
RELATIONSHIP BETWEEN RISK-TAKING AND BUSINESS PERFORMANCE AMONG SMALL AND MEDIUM ENTERPRISES IN ELDORET TOWN, KENYA

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ABSTRACT: *The measure of entrepreneurial activity in an organization is the level of creativity and innovation across all its operations. How intense the creative and innovative disposition is determined by the success of organizations as reflected in performance outcomes. The purpose of the study was to examine the relationship between entrepreneurial intensity and performance of small and medium enterprises in Eldoret town, Kenya. Informed by the study, this paper explores the influence of risk-taking on the performance of SMEs in Eldoret town. The study adopted an ex-post facto research design. It targeted all the SMEs in Eldoret town. Systematic sampling technique was adopted to select a sample of 100 SME owners/managers to be involved in the study. The collected data was analysed using both descriptive and inferential statistics. Descriptive statistics was presented in form of percentages, frequencies, pie charts and graphs. Pearson correlation was employed to test the hypotheses of the study. The study established that there is a strong positive correlation between risk-taking and business performance of SMEs in Eldoret town. Therefore, committing business resources to venture in uncertain and unfamiliar environments could result in increased returns and market share for the business.*

KEYWORDS: Risk-Taking, Business Performance, Small, Medium Enterprises, SMEs, Eldoret Town, Kenya

INTRODUCTION

Business prosperity is a product of successful ‘opportunity development’, which involves the entrepreneur’s creative work, rather than ‘opportunity recognition’ (Urban, 2008). Opportunity development entails recognition of the opportunity, evaluation and adoption. The need or resource ‘recognized’ or ‘perceived’ cannot become viable without this ‘development’ (Urban, 2008). Opportunities are evaluated at each stage of development; this evaluation may be informal or even unarticulated (Tang & Tang, 2012). The term ‘evaluation’ typically insinuates judgment, which determines whether or not a developing opportunity will receive the resources to mature to its next stage. It does not however entail the actual launching and capitalizing on the opportunity. It is merely concerned with establishment of whether or not an opportunity exists.

The traditional theories of entrepreneurship depict enterprise as an incremental process and occur at a later stage of the firm’s growth process (Ibrahim, 2004). These theories are referred to as the sequential or process or stages theories of entrepreneurship. At the early stage of a firm’s growth process, its horizon is limited to domestic market; as it grows it expands and invests in new markets to exploit windows of opportunity (Ibrahim, 2004). The knowledge gained at one stage can profoundly influence future growth as the firm experiments, takes risks and learns. Expansion

venturing can broaden a firm's knowledge base as it receives more information on new markets, customers, cultures, technologies, and innovation systems, which can enhance a firm's performance (Zahra & Garvis, 2000).

The major assumption is that entrepreneurship is a time-based process as a result of domestic-based growth and gradual accumulation of knowledge as the management team gains experience and knowledge of new markets. The traditional theories imply that at every stage of the business, there should be innovation, risk taking and pro-activeness which helps the business to grow in terms of profits, market share and the expansion of the business. As the business continues to grow there should more undertaking risky innovations in terms of products and services so as to create competitiveness and sustainability in the market.

Relationship between Risk-taking and Business Performance of SMEs

According to Wiklund and Shepherd (2003), risk-taking refers to the tendency to take bold actions such as venturing into unknown new markets and committing a large portion of resources to ventures with uncertain outcomes. Risk handling is the process in which potential risks to a business are identified, analyzed, mitigated and prevented, along with the process of balancing the cost of protecting the company against a risk versus the cost of exposure to that risk. The ideal way to cope with risk is to perceive risk at its inception, and taking risk under control right from its inception stage (Cornelia, 2004). Entrepreneurs, in actuality, tend to proactively deal with the risks.

Risk-taking has a curvilinear relationship with performance of entrepreneurial firms (Kreiser & Davis, 2010). Research suggests that entrepreneurial firms exhibiting moderate levels of risk-taking perform better in market as compared to firms exhibiting either very high or very low levels of risk taking. Studies indicate that factors such as process of forming a risk problem, results of past risk-taking and the ability to perform under-risky conditions affect the risk-taking ability of entrepreneur (Stewart & Roth, 2001; Swierczek & Ha, 2003; Lichtenstein & Brush, 2001).

