with the potential for job creation and makes a substantial contribution of 35% to Gross Domestic Product (GDP) and are classified as small firm: 10 - 99 employees, medium firm: 100 - 249 employees, (Rwigem and Venter, 2004). In Nigeria, Federal Ministry of Commerce and Industry, described SMEs as firms with a total investment N750, 000 as capital but excluding costs of land and paid employee of up to fifty (50) persons (Osamwonyi, 2010). Central Bank of Nigeria (CBN) defined SMEs as those enterprises with turnover of up to N500, 000 only. National Council on Industry (2001), defined SMEs as enterprises with a labor size of 11-100 workers or a total cost of not more than N50 million, including working capital but excluding cost of land. The study adopted the definitions given by the National council of industry (NCI, 2001) as

the operational definition of SMEs. The choice was made considering the total cost (#50 million) employed and the number of employees (11- 100) as measuring indicators and also as they enabled the researcher to capture several SMEs at the grass root level of the areas.

2.3 SMEs Performance

In the field of entrepreneurship, SMEs performance has been considered as an important construct. There has been no agreement, however, among researchers on the appropriate measure of performance. Previous studies have suggested that growth and financial measures are important performance measures for small enterprises (Soriano, 2010; Sefiani and Bown, 2013). A few studies have used non-financial measures of SMEs performance such as customer and product performance, customer satisfaction and employee turnover (Omar, 2010; Wolff and Pett, 2006; Gorgievski and Ascalon, 2005). Gorgievski and Ascalon, (2005) on their definition revealed nine important criteria that are often used as indicators of business success thus: Profit, growth and innovation, firm-survival or longevity, contributing back to society, personal satisfaction, satisfied stakeholders, in particular customer satisfaction and employee satisfaction, achievement of work-life balance and public recognition. Financial measures are considered critical in determining the survival and success of the firm (Wolff and Pett, 2006). Garrigos-Simon, et al (2005) also categorized SMEs performance measurement into four, namely: (i) Profit which include: return on assets, return on investment and return on sales (ii) Growth in term of: sales, market share and wealth creation (iii) Stakeholder satisfaction which include: customer satisfaction and employees satisfaction and (iv) competitive

position which include: overall competitive position and success rate in launching new product. This study adopted Profit, growth, innovation, firm-survival or longevity plus the fifth personal satisfaction from Gorgievski, et al (2005) as measures of SMEs performance.

2.4 Empirical study on entrepreneurial risk taking and performance of SMEs

Extant research has also empirically supported a positive effect of entrepreneurial risk taking and SMEs performance. For example, Martijn and Daan (2017) investigated entrepreneurship, risk taking and firm performance in Tanzania, using 611 entrepreneurs. Their results showed that risk taking is positively associated with business performance. In addition, they classify the entrepreneurs in four different groups based on their risk profile namely: (i) low risk perception and low risk propensity; (ii) high risk perception and low risk propensity; (iii) low risk perception and high risk propensity; (iv) high risk perception and high risk propensity. Their results showed that the worst performing entrepreneurs were those with low risk perception and high risk propensity. Risk perception is not correlated to education, the age of the entrepreneur or other control variables. This implied that entrepreneurs who perform successfully consider risk profile when taking risk as it is positively associated with success of their businesses. Esra and Kunday (2014) examined the role of entrepreneurial traits and human capital on the performance of SMEs in Turkey, using 159 owners. The findings showed that entrepreneurial traits (such as risk taking) had an effect on SME performance. Entrepreneurship is all about risk taking, for entrepreneurs to succeed, they must take risk, as it is an important entrepreneurial trait which includes both determination and

courage to exploit resources effectively (Scheepers, 2008). In a related study, Fatoki (2011) examined the impact of human, social and financial capital on the performance of SMEs in South Africa. The results indicated that there is a significant positive relationship between human (risk taking ability), social and financial capital and the performance of SMEs. This implied that human capital acquired by owners, manager and staff such as ability to take risk has connection between them and business performance and that human capital embedded in owners, managers and staff enable them perform effectively.

