

Relationship Between Risk-Taking and the Growth of Youth Owned Enterprises in Kenya

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Abstract

Purpose: Youth businesses play a key role in poverty alleviation when run based on entrepreneurial orientation. However, these micro and small enterprises face a mix of achievement and frustration, with previous findings showing that three out of five companies fail within the first few long periods of activity, despite government efforts to improve the sector. This study aimed to examine the relationship between risk-taking and the growth of youth-owned enterprises in Kenya.

Methodology: The study is supported by expected utility theory. A cross-sectional survey methodology was utilized which incorporated qualitative and quantitative research methods. A stratified sampling technique was employed to obtain 397 SMEs from 55,300 SMEs registered by the seven selected counties in Kenya namely; Nairobi, Murang'a, Nakuru, Machakos, Mombasa, Kisii, and Isiolo counties. Data was analyzed using descriptive and regression analysis.

Results: The study findings demonstrate that risk-taking had a positive association with the growth of youth-owned enterprises in Kenya.

Conclusion: The study concluded that risk-taking helps youth-owned businesses in Kenya to expand. The study suggested that owners of youth businesses should focus on how to carry out a thorough risk assessment and oppose any risk related to financial, social, and psychological risk respectively.

Keywords: Risk-Taking, Growth, Youth Owned Enterprises

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1.0 Introduction

Growth is evidence of an entrepreneur's sense of fulfillment and of a profitable venture for them. Young and small businesses must grow to survive, as growing companies are less likely to fail than non-growers. The new stream of growth refers to the motivations for and methods for implementing growth through proactive entrepreneurial actions and decision-making procedures (Gancarzyk, & Zabala-Iturriagagoitia, 2015). Business expansion is the stage when a firm reaches a certain size and starts looking for new ways to increase revenues. Business life cycles, market growth patterns, and owners' desires to create equity value all influence how quickly an organization grows. The majority of small businesses have ambitions to expand and boost revenues and sales. However, there are specific techniques that businesses

must employ when putting growth strategies into practice. An organization's strategy is greatly influenced by its financial situation, the competition, and even governmental rules. Market penetration, market expansion, product expansion, diversification, and acquisition are a few common firm growth tactics (Bushe, 2019).

People are generally risk-averse. However, when an individual is in a state of loss, risk-taking becomes a motivational necessity (Seymour, Maruyama & De Martino, 2015; Herman, Critchley, & Duka, 2018), meaning that the loss by taking more risks in the subsequent opportunities. In other words, people become more risk-taking following prior loss experiences. Some indirect evidence from emotional research indicated that negative experiences (such as losses) promoted risk-taking (Schneider, Kauffman & Ranieri, 2016; Ferrel, Maclay, Zou, Lee, Wildschut & Sedikides, 2019).

Youth in Kenya face vital challenges in safeguarding formal employment. A large population of young people is without decent work and many more are involved either in informal sectors or with temporal low-paying jobs. Youth make up 22% of Kenya's population. In 2019, the rate of unemployment in Kenya was at 19% (KNBS, 2019). In 2015, World Bank data indicated that Kenya had the highest rate of unemployment in East Africa where 17% of young people eligible for work lacked jobs. Curbing unemployment continues to be one of the key policy challenges facing governments across the globe. Many scholars have acknowledged entrepreneurship as one of the possible resolutions to unemployment. Department for International Development (DFID) Generation Kenya Qualitative Report 2018, indicated that youth view entrepreneurship as a legitimate pathway to sustainable livelihood but have limited access to credit. This is despite the formation of the Youth Enterprise Development Fund and development agencies that seek to bridge the capital gap amongst young entrepreneurs in Kenya.

1.1 Problem Statement

The Kenya Youth Development Policy (2018) reports that a "youth" is someone who is 18 years old or younger and has not yet turned 35 (Muthee, & Scholar, 2010). A person between the ages of 18 and 34 is considered a youngster, whether they are male or female. To shift from dependency to independence, take charge of their life, and assume societal duties, people must negotiate a complex interplay of personal and socioeconomic changes during their youth, which is seen as a stage between childhood and maturity (RoK, 2018). Despite their importance, records show that in Kenya, three out of five small businesses run by young people fail within the first three years of operation, and 80% of small businesses operated by young people fail before their fifth year in business (Mutuma, 2015).

