

ENTERPRISE RISK MANAGEMENT AND OPERATIONAL PERFORMANCE SMALL SCALE AND MEDIUM BUSINESS IN NIGERIA

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ABSTRACT

The study examined the relationship between enterprise risk management and operational performance small and medium scale business in Nigeria. The cross sectional survey research design was adopted for the study. The population of the study is made up of all the industrial goods manufacturing companies listed on the Nigerian stock exchange as at December 2021. The instrument for data collection was the questionnaire. That there is a positive relationship between innovativeness and financial performance of the listed industrial goods manufacturing companies in Nigeria. Deriving from the findings, the study concluded that enterprise risk management helps organizations generate new business growth and organizations that have embraced intrapreneurship, will achieve higher financial returns, increased productivity, more innovation and higher levels of employee engagement. The study recommends that managers in listed manufacturing companies in Nigeria should periodically introduce new products and new services to improve the financial performance of the company. This can be achieved by introducing new machines, new methods or processes for an efficient and improved productivity to enhance better performance.

Keywords: Enterprise Risk Management, Intrapreneurship Orientation Business performance, Operational Performance

INTRODUCTION

Entrepreneurial risks tend to outweigh those faced by businesses. "The main theme across the literature on entrepreneurship is how entrepreneurs are prone to behave toward riskier alternatives and it is vital how they handle it," said Busenitz(2012) about the foundation of risk. However, McCarthy, (2012), claims that "structural risk dominates the literature on entrepreneurship, and the capacity to manage with risk is thought to be the major obstacle to entrepreneurs".

Due to uncertainty regarding the future impacts of present actions, business risks develop; that is, business choices should include an evaluation of outcomes and possibilities that are different from expectations.. Bird identifies five categories of hazards that all entrepreneurs face: (1) economic risk, (2) risk in social interactions, (3) risk in career growth, (4) psychological and (5) the health risk. Price risk, credit risk, and pure risk may all be used to corporate decision making, according to Harrington and Niehaus. Market hazards, product demand, and cost and pricing difficulties, such as production and input, all play a role in price risk. Romano et al.(2015) has indicated that the cost of operating risk in relation to financial risks include credit, cash flow, working capital and foreign exchange. To sum up, rising enterprises, entrepreneurial culture, and information management all pose significant dangers. The possibility and degree of financial loss represent another sort of credit risk to businesses. In addition, there is a significant danger. For example, demolish the building's structure; damage to equipment; loss of goods; loss of records; recovery and replacement expenses after a fire or flood; and lost revenue while the firm recovers are all examples of indirect costs that have an impact on the company. Expenses incurred owing to delivery companies or criminal acts like embezzlement and robbery are examples of pure risks.

Liles points out that each new initiative undertaken by an entrepreneur, whether it is related to an employee's financial, professional, or psychological well-being, will disturb current social relationships.

A decreased quality of living may be the outcome of exposure to financial risk, which can give the illusion of substantial losses. Because the financial and emotional repercussions of failure might be catastrophic, aspiring entrepreneurs should be urged to thoroughly examine the risks. As a result, the choice is heavily dependent on the perception of risks by potential entrepreneurs.

Entrepreneurial orientation refers to the willingness of businesses to allocate large resources in order to take advantage of possibilities that may or may not be realized. They describe risk perception as a person's subjective assessment of the anticipated loss and how that uncertainty impacts their ability to make sound decisions and deal with the repercussions of those decisions Sitkin and Veingart. Individuals with a high risk propensity are more likely to engage in risky behavior, whereas those with a low one are more likely to avoid it. An individual's predisposition to accept or avoid risk is called their risk propensity. Risky judgments have to be taken in these cases. In volatile markets, company owners and managers that are willing to take on higher risk will take appropriate steps and produce better outcomes, therefore transferring the initiative is required to obtain excellent results.

Hypothesis

H₀₁: there is no significant relationship between risk taking and operational performance of the quoted industrial goods manufacturing companies

Concept of Enterprise Risk

According to Aaby and Slater (2012), a firm that has a global outlook, good attitudes of international business, and desires to participate in it will be more prepared to take risks and have the ability to successfully conduct international business. As a result, entrepreneurs must understand the elements impacting their firm in order to decrease risk.

