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Effect of Risk Taking on Sustainability of small and medium enterprises performance in Uasin Gishu County, Kenya

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Abstract

The element of risk taking in entrepreneurial orientation reflects calculated and manageable risks. Risk taking is a dominant attribute of entrepreneurship as the higher the risk-taking orientation, the higher a firm's sustainability. The study sought to establish the effect of risk taking and the sustainability of small and medium enterprises performance in Uasin Gishu County, Kenya. Psychological / Trait Entrepreneurship theory was. The study adopted descriptive survey research design. The study population was 450 registered enterprises in Uasin Gishu City County. Simple random sampling was used to select 135 SMEs. Primary data was collected using questionnaires. The quantitative data was analyzed using descriptive statistics using Statistical Package for Social Sciences (SPSS) Version 26. Inferential data analysis was carried out to determine the relationship between the dependent variable and the independent variables using linear regression analysis. From linear regression model (R^2 = .67.9) indicating that risk taking account for 67.9% of sustainability of small and medium enterprises performance in Uasin Gishu County. There was a positive significant relationship between risk taking and sustainability of small and medium enterprises performance (β_1=0.862 and $p<0.05$). There was a positive and significant relationship between risk taking and the sustainability of small and medium enterprises performance. The study recommends that although, risk taking enhances sustainability of small and medium enterprises performance in Uasin Gishu County, there was a need to have an elaborate risk management procedure. The SMEs management should be preparing a risk register detailing the previous risk and how they mitigate future opportunities which may be explored by small and medium enterprises.

Key words: Risk Taking, Sustainability, Small and Medium Enterprises, Performance

Introduction

As small- and medium-sized enterprises (SMEs) are typically resource-constrained, the issue of SMEs' sustainable growth often attracts significant attention from not only academics but also policymakers (McKelvie & Wiklund 2010 and Wright, Roper, Hart and Carter, 2015). To contribute to the sustainable development and revitalization of the economy, SMEs should continuously create innovation, grow on the basis of it, and change to destroy the economic order established by existing enterprises (Schumpeter, 2000). In this sense, SMEs must be able to achieve sufficient growth to contribute to the economy by creating wealth, innovation, and new jobs and, most importantly, to survive (Doern, 2009). Sustainable entrepreneurship is an understanding of how opportunities to bring into existence future goods and services are discovered, created, and exploited, by whom, and with what economic, psychological, social and environmental consequences (Cohen & Winn, 2007). In defining sustainable entrepreneurship, (Cohen & Winn, 2007) stressed that it includes consideration of the social, economic and environmental benefits drawn from environmental initiatives

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 (Singh, Garg & Deshmukh, 2008; Kropp, Lindsay & Shoham, 2006). Today's dynamic environment requires SMEs to be entrepreneurial if they are to survive, grow of have superior performance (Fairoz, Hirobumi & Tanaka, 2010). Empirical studies done in developed and transition economies suggest that risk taking as a firm - level strategic posture has constituted a potential source of competitive advantage and has positive, long-term effect on sustainability of SMEs (Wang & Poutziouris, 2010).

Family enterprises dominate the economic environment of majority of the nations in the world (Kuratko and Richard, 2004). In developing and developed countries, SMEs contribute to national GDP and make a significant distribution of employment, but SMEs have constraints in terms of resources and management skills, so this tends to hamper SMEs' sustainability (Eniola & Ektebang, 2014; Muriithi, 2017; Patel, 2013). The enterprises constitute between 80 and 98% of all businesses in the world's free economies, generate 49-50% of the GDP in the U.S. and more than 75% in most other countries. In African countries, the sector accounts for about 90% of all enterprises and over 80% of new jobs in any given country (Kiraka et al., 2013). This means that the enterprises must engage in entrepreneurial activities/ entrepreneurial orientation in order to enhance their performance especially in today's competitive markets.