The Kenyan government established the Young Enterprise Growth Fund to encourage job creation, particularly through youth enterprise development (YEDF). But to succeed, a number of obstacles had to be overcome, including a lack of finance, a lack of entrepreneurial culture among young people, and a high default rate, particularly from financial intermediaries (GoK, 2016). The lack of innovative strategies especially in long-term product planning, operations and inability to transform new ideas and creative processes, lack of proactive action, such as intention to leave a comfortable position for new ideas, low competitive aggressiveness due to inability to face a competitive advantage over competitors, low risk-taking propensity and low growth, are all issues that hinder entrepreneurs from having as much of an impact on the growth of SMEs. Only 20% of the youth-owned businesses have been in operation for the past five years, despite the government's attempts to encourage young engagement in company growth (Ayeni-Agbaje & Osho, 2015). This category of companies was selected for the research

considering the fact that young people continue to suffer from high unemployment, even though the government has invested heavily to encourage the development of youth-owned enterprises to solve socio-economic problems. According to Franklin (2017), of Kenya's 24 million people of working age, 1 in 6 young Kenyans are unemployed at the moment.

Moreover, as a way of promoting youth entrepreneurship, the government has heavily invested in technical skills among the youth through colleges and higher institutions of learning across the country. This is in a bid to promote entrepreneurial knowledge and technical skills thus encouraging to invest in the manufacturing sector which is among the Big 4 Agenda by the Kenyan government. Nevertheless, despite all these efforts, the youth-led SMEs continue to underperform and face a high mortality rate. This therefore creates a gap that raises a question of whether entrepreneurial orientation could be the missing point in the growth of Youth-led SMEs. This study sought to establish the relationship between risk-taking and the growth of youth-owned enterprises in Kenya.

1.2 Research Hypothesis

H₀₄: There is no significant relationship between risk-taking and the growth of youth-owned enterprises in Kenya.

2.0 Literature Review

2.1 Theoretical Review

Expected utility theory is a theory of decision under conditions of risk, where each option leads to one of a set of possible outcomes and where the probability of each outcome is known (Risk differs from uncertainty where the probabilities of outcomes are not completely known, and from certainty, where probabilities are known and equivalent to zero or one). The expected utility in their choices between risky options, they weigh the utilities of individual outcomes by their probabilities and choose the option with the highest weighted sum (Luce & Raiffa, 1957). Since Bernoulli (1954) proposal of the expected-utility principle in 1738, it has usually been assumed that the psychological value of money and most other goods do not increase proportionally with an objective amount, but instead that there is diminishing marginal utility for money. Individuals can also have increasing or constant marginal utility for a particular good, which can be represented by a convex or linear utility function, respectively. An actor's attitude towards risk is conventionally defined in terms of marginal utility or the shape of the utility function. An actor is risk-averse if the utility function is concave, risk-neutral if the utility function is linear, a risk-acceptant if the utility function is convex.

Most people are risk-averse with respect to monetary outcomes and prefer a certain payoff of \$50 (or even \$40) to a 50/50 chance of either nothing or \$100 (Kahneman & Tversky, 1979). They generalized their findings as follows; 1) people tend to think in terms of gains and losses rather than in terms of their net assets, and therefore encode choices in terms of deviations from a reference point, 2) people treat gains differently than losses in two respects first, individuals tend to be risk-averse with respect to gains and risk-acceptant with respect to losses, 3) Gains are also treated differently than losses in that losses loom larger than gains. This theory is well anchored on the fourth independent variable of risk-taking in the study.

2.2 Empirical Review

A study by Olawoye, Namusonge, and Muturi (2016) examined the role of risk-taking on performance of firms on the Nigerian stock exchange. The study took a critical interest in the contents of a number of studies which concluded that among Nigerian managers, lack of innovation and proactiveness, aggressiveness, and aversion to risk-taking, which are critical