Risk-taking is rooted in Cantillon's early notions of entrepreneurship (and, by extension, intrapreneurism) (2004). As an entrepreneur, you face a wide range of risks, from financial to reputational, but so do your employees. Employees are often required to go beyond the boundaries of the organization's strategy and culture, especially while working on exploratory projects (Shane, 2004; Day, 2004). There is a significant level of personal danger for an employee who engages in exploratory activities. The risk dimension in an organization is more personal. Reducing bureaucracy or challenging current standards (Heinonen & Toivonen, 2008) (Zampetakis & Moustakis, 2007). They may not be supported by management in many cases (Mustafa et al., 2018), which puts the employee at even greater danger. Exploratory activity is likely to be supported by these hazardous actions. Changing norms or practices to minimize bureaucracy is not required for exploitative activity, and therefore is not allowed. Such measures are necessary for exploration, putting the worker at danger. Studies confirm this theoretical issue, showing, for example, that confidence in one's coworkers and immediate supervisors has an impact on the effectiveness of one's own creative conduct (Hughes et al., 2018).

Analysis of risk propensity is done in terms of ambiguity (risk/uncertainty) and new problems (risk/challenges). When it comes to assessing a company's risk/uncertainty, there are four things to consider: new rivals (COMPETITORS), agreements (AGREEMENTS), technical innovation changes (TECCHANGE), and challenges in getting finance (RESPONSES) (FINANCING). Investment in new projects (NPROJ), deep market innovations (DEEPINOV), choice to conquer new markets (NMARKET), and entrance into new enterprises are the four risk/challenge factors (NBUSINESS). The willingness to take risks refers to making decisions and taking action without having all the information you need to make an informed choice. It need large-scale investments in resources to carry out undertakings in an uncertain environment. Corporate risk-taking is defined as the practice of an organization actively seeking out new opportunities in order to maximize profits and advance the company's goals (Keh et al., 2002).

One way to define the tendency to take risks is as a willingness to take calculated risks, such as stepping beyond of one's comfort zone, taking on debt, or investing a considerable amount of money in initiatives with unclear outcomes. To be innovative, a company must be open to new ideas, be willing to take risks, and be willing to take a leading role in research and development (R&D) for new processes. Taking risks means going into the unknown, borrowing extensively, and/or investing a considerable amount of money in undertakings in which the outcome is not guaranteed.

Risk-taking, unpredictability, and both rewards and losses are all part of the entrepreneurial experience. Only Schumpeter's classic economics and philosophy have classified the entrepreneur as a risk taker (Cantillon, 2015; Say, 2003; Marshall, 2000), an uncertainty carrier (Knight, 2021), or as a person who is less concerned with avoiding losses than the economists and philosophers who before them (Knight, 2001; Marshall, 2000).¹⁰ The following is an intuitive explanation of these three distinct notions.

In economics, the term "risk aversion" has a very particular connotation. To avoid incurring risks, individuals are prepared to give up anticipated rewards. To put it another way, it assesses the value of a guaranteed return (for example, 50) in comparison to the utility of the same predicted reward achieved with risk (for example, 50). (for instance 100 with 50 percent probability and 0 with 50 percent probability). A person with risk aversion avoids making decisions when there is a probability assigned to each conceivable result.

An individual's preference to avoid losses rather than gain is known as "loss aversion". To understand loss aversion, Kahneman and Tversky used their prospect theory (Kahneman & Tversky, 2019, 2004). Loss aversion suggests that a loss of 50 will reduce one's utility or contentment more than a gain of 50 (from a windfall) would raise one's utility or satisfaction. To put it another way, individuals place a larger value on things they already possess than on the same things they don't. This is known as the endowment effect (Kahneman et al., 2000).

According to researchers like Ellsberg (1961) and Holm et al., "genuine Knightian uncertainty" (also known as "ambiguity aversion") refers to the preference for known probability hazards over unknown probability risks (2013). Even while the result of an ambiguous event isn't as clear as with a dangerous one, the possibility of the outcome really occurring is, which raises the anticipated reward.