Entrepreneurial Orientation (EO) refers to the specific organisational-level behaviour to perform risk-taking, self-directed activities, engaged in innovation and react proactively and aggressively to outperform the competitors in the marketplace (Lumpkin and Dess, 1996). According to Rauch, Wiklund *et al*., (2009). EO represents the policies and practices that provide a basis for entrepreneurial decisions and actions" that is, how the firm acts entrepreneurially. Previous studies showed that EO is a key ingredient for organisational success and has been found to lead to higher performance (Wiklund and Shepherd, 2005). Firms that possess higher levels of EO will perform better than those with lower level of EO (Lyon *et al.,* 2000; Rauch *et al.,* 2009). EO was conceived by Miller (1983) whereby he argued that it's composed of innovativeness, proactiveness and risk-taking dimensions.

Entrepreneurial orientation (EO) is an indicator of how much an organization has a propensity to be entrepreneurial. This may be measured on the basis of the firms' behaviours (such as R&D investment or new product development) or the intention of the decision maker (mainly the CEO).

EO is composed of three sub-dimensions: innovativeness, proactiveness, and risk-taking (Keh, Nguyen & Ng, 2007. Innovativeness refers to a firms' tendency to engage in the experimentation of new ideas and creative processes, which may result in new products or services. Proactiveness refers to the entrepreneurial willingness to win the competition with a proactive, innovative and aggressive stance.

Proactiveness ensures that the enterprise will have the capability to pursue opportunities and rivalries with others in anticipation there are chances of new demand on specific firm products and services (Rauch 2009). On the other hand, an enterprise with risk taking behaviour makes daring decisions to venture into the unknown borrowing heavily and committing significant resources to projects in uncertain environments motivated by the prospects for better and high returns (Rauch *et.al*., 2009).

According to the Kenya National Bureau of Statistics (2011), 3 out of 5 SMEs fail within the first few months after the retirement/death of the first-generation entrepreneurs or in the first 3 years of establishment. The increased competition exerted on the firms translates that the small and medium family enterprises must adopt an entrepreneurial culture i.e., be more innovative, proactive and risk taking as well as formulate successful competitive strategies that will bring about actual changes in the environment leading to high firm performance (Malburg, 2000). The study focuses on the effect of risk taking on sustainability of small and medium enterprises performance Uasin Gishu County.

Osoro (2012) examined the effect of entrepreneurial orientation of the business performance of SMEs in the Information Technology in Nairobi. The study failed to identify the influence of risk-taking dimension of entrepreneurial orientation on sustainability of SMEs. A few researches of entrepreneurial orientation in SMEs have been conducted in Kenya have centred on overall entrepreneurial orientation and how it affects firm performance, rather than the individual and independent influence of entrepreneurial orientation dimensions such as risk taking and its influence on sustainability of SMEs especially in Uasin Gishu County. This paper seeks to fill that gap by establishing influence of risk taking on Sustainability of small and medium enterprises performance in Uasin Gishu County.

Literature Review

The role of Small and Medium Enterprises (SMEs) is significant for economic development and employment development. SMEs can achieve a competitive advantage and contribute significantly to regional and national economic growth and public welfare. SMEs also have significant environmental impacts at regional and national levels. SMEs have a significant role in employment and contribute to the Gross Domestic Product (GDP) (Sarwoko & Frisdiantara, 2016). Constraints faced in the development of SMEs today include access to markets and capital, information technology, and the lack of competent human resources (HR). Increasing employee competency through training with traditional methods such as lectures, seminars, and short courses does not always support SME operational training, but skills through training and education based on results, the use of interactive workshops based on action learning and role-playing, are recommended for SMEs' sustainability (Urban & Naidoo, 2012). Entrepreneurial opportunities related to environmental issues and sustainability enable promotion of entrepreneurial activities, and economic performance promotes enhancing sustainability (Criado-Gomis; Cervera-Taulet; Iniesta-Bonillo, 2017).

Sustainability orientation refers to the level of concern about the environmental protection and social responsibility of individuals, and consists of items that measure the underlying attitudes and personal traits on environmental protection and social responsibility (Kuckertz & Wagner, 2010). It reflects personal convictions and attitudes on sustainable entrepreneurship, and its relationship with opportunity recognition and entrepreneurship intention is still being debated. Sustainability orientation can help to understand entrepreneurial intention, to some extent focusing on sustainable development.