factors to growth of SMEs, were found to be high in 2007. The result of panel analysis of the relationship between entrepreneurial orientation dimension risk-taking, and performance of firms listed on Nigerian stock exchange, with returns on asset and return on equity. Risk-taking was found to have negative relationships with both return on assets and return on equity. Chelimo (2019) conducted a research study on the influence of financial risk on performance of youth-owned small and medium enterprises in Baringo North sub-county, Kenya. The findings revealed a positive significant influence of financial risk, market risk, and psychological risk. The study concluded that financial risk greatly affects performance of youth-owned SMEs but effects of social risk and psychological risk were minimal. Wambugu, Gichira, Wanjau, and Mung'atu (2015) conducted a study on the relationship between risk-taking and performance of small and medium agro-processing enterprises in Kenya. They stated that the element of risk-taking in entrepreneurial orientation reflects calculated and manageable risks. They further specified that risk-taking is a dominant attribute of entrepreneurship as the higher the risk-taking orientation, the higher a firm's profitability and growth. Therefore, the study findings revealed that risk-taking has a positive impact on firm performance of agro-processing SMEs in Kenya. A study by Torois (2014) on the effect of entrepreneurs' risk preference on organization efficacy of small and medium enterprises in Kenya found that entrepreneurs' risk preference positively and significantly affects organization efficacy. Similarly, the study showed that entrepreneurs' risk preference is an important factor of organization efficacy and therefore concluded that entrepreneurs' risk preference is important in determining efficacy in management of small firms. Njiru (2018) further conducted a research study on organizational micro-level determinants of survival of youth-owned micro and small enterprises in Nyeri County, Kenya. The study sought to evaluate the micro-level determinants of survival and success of youth-owned MSEs. Risk-taking propensity of the entrepreneur was found to affect the survival of enterprise to a great extent. Another study by Mburu, Gichira, and Kyalo (2017) seeks to establish the effect of risk-taking and performance of small and medium family-owned enterprises performance in Kenya. Results of the study revealed a positive and significant relationship between risk-taking and family-owned enterprise performance.

2.3 Conceptual Framework

Independent variable

Dependent variable

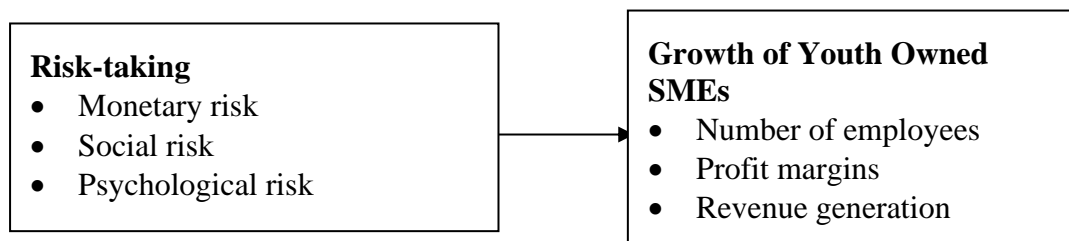


Figure 1: Conceptual Framework

3.0 Methodology

The research design used a cross-sectional survey strategy combining both qualitative and quantitative research approaches. The target population included 55,300 youth-led micro and small enterprises in Kenya. A sample size of 397 youth-led micro and small enterprises was used. Quantitative data was collected using questionnaires consisting of closed questions.

Research assistants delivered the questionnaires to the respondents. Data was analyzed using descriptive and inferential statistics.

4.0 Results and Discussion

4.1 Descriptive Statistics

4.1.1 Risk-Taking

Responses from the respondents were sought about statements pertaining to risk-taking. Here is how the Likert Scale was used: (1- strongly disagree, 2-disagree, 3-neutral, 4- agree, and 5-strongly agree). The results demonstrate that the majority of respondents agreed with the statement that taking some risks gives hope for better returns that keep pace with inflation, (90.4%), believe that the best long-term returns come from more aggressive strategies and I am willing to tolerate prolonged falls in value along the way, 92%, and also have bought collective investment schemes such as unit-linked (insurance company) funds, 90.7%, and can maintain a system that deals with human rights violation within the workforce in my business, 91%, and has laid down strategies to deal with corruption by business officials.

The respondents also concurred that it is prudent to put in place mechanism that deals with public health issues to prevent absenteeism and improve workers morale (92.1%), that increased technology has enabled their businesses to lower the cost leading to cutting of wages and salaries, (89.3%), that business challenges have been so bad than they have thought but must persevere, (92.1%), that they always strive to ensure that there are no job stressors and workplace hazards in their businesses, (89.6%) and that by attending to business training workshops have enabled them to deal with emotional customers, (93.4%).