Typical elements of risk-taking such as heavy borrowing, committing a large portion of one's assets to a course of action, or action in the face of uncertainty are associated with the risk-return tradeoff (Hornsby, Kuratko & Zahra, 2002). According to Hornsby *et al.* (2002), there are five distinct internal organizational factors necessary to support entrepreneurship within organizations which includes rewards/recognition; management support; resources, including time availability; organizational structure, and acceptance of risk

Risk-taking refers to a firm's tendency to engage in high-risk projects and managerial preferences for bold versus cautious actions in order to achieve firm objectives. Risk-taking involves the willingness to commit significant resources to opportunities with a reasonable chance of costly failure as well as success. Risk-taking orientation indicates a willingness to engage resources in strategies or projects where the outcome may be highly uncertain (Wiklund & Shepherd, 2005). Risk can be managed by engaging in experiments, testing the markets, acquiring knowledge, and the use of networks. Interestingly, studies have shown that entrepreneurs perceive a business situation to be less risky than non-entrepreneurs. They cognitively categorize business situations more positively.

Statement of the Problem

Entrepreneurship is often associated with small businesses in general and entrepreneurial firms in particular. These businesses are accredited with qualities which many times reflect the entrepreneurial characteristics of the entrepreneurs themselves (Poetttschacher, 2005). These characteristics include opportunity seeking, risk-taking, creativity and innovation, persistence, and resource management, among others (Burns, 2011). Some businesses are more creative and innovative than others, some believe in radical innovations, while others have faith in continuous incremental innovations. Therefore, each type of business displays entrepreneurial intensity in their own way.

Entrepreneurial intensity is increasingly being embraced as a mechanism for considering the creation and development of new ventures. It identifies avenues that facilitate the discovery of opportunities, as well as the identification, collection and allocation of scarce resources. Coviello (2006) posits that the conduct and performance of firms can be understood by examining the relationships in which they were embedded. According to Jack (2010), entrepreneurs build and use networks that vary according to the phase of entrepreneurship. Pirolo *et al.* (2010) have found that strong and weak ties influence performance in different ways depending on whether the performance target is economic or innovation, and the stage in the life-cycle of the firm.

Pasapia (2009) argues that for small and medium enterprise to be competitive in an intensified global competition, dynamic change and increasing uncertainty, there is need for the businesses to be more innovative, must be ready to take risk and they must be proactive. Although SMEs are increasingly looking towards expansion as a means of creating and sustaining competitive advantage (Zahra, 2009), majority of the firms avoid undertaking risky activities as they have severe resources constraints which cannot enable them to divulge in entrepreneurship activities. Chepkemoi (2013) also states that the majority of the small and medium enterprises are unable to engage in entrepreneurial intensity due to overlap and inconsistencies in legal and sectorial policies, lack of clear boundaries in the institutional mandates, lack of a suitable legal framework; outdated by-laws. Other factors she identifies include unavailability of land and worksites for business expansion, exclusion in policy development; lack of access to credit; lack of a central coordination mechanism; lack of a devolved coordination and implementation mechanism and interference by the county government authorities.

Small and medium enterprises contribute over 50 percent of new jobs created in every year. But despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). Amyx (2005) observes that the high failure of the small and medium enterprises could be attributed to the negative perception towards SMEs. The author argues that potential clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical project simultaneously. Often, larger companies are selected and given business for their clout in the industry and name recognition alone.

Against the high failure rate of SMEs, there is need for recognition of creativity and innovation through entrepreneurship among firms. However, it is not clear whether the entrepreneurial climate in Kenyan firms is intense enough; neither is there a clear relationship between that intensity and firm performance outcomes. Most studies on entrepreneurial intensity have been carried out in developed countries while my study focused on a developing country. These studies mostly concentrated on entrepreneurial orientation which is also known as the degree of entrepreneurship while excluding the frequency of entrepreneurship which forms part of the entrepreneurial intensity. It was therefore necessary to conduct a study on the influence of risk-taking on the performance of SMEs.