Yazeed (2017) evaluated the effect of entrepreneurial characteristics on the profitability of micro, small and medium scale enterprises in Kaduna State, Nigeria. Using survey research design, collected data from 174 owner/managers. Data analyzed with multiple regression to test the null hypotheses formulated for the study revealed that self-efficacy, risk taking and locus of control, all had significant positive effect on the profitability of MSMEs in Kaduna State. This implied that entrepreneurs in SMEs are zealous in taking entrepreneurial business risk at all stages of their business cycle as risk taking has positive effect to performance and this make them remain and excel in business. Haider, Asad and Minaa (2017) examined entrepreneurial orientation and business performance of manufacturing sector small and medium scale enterprises of Punjab Pakistan. Effects of three entrepreneurial orientation dimensions including innovativeness, pro-activeness and risk taking were examined with regard to business performance. Innovativeness, pro-activeness and risk taking had significant impact over business performance of manufacturing sector of the SMEs. Results further indicated positive correlations among

innovativeness, pro-activeness and risk taking with business performance of the SMEs. This suggests that SMEs entrepreneurs consider risk taking as option as it is positively associated with success of business as contained in the report of Yusuf and Dansu (2013) that entrepreneurs that dare risk achieve their objective. Roy, Tripathy and Tripathy (2017) worked on assessment of factors affecting the performance of women entrepreneurs in SME in Polosara District of Ganjam, Odisha India. Using questionnaire, data was collected from 150 women entrepreneurs, result showed that business risk taking has influence on business performance. This implied that there is a clear connection between business risk taking and business performance as SMEs operators emphasize taking risk in their business.

3. Methodology

The study adopted a cross-sectional survey design to collect data from a sample of 396 owners, managers and staff in Kano state, selected using purposive and stratified random sampling techniques. Only those SMEs registered with the Ministry of Trade, Commerce and Industries Kano state and had operated for two years and above and were in manufacturing, education, trade and other services were selected. Data was collected using questionnaire and interview guide. The instrument/questionnaire was based on a five point Likert scale as used (Morgan & Hunt 1994) where 1 = very low; 2 = low; 3 = moderate; 4 = high; 5= very high. The questionnaire had ten items on IV entrepreneurial risk taking and 13 items for

DV SMEs performance formulated by the researcher using literature. The questionnaire was tested for using validity and reliability using face validity, content validity, construct validity, convergent validity and internal reliability. Cronbach alpha test average was 0.848 for entrepreneurial risk taking and .952 for SMEs performance meaning that the instrument adequately measured what was intended since it was above the recommended value of 0.70 (Zainudin, 2014). Data cleaning was through checking for multi collinearity, missing values, checking outliers, testing for normality, linearity, sampling adequacy and test for sphericity. All these tests were first confirmed with the required rules of humbly before analysis was done. Analysis was done using means, standard deviations, Pearson’s linear correlation coefficient and linear regression.

4. Findings and discussion

The main objective for this study was to investigate the effect of entrepreneurial risk taking on the performance of SMEs in Kano State, Nigeria. Data on entrepreneurial risk taking and SMEs performance were collected using ten and 13 question items respectively with questionnaire. Respondents rated the extent of their entrepreneurial risk taking and SMEs performance on a five point scale where 1 = very low; 2 = low; 3 = moderate; 4 = high; 5= very high. Their responses were summarized using descriptive statistics as presented in table 1.

Table 4.1 Means and standard deviations on entrepreneurial risk taking of SMEs’ owners, managers and staff in Kano state, Nigeria

Entrepreneurial risk taking items	Mean	SD	Interpretation	Rank
Meeting up with customers’ demand	3.63	.827	High extent	1
Meeting up with competitors	3.20	.976	Moderate extent	2
Obtaining finance for business activities	3.16	.992	Moderate extent	3