The majority of respondents agree with the statement on risk-taking, as seen by the overall average score of 4.5. An all-around standard deviation of 0.8 denotes a close response. This shows that not everybody agreed with the statement concerning risk-taking. Consequently, any value of standard deviation below 2 illustrates those who deviated from the mean were few since the deviation was low. This suggests that most respondents generally agreed with the statements about risk-taking. These statements were backed by Seymour, Maruyama, and De Martino, (2015); Herman, Critchley, and Duka, (2018), who postulate that people are generally risk-averse. However, when an individual is in a state of loss, risk-taking becomes a motivational necessity meaning that the loss by taking more risks in the subsequent opportunities. In other words, people become more risk-taking following prior loss experiences. The descriptive results are illustrated in Table 1.

Table 1: Descriptive Statistics of Risk-Taking

Statements	1	2	3	4	5	Mean	Std. Dev
I should take some risk and hope for better returns which keep pace with inflation.	1.4%	3.5%	4.8%	20.8%	69.6%	4.5	0.9
I believe that the best long-term returns come from more aggressive strategies and I am willing to tolerate prolonged falls in value along the way.	2.1%	4.2%	1.7%	26.3%	65.7%	4.5	0.9
I have bought collective investment schemes such as unit-linked (insurance company) funds.	2.8%	3.5%	3.1%	29.8%	60.9%	4.4	0.9
I have been able to maintain a system that deals with human rights violations within the workforce in my business.	1.4%	4.2%	3.5%	33.2%	57.8%	4.4	0.9
I have laid down strategies to deal with corruption by business officials.	0.7%	3.8%	5.5%	29.4%	60.6%	4.5	0.8
I have put in place a mechanism that deals with public health issues to prevent absenteeism and improve workers' morale.	0.7%	1.7%	5.5%	28.4%	63.7%	4.5	0.7
Increased technology has enabled my business to lower the cost leading to cutting of wages and salaries.	2.8%	1.7%	6.2%	33.6%	55.7%	4.4	0.9
The business challenges have been so bad that I have thought but must persevere.	0.7%	2.1%	5.2%	25.3%	66.8%	4.6	0.7
I always strive to ensure that there are no job stressors and workplace hazards in my business.	0.7%	3.1%	6.6%	23.9%	65.7%	4.5	0.8
My regular attendance at business training workshops has enabled me to deal with emotional customers.	0.3%	3.5%	2.8%	32.5%	60.9%	4.5	0.7
Aggregate mean						4.5	0.8

4.2.2 Growth of Youth SMEs

The respondents were asked what they thought of assertions made on the growth of fledgling SMEs. The Likert Scale was applied in the following manner: (1) strongly disagree, (2) disagree, (3) neutral, (4) agree, and (5) strongly agree. The findings show that the majority of respondents agreed that their businesses have managed to maintain the workforce for the last three years. (89.3%), always ensure that most of their workers are under a contract of 1-2 years, 83%, ensure that part-time employees are the majority in their businesses, 78.2%, that their ability to take risks in new opportunities has led to increased market share thus raising profits, 79.9%, and their good relationship with customers and suppliers has led to increased sales of product/services, 89.3%.

The participants also concurred they do plan to open new branches to meet customers demand to improve on profit, 86.9%, that continued acceptance of the products and services has increased market size, 86.5%, that new product development has led to the increase of revenue, 87.9% that favorable and affordable price for my products has enabled the business to increase sales volume, 87.9%, and using market segment have increased sales in their businesses, 79.2%.

According to the total average score of 4.3, most respondents concur with the statement about growth. When the common standard deviation is 1.1, the solution is likely to be near. This demonstrates that not everyone agreed with the claim regarding the expansion of young SMEs. Therefore, any value of standard deviation below 2 indicates that the number of individuals who deviated from the mean was small because the deviation was small. This suggests that most respondents generally agreed with the remarks regarding growth. This is similar to the assumption by Bouazza, Ardjouman, and Abada (2015) who declared that the sales these SMEs make act as indicators of how well the company is doing. Thus, increases in total sales volume, production volume, use of raw materials, power, and more personnel are indicators of growth. Profits also affect growth of a company (Yeboah, 2015). The descriptive results are illustrated in Table 2.