Operational Performance

How well an economy uses production inputs like labor and capital to achieve a certain quantity of output is measured by productivity. Economic development and competitiveness rely heavily on productivity. Firm productivity increases are primarily driven by the creation and implementation of new technology and organizational knowledge (innovation). As engineers, we can say that the scope of these factors extends far beyond the realm of technology. Productivity is strongly influenced by managerial choices on manufacturing technology and organization.

There are three ways in which companies may increase their productivity efficiency:

- If we can make better use of the technology we already have, we can boost production while keeping input the same. Using resources more effectively is the essence of working smarter. The goal of technological advancement is to get closer to the manufacturing frontier (PPF).
- As new technologies and organizational structures are adopted, or new technologies and methods are developed and implemented, the output of a corporation may increase by more than the extra inputs needed. " This is about an outward shift in PPF — a change in maximum capacity that is possible because of technological advancement, allowing the company to create more output with less resources. Progress in technology may be embedded in capital and labor (or disembodied), depending on how it's seen.
- increasing returns to scale— as the company grows, its unit costs of manufacturing may decrease (Diewert & Fox 2008). Technology has a minimum efficient scale and many decline in cost as volume grows up to a certain point, resulting in this phenomenon. With a larger market, an organization may be able to use more resources and switch to a lower-cost manufacturing method or organization (Sheng et al. 2014).

Research Design

The correlation research design was used in this study. The population of this research study consists of fourteen (14) quoted industrial goods firms listed on the floor of the Nigerian Stock Exchange (NSE) as at 31 December 2019. For the purpose of this research, the sample consisted of all the fourteen(14) industrial goods companies listed on the floor of the Nigerian Stock Exchange. This implies the random sampling technique was adopted for this study.

FIRMS AND QUESTIONNAIRE DISTRIBUTION IN NIGERIA

s/n	NAMES OF COMPANIES	No of Questionnaire given
1	BETA GLASS	5
2	CEMENT COMPANY OF NOTHERN NIGERIA	5
3	CUTIX	5
4	AUSITIN LAZ AND COMPANY PLC	5
5	BERGER PAINTS	5
6	DANGOTE CEMENT PLC	5
7	FIRSTALUMINIUM NIGERIA PLC	5
8	GREIF NIGERIA PLC	5
9	MEYER PLC	5
10	LAFARGE AFRICAPLC	5
11	PREMIER PAINTS PLC	5
12	PORTLAND PAINTS NIGERIA PLC	5
13	CHEMICALSANDALLIED PRODUCTS PLC	5
14	CAP PLC	5
	TOTAL	70

Source: Research Desk, 2021.

The instrument for data collection was the questionnaire. Mean, standard deviation, skewness and kurtosis were used in the univariate analysis of variables in this research. There were two methods utilized to assess the strength of the connection between research variables: the PPMC coefficient and a partial correlation analysis. The statistical program for social sciences (SPSS) version 21.0 was used for this investigation.

Results

Hypotheses 1

H₀₁: there is no significant relationship between Risk Taking and Operational Performance of the manufacturing companies

Relationship between Risk Taking and Operational Performance

		Risk Taking	Operational Performance
Risk7	Pearson Correlation	1	.255*
	Sig. (2-tailed)		.037
	N	67	67
Opera7	Pearson Correlation	.255*	1
	Sig. (2-tailed)	.037	
	N	67	67

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Researcher's Desk, 2021

The Pearson Correlation coefficient r of 0.255* is shown in the table above. To test the null hypothesis that there is no link between risk taking and operational performance, a Pearson product moment correlation was used. The assumption of normality and linearity was made in the first study. There is enough data to rule out the null hypothesis and suggest that the listed Nigerian industrial products manufacturing enterprises have a positive link between risk taking and operational performance ($r=0.255^*, p<0.01$). The answer to research question nine has been found.

Relationship between Risk Taking and Operational Performance

The Pearson Correlation coefficient r was