MATERIALS AND METHODS

The study employed the ex-post facto research design. It targeted 1000 SMEs in Eldoret town, according to Uasin Gishu County Licensing Department. Data was collected by use of questionnaire. Systematic random sampling technique was employed to sample 100 SME owners to be involved in the study. The researcher obtained a list of all the SMEs in Eldoret town from the County Administration under the Department of Licensing in Uasin Gishu County, Kenya. The research then selected every 10th SME from the list to be included in the sample. The sampling technique was deemed appropriate since it allowed equal representation in the sample. The data collected was coded to ensure completeness and accuracy of information. By coding, the researcher assigned numerals or symbols to answers so as to put responses into a limited number of categories or classes. Data was analysed using both descriptive statistics and inferential statistics. The results were presented in form of frequencies, percentages, mean, pie charts and graphs. Descriptive statistics was used to analyse how risk-taking, pro-activeness and innovativeness influence performance of SMEs. T-test was employed to test the hypotheses and Pearson correlation was applied to establish the nature of relationships between variables.

RESULTS

Influence of Risk Taking on Performance of SMEs

The study sought to investigate the influence of risk taking on performance of SMEs. The findings were analyzed and presented as shown in Table 1 below.

Table 1: Responses on Application of Risk Taking strategies in SMEs

Elements of Risk Taking		N	R	S	O	VO
I venture into new markets, which has promoted the performance of my business	F	5	5	28	40	22
	%	5	5	28	40	22
Committing a large amount of money to high-risk projects has helped to improve the profitability of my business	F	3	9	28	30	30
	%	3	9	28	30	30
I prefer high risk projects since they promote high return on sales	F	4	6	33	26	31
	%	4	6	33	26	31
I take bold aggressive action in my business in order to maximize the probability of exploiting new market which led to increased profitability	F	2	6	30	33	29
	%	2	6	30	33	29
	F	2	5	26	37	30

I'm willing to invest a significant amount of resources to opportunities which has led to increased market share	%	2	5	26	37	30
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The study sought to investigate whether SMEs ventured into new markets in order to promote the performance of their businesses. As shown in the table above, 40% of the respondents indicated that they ventured into new markets in order to promote the performance of their businesses, 28% sometimes did, 22% very often, 5% rarely and 5% never ventured into new markets. These findings indicated that the SMEs in Eldoret often ventured into new markets as a measure to boost their performance. Regarding committing a large amount of money to high-risk projects in order to improve the profitability of businesses, 30% of the respondents indicated that very often committed large amount of money to high risk projects, 30% often, 28% sometimes, 9% rarely while 3% never committed large amount of money to high risk projects. These results showed that the SMEs often preferred high risk project since they promoted high return on sales.

Moreover, the research findings indicated that majority (33%) of the respondents often took bold aggressive action in their businesses in order to maximize the probability of exploiting new market which led to increased profitability; this reflected the overall status of the SMEs. When asked if they were willing to invest a significant amount of resources to opportunities so as to increase market share, 37% of the respondents indicated that they often willed, 30% very often, 26% sometimes, 5% rarely and 2% were never willing to invest a significant amount of resources.

Performance of SMEs in Eldoret

The study further sought to investigate the performance of SMEs as a result of various aspects of entrepreneurial intensity. The performance was evaluated in terms of profitability, market share and general expansion or growth. The findings were analyzed and presented in the Table 4.6 below. The researcher adopted a scale ranging from 1 to 5, where 1 represented Very Poor, 2 – Poor, 3 – Average, 4 – Good and 5 – Very Good.