Table 2: Descriptive Statistics of Growth of Youth SMEs

Statements	1	2	3	4	5	Mean	Std. Dev
My business has managed to maintain its workforce for the last three years.	2.8%	6.9%	1.0%	29.1%	60.2%	4.4	1.0
Most of my workers are under the contract of 1-2 years.	3.5%	6.6%	6.9%	26.6%	56.4%	4.3	1.1
Part time employees are the majority in my business.	5.9%	6.6%	9.3%	29.4%	48.8%	4.1	1.2
My ability to take risks in new opportunities has led to increased market share thus raising my profits.	8.3%	6.9%	4.8%	29.4%	50.5%	4.1	1.3
My good relationship with my customers and suppliers has led to increased sales of my products/services.	2.4%	4.8%	3.5%	26.3%	63.0%	4.4	0.9
I do plan to open a new branch to meet customers demand to improve on profit.	3.5%	7.6%	2.1%	23.2%	63.7%	4.4	1.1
The continued acceptance of my products and services have increased the size of the market.	1.4%	7.3%	4.8%	29.4%	57.1%	4.3	1.0
New product development has led to the increase of revenue.	3.8%	8.0%	1.4%	32.9%	54.0%	4.3	1.1
Favorable and affordable prices for my products have enabled the business to increase sales volume.	3.1%	6.6%	2.4%	29.1%	58.8%	4.3	1.0
Using market segments has increased sales in my business.	3.5%	9.7%	7.6%	29.4%	49.8%	4.1	1.1
Aggregate mean						4.3	1.1

The respondents were questioned about how much their company's growth had improved during the previous five years. According to Table 4.16, the average growth in terms of annual profits for youth SMEs was 21-40% throughout the measurement period (2015-2019). The average growth in terms of number of customers for youth SMEs was less than 20% during the study period. Further, the average growth in terms of sales for youth SMEs was less than 20% during the study period. Finally, the average growth in terms of annual expenses for youth SMEs was less than 20% during the study period. The findings imply that most youth SMEs experienced slowed growth in the past five years.

Table 3: Improvement in Growth of Youth SMEs

Indicators	Average growth
Annual profits	21-40%
Number of customers	<20%
Sales	<20%
Annual expenses	<20%

4.2 Regression Analysis

The regression analysis's findings indicate that risk-taking accounts for 24.1% ($R^2=.241$) of all changes in the growth of young firms. A reported F statistic of 91.332 and a reported P value of $0.000 < 0.05$ indicate that risk-taking is a significant predictor of the growth of youth businesses. The results also demonstrate that risk-taking had a positive and significant influence on the growth of young companies ($P = .501$). According to this, a one-unit increase in risk-taking would result in a 0.501-unit increase in the growth of youth businesses. The study's findings are consistent with those of Zita (2006), who determined that analytical skills were ranked primarily by their ability to solve problems, while intuitive skills were ranked most highly by their ability to take calculated business risks.

Table 4: Summary of Regression Results

Model Summary						
Model	R Squared	Adjusted R Squared				
Risk-taking	0.241	0.239				
ANOVA						
Model	F Statistics	Sig.				
Risk-taking	91.332	0.000				
Coefficients						
Model	(Constant)	B	Std. Error	Beta	t	Sig.
Risk-taking	2.017	0.501	0.052	0.491	9.557	0.000

a Dependent Variable: Growth

According to the fourth null hypothesis (H_0), there was no evidence of a connection between risk-taking and the growth of young people's companies in Kenya. By having a p-value of 0.000—less than 0.05—the alternative hypothesis is accepted and the null hypothesis is disproved. Risk-taking is thus strongly related to the expansion of youth-owned firms in Kenya.

5.0 Conclusion

This study discovered that risk-taking has a favorable and significant effect on the expansion of young people's enterprises. Therefore, this study concludes that risk-taking aids in the expansion of youth-owned firms in Kenya. The study emphasized important risk-taking factors that could be linked to growth improvement, such as installing proper systems that reduce monetary risk, laying down strategies that deal with public social issues to manage social risk, and finally trying to manage psychological risk that causes job stressors.

6.0 Recommendations

According to the report, owners of youth businesses should concentrate on boosting elements of competitive aggression, such as price lowering, market positioning, and high-quality

production. The study showed that risk-taking had a favourable and significant impact on the expansion of youth-owned businesses. Young business owners should choose their investments wisely. The study suggests that owners of youth businesses should improve some areas of risk-taking, such as monetary risk, social risk, and psychological risk.

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