Objective measures are obtained from firm’s annual accounts and are considered as more appropriate (Moreno & Casillas, 2008). Lack of formal procedures and control, however,

makes it very difficult to obtain objectives measures. Additionally, owner/managers are generally unwilling to release financial information to outsiders (Chao & Spillan, 2010). On the other hand, subjective measures involve seeking for the perception of the owner/manager relative to that of competitors during a certain time period (Idar & Mahmood, 2011). They can accurately reflect objective measures and are highly consistent with how the firm actually performed as indicated by objective measures (Lumpkin & Dess, 2001). Comparison with competing firms in the market reveals important supplementary information, especially whether the firm is simply pulled against market trends.

Entrepreneurial orientation as a firm level strategy is used by entrepreneurial firms to enact their organizational purpose, sustain their vision and create competitive advantage (Wiklund & Shepherd, 2005). In this study, risk taking dimension of entrepreneurial orientation was used. Risk-taking is often used to describe the uncertainty that results from entrepreneurial behaviour (Tajeddini, 2010). The risk-taking dimension of entrepreneurial orientation captures the extent to which the firm's processes involve and/or ignore risks (McMullen & Dean, 2006).

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 (Morris, Kuratko & Covin, 2008). 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 & Kihoro, 2012). 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 (Okpara, 2009).

The importance of risk taking and its influence on firm performance has been highlighted in both theoretical discussions and empirical research. At the theoretical level, the willingness to engage in relatively high levels of risk-taking behaviour enables SMEs to seize profitable opportunities in the face of uncertainty which leads to long term profitability (McGrath, 2001). Empirically, risk taking firms are able to secure superior growth and long-term profitability in contrast to risk avoiders (Yang, 2008; Wang & Poutziouris, 2010; Ahimbisibwe & Abaho, 2013). An enterprise with risk taking behaviour makes daring decisions to venture into the unknown borrowing heavily and committing significant resources to projects in uncertain environments motivated by the prospects for better and high returns (Rauch et al., 2009).

Consequently, sustainability entrepreneurship could be a possible solution to sustainability issues through business activities and could form a sustainable entrepreneurial ecosystem. In

a study of Soto-Acosta, Cismaru, (2016) which analyzed the relationship between sustainable entrepreneurship and business performance, they found that sustainable entrepreneurship of small and medium-sized enterprises was associated with people (including community, partners, and workforce), and planet (including environment, resources, and technologies).

Theoretical Framework

Psychological/Trait Entrepreneurship Theory

Lumpkin and Dess (1996) argues that there is a link between psychological traits and entrepreneurship. People with a certain set of psychological traits might tend to portray some inclination towards entrepreneurship. According to this theory, the psychological makeup of an individual determines most of his behaviour towards entrepreneurial activities. The psychological traits include need for high achievement, risk taking, foresight, aggressiveness, proactiveness and creativity. Others include high level of intelligence, decisiveness, good judgement and alertness to environmental changes.

Coon (2004) defines personality traits as stable qualities that a person shows in most situations. Therefore, according to the trait theorists, there are enduring inborn qualities of an individual that naturally makes him an entrepreneur. Bwisa (2011) also argues that entrepreneurship is all about an individual. The difference is usually the attitude (internal) and the ability to judge and forecast on the situation at hand in order to become a successful entrepreneur. Entrepreneurs are also known to be opportunity driven, innovative and creative, show high levels of management skills, optimistic, committed, and persevering and thrive on competitive desire to win and excel. They are dissatisfied with the status quo, are transformational, dynamic, visionary, people of integrity and they use failure as a springboard to greater heights.

The personality trait model is still unsupported by research evidence thus we can only look at an individual's behaviours and conclude that one has the inborn qualities of becoming an entrepreneur. This theory is relevant to this study since the founders of family-owned enterprises must have inborn traits which have enabled them to start their own ventures and sustain them through generations in spite of the economic turbulences and other challenges they have experienced in the past.

Research Methodology

The study used a descriptive research design. Descriptive survey design provided tools for describing collections of statistical observations and reducing information to an

understandable form. The target population comprised of 450 small and medium enterprises This was grouped depending on the services and products they offer. This study used simple random sampling technique to select the 135 entrepreneurs who participated in this study. Simple random sampling was used as a major sampling technique because each respondent had an equal chance of inclusion in the sample. Data was collected using questionnaires. The questionnaire was administered to SMEs from each of the selected firms. After a data collection, the researcher conducted data cleaning to improve the quality of the responses. The research yielded quantitative data. The questionnaire was coded and analyzed using Statistical Package for Social Science (SPSS V 26). Descriptive statistics included the use of frequencies, and percentages, while the inferential statistics including linear regression.