Seeking for supplier and management	3.08	.855	Moderate extent	4
Seeking for business linkages/ networking	3.02	.997	Moderate extent	5
Using new methods to produce and deliver your product or services	3.00	.776	Moderate extent	6
Innovating /creating new products or services/initiating change into better business direction	2.91	.919	Moderate extent	7
Taking legal matters like business registrations	2.90	1.031	Moderate extent	8
Engage in research and development for new products/services	2.81	.867	Moderate extent	9
Strategic plans (setting targets for three years and above)	2.67	.960	Moderate extent	10
Average mean	3.04	0.600	Moderate extent	
SMEs performance indicators	Mean	SD	Interpretation	
Competitive strength	3.63	0.833	High performance	1
Customer satisfaction	3.54	0.707	High performance	2
Sales volume	3.48	0.932	High performance	3
Increase in number of customers	3.45	1.042	High performance	4
Increase in profit	3.42	0.989	High performance	5
Supply of inputs	3.36	0.808	Moderate performance	6
Meeting benchmark	3.31	0.852	Moderate performance	7
Personal satisfaction	3.26	0.718	Moderate performance	8
Constant innovation	3.17	0.711	Moderate performance	9
Business survival	3.16	0.836	Moderate performance	10
High business asset	3.16	1.111	Moderate performance	11
High working capital	3.10	0.862	Moderate performance	12
Staff strength	3.04	0.740	Moderate performance	13
Average mean	3.31	0.690	Moderate performance	

Source: Primary data (2017)

Mean range	Interpretation
1.00 – 1.79	very low
1.80 – 2.59	low
2.60 – 3.39	moderate
3.40 – 4.19	High
4.20 – 5.00	Very high

The results in table 1, revealed that entrepreneurial risk taking variables hurt their businesses moderately, this can be seen with average mean of 3.04 as depicted on table 1. Only one item in the construct (Meeting up with customers' demand) was rated high with mean of 3.63. Based on this self-perceived level of entrepreneurial risk taking, it would be expected that SMEs' owners, managers and staff in Kano state, Nigeria can take risk to excel in performing their entrepreneurial business activities. Generally, respondents rated their SMEs performance as being moderate, as indicated by the average mean of 3.31, with a low score on standard deviation, suggesting that scores did not deviate much from the mean. The highest scored aspect of SMEs performance was competitive strength, with a mean of 3.63 and standard deviation of 0.833 suggesting that SMEs viewed their business competitive strength as being the best asset they had. The overall picture on SMEs performance suggested that the owners, managers and staff were not very satisfied with the current level of their performance, since they were not able to rate any aspect of the performance variables very high. It is also important that the SMEs were able to identify what was not doing well in their enterprises, an indication that they could improve.

Relationship between Entrepreneurial risk taking and Performance of SMEs in Kano state, Nigeria

To establish the extent to which entrepreneurial risk taking correlated with SMEs performance in Kano state, Nigeria, the two variables were correlated using Pearson's linear correlation

coefficient and it show that correlation coefficient was 0.290 and significant at $P < 0.000$ as indicated in table 2.

Table 2: Pearson’s Linear Correlation Coefficient Results for Entrepreneurial risk taking and Performance of SMEs

Variables correlated	r- value	Sig value	Interpretation
Entrepreneurial risk taking Verse SMEs performance	0.290	$P < 0.000$	Significant correlation

Correlation Sig. (1-tailed). Source: Researcher’s Computation from primary data (2017)

By this result in Table 2, entrepreneurial risk taking positively and significantly correlate with performance of SMEs since the sig value is below 0.05. This implied that an improvement on entrepreneurial risk taking is likely to increase performance of the SMEs in Kano state, Nigeria.

Testing the null hypothesis

Null hypothesis was stated that entrepreneurial risk taking has no significant effect on the performance of SMEs in Kano State, Nigeria. To test this, data on entrepreneurial risk taking (Table1) was regressed with the data on small and medium scale enterprises performance. Results are indicated on table 3.

Table 3: Regression analysis for Entrepreneurial Risk taking and Performance of SMEs

Variables Regressed	Adjusted R square r^2		F-value	Sig.	Interpretation	Decision on H_03
Entrepreneurial risk taking vs SMEs performance	.082		35.959	.000	Significant effect	Rejected
Coefficients	B	Std. Err.	t	sig		
(Constant)	2.211	.186	11.896	.000	Significant effect	Rejected
Entrepreneurial risk taking	.344	.057	5.997	.000	Significant effect	Rejected

Source: Researcher’s Computation from primary data (2017)

The results of linear regression in Table 3 show that the model was significant since the sig value (0.000) was less than 0.05. The adjusted r square (r^2) indicate that the predictor (entrepreneurial risk taking) explains 8.2% variations in SME performance (Adjusted r square = 0.082). The F statistic and p- value show that the model significant is significant at 0.000. Based on these results the null hypothesis is rejected and we infer that entrepreneurial risk taking can significantly affect SMEs performance in Kano state Nigeria. The coefficients suggest that a one unit increase in entrepreneurial risk taking can bring a 0.344 improvement in SMEs performance and vice versa (Beta = 0.344) and this is statistically significant (sig = 0.000, $t = 5.997$).

Regarding interview on entrepreneurial risk taking and its effect on the performance of SMEs in Kano state Nigeria, respondents show that entrepreneurial risk taking has truly assisted them and that if they do not take risks, their businesses will generally be hurt. The opinions of the respondents were also in line with the quantitative description of the findings on entrepreneurial risk taking

and SMEs owners, managers and staff in Kano state, Nigeria. On their performance, respondents perceived low improvement during the years under study from the discussion. Therefore if all the SMEs owners, managers and staff in Kano state, Nigeria do take entrepreneurial risks in carrying out their accomplishments, there will be improvement in their firms.

4.1 Discussion

The research question was on whether entrepreneurial risk taking can significantly influence the performance of SMEs in Kano State, Nigeria. In line with this research question, the study hypothesis was not supported. The results did provide empirical support that entrepreneurial risk taking can significantly influence the performance of SMEs in Kano State, Nigeria. The findings indicated that entrepreneurial risk taking is among the significant factors that have been empirically supported by various studies to have positive influence on SMEs outcome. For example, practice of good entrepreneurial risk taking was found to have significant power in predicting organizational commitment among employees (Scheepers, 2008; Esra and Kunday, 2014; Roy, Tripathy and Tripathy, 2017; Haider, Asad and Minaa, 2017). Increased employee's commitment had a strong attachment to customer satisfaction and loyalty to the service providers and the worst performing entrepreneurs were those with low risk perception and high risk propensity not to take risk (Martijn and Daan, 2017).

Accordingly, the present study did not support the findings of Eggers, et al (2013), they opined that to drive firm's growth, the firm needs to deploy strategy centered on entrepreneurial risk stagnation. This present study findings indicates that entrepreneurial risk taking is critical in helping entrepreneurs address problems effectively and thus improve their performance. Accordingly, the study supported Fatoki, (2011) findings, who indicated that entrepreneurial risk taking was considered indispensable conditions for achieving sustained competitive advantage when he investigated the impact of human, social and financial capital on the performance of

SMEs in South Africa. The result of his findings is in line with this present study that entrepreneurial risk taking positively and significantly effect on performance of SMEs. Similarly, Yazeed (2017) found result similar to the present study that risk taking positively and significantly effect on the profitability of SMEs in Kaduna State, Nigeria.

5. Conclusions

The performance of SMEs have been acknowledged and believed in accelerating the economic development of countries, which were the reasons, roles and importance that they have increased prominently throughout the world (Wolcott et al., 2008; Maad and Liedholm, 2008; Karpak and Topcu, 2010; European Commission, 2011). Results from this serves as reference to anyone who is interested in establishing his personal business which will provide insight into entrepreneurial risk taking in starting a business and also for any organization that is interested in achieving profitability or continue sustaining effective business in order to achieve growth and sustainable development. Methodologically, the process for collecting the primary data ensured a value or interest free atmosphere in which research assistants that administered the questionnaire to the respondents had no vested interest on the outcome of the study. The study also had added valuable practical upshots to the growing body of knowledge in the field of entrepreneurial development activities.

6. Recommendations

Entrepreneurial risk taking exerted significance influence on performance of SMEs in Kano State, Nigeria. Entrepreneurial risk taking is necessary part of everyday activities of SMEs, taking into

consideration that any legislative changes, economic impacts, and global fluctuations result with greater intensity on SMEs, therefore operators should always identify and assess the trends of the opportunities impending before taking risk not just dare risk, this will help to address the rate at which risk taking will influence their performance.

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