Table 2: Responses on the Performance of SME's in Eldoret

Factors		VP	P	A	G	VG
Carrying out high-risk projects in my business	F	2	7	20	35	36
	%	2	7	20	35	36
Venturing into new markets	F	1	7	14	40	38
	%	1	7	14	40	38
Radical decision-making in my business	F	1	4	16	34	45
	%	1	4	16	34	45

The findings in Table 2 above show that in regard to performance of the SMEs as a result of carrying out high-risk projects in the business, 36% rated the performance of their business as very good, 35% as good, 20% as average, 7% as poor and 2% as very poor. Regarding performance of the businesses as a result of venturing into new markets, 40% rated as very good, 38% rated as good, 14% rated as average, 7% rated as poor and 1% rated as very poor. The study also sought to examine how radical decision-making in the business resulted in good performance: 45% rated as very good, 34% rated as good, 16% rated as average, 4% rated as poor and 1% rated as very poor

This implied that making radical decisions and implementations of new strategies in SME's resulted in good performance of the business.

The findings implied that SME owners rated the performance of their businesses as good in relation to risk-taking, venturing into new markets and decision-making. The performance was evaluated in terms of profitability, market share and general expansion or growth. A few of the respondents rated the performance of their businesses as either poor or very poor; this implied that not all strategies worked in the same way in all the businesses. Besides entrepreneurial intensity, the few businesses could explore other factors that would hinder their performance.

Rauch, Wiklund, Lumpkin and Frese (2009) have also investigated the relationship between entrepreneurial orientation and business performance; their analysis showed that the magnitude of the correlation between orientation and performance is significantly different across studies and their relationship is complex. The findings are also in agreement with the results obtained by Todd and Javalgi (2007) who confirmed that entrepreneurial orientation is positively related to firm performance; accordingly, entrepreneurial orientation is essential for firms to discover entrepreneurial opportunities in foreign markets.

Correlation Results

The research hypothesized that there is a relationship between risk taking and business performance of SMEs in Eldoret town. A Pearson correlation analysis was conducted and the findings were as presented in Table 3 below.

Table 3: Pearson's Correlation

		Performanc e of SME's	Innovativ e-ness	Risk Takin g	Pro- activenes s	Frequency of Entrepreneu r-ship
Performanc e of SME's	Pearson	1				
	Correlation					
	Sig. (2- tailed)					
Risk Taking	N	100				
	Pearson	0.66	0.77	1		
	Correlation					
	Sig. (2- tailed)	0.002	0.002			
	N	100	100	100		

As shown in Table 2 above, the p-value for risk-taking and entrepreneurial performance was 0.002, which was less than 0.05. The research therefore accepted the alternative hypothesis and rejected the null hypothesis. It was thus concluded that there was a relationship between risk taking and business performance of SMEs in Eldoret town. The two variables had a positive correlation of 0.71.

The research findings on risk-taking and performance reiterated those of Kreiser *et al.* (2010), who found that risk-taking has a curvilinear relationship with performance of entrepreneurial firms.

Research further suggests that entrepreneurial firms exhibiting moderate levels of risk-taking would perform better in market as compared to firms exhibiting either very high or very low levels of risk taking (Stewart & Roth, 2001; Swierczek & Ha, 2003; Lichtenstein & Brush, 2001).

Since a firm's entrepreneurial posture may be critical to the long-term survival of a firm, they have an impact on job creation and social development. There is tentative evidence in support of the constructs on organization performance that policy makers in business, government and educational institutions could put more emphasis on programs that foster the development of these constructs among executive leadership of firms so as to avert the flow of risk capital towards low quality entrepreneurship. Ultimately, this paper elicits more interest in these concepts so as to promote further research in the Kenyan context.

CONCLUSION AND RECOMMENDATIONS

The findings of the research indicated that there is a strong positive correlation between risk-taking and business performance of SMEs in Eldoret town. Therefore, committing business resources to venture in uncertain and unfamiliar environments could result in increased returns and market share for the business. The banks and other financial institutions could also assist the business owners venture into loans and educate them on risk taking and risk management in business. During data collection, there was a challenge with interpretation of the items in the questionnaire due to varied levels of education. Therefore, a study could be conducted to establish the relationship between level of education of the SME owners/managers and the entrepreneurial intensity.

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