Results

A linear regression model was used to explore the effect of risk-taking on sustainability of SMEs. The R^2 represented the measure of variability in sustainability of SMEs that risk-taking accounted for. From the model, (R^2 = .67.9) shows that risk-taking account for 67.9% variation in sustainability of SMEs. Risk-taking predictor used in the model captured the variation in the sustainability of SMEs as shown in Table 1.

Table 1: Model Summary on Risk-taking and Sustainability of SMEs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.824[a]	.679	.676	.38693	.679	216.026	1	102	.000

a. Predictors: (Constant), Risk taking

The analysis of variance was used to test whether the model significantly fit in predicting the outcome than using the mean as shown in (Table 2). The regression model with risk-taking as a predictor was significant (F=216.03, p value =0.001) shows that there is a significant effect of risk-taking on sustainability of SMEs.

Table 2: Analysis of Variance on risk-taking and Sustainability of SMEs

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	32.341	1	32.341	216.026	.000[b]
	Residual	15.271	102	.150		
	Total	47.612	103			

a. Dependent Variable: Sustainability

b. Predictors: (Constant), Risk taking

In addition, the β coefficients for risk-taking as independent variable were generated from the model. Table 3 shows the estimates of β-value and gave the contribution of the predictor to the model. The β-value for risk-taking had a positive coefficient, depicting positive relationship with sustainability of SMEs as summarized in the model as:

$Y = 0.528+0.862X+ \varepsilon$ …… Equation 4.2

Where: Y = Sustainability of SMEs, X = Risk-taking, ε = error term

Table 3: Risk-taking and Sustainability of SMEs Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.528	.222		2.372	.020
	Risk taking	.862	.059	.824	14.698	.000

a. Dependent Variable: Sustainability

From the findings the t-test associated with β-values was significant and risk-taking as the predictor was making a significant contribution to the model. The study hypothesized that there is no significant influence of risk-taking on sustainability of SMEs. The study findings showed that there was a positive significant influence of risk-taking and sustainability of SMEs (β_1=0. 862 and p <0.05). Therefore, an increase in risk-taking led to higher sustainability of SMEs. Risk-taking had a significant influence on the sustainability of SMEs. This implies that for each increase in risk-taking there was more sustainability of SMEs.

Motivation to earn attractive returns had been the quest as to why many entrepreneurs engaged in risk taking behaviours that if executed as planned would result in high returns; otherwise it would be a disaster in waiting. The results of the study have shown that risk taking has a significant and strong positive association with sustainability of SMEs. These results agree with Ali and Abdel's (2014) that found risk taking and business performance has a significant and positive linkage. Also concurs with Wiklund's (2010) that the difference between performances of SMEs in Sweden was mainly determined by the risk-taking dimension. The results are consistent with the findings from other studies that establish that risk taking influences the firm performance of small firms (Rao, 2012; Awang, Ahmed, Asgher & Subari, 2010). The findings demonstrate that the ability of SMEs to stay competitive is directly related to the intensity of taking risks.

Conclusion

The objective of the study sought to determine the effect of risk taking on sustainability of small and medium enterprises performance in Uasin Gishu County. Regression analysis indicated that there was positive and significant relationship between risk taking and firm performance. The risk taking accounted for 67.9% of the variation in firm performance. Motivation to earn attractive returns and sustain SMEs have been the quest as to why many entrepreneurs engaged in risk taking behaviours that if executed as planned would result in high returns. The risk taking have a significant and strong positive association with sustainability of SMEs. For each increase in risk-taking there was more sustainability of SMEs.

Recommendations

Although, risk taking enhances sustainability of small and medium enterprises performance in Uasin Gishu County, there is need to have an elaborate risk management procedure. The risk assessment procedure ought to be able to assess the risk status before mitigation, evaluate the risk after the application of a given mitigation, the possibilities of the risk recurrence in future and how it can be mitigated.

The management should be preparing a risk register detailing the previous risk and how they were mitigated and future opportunities which can be explored by small and medium enterprises performance in Uasin Gishu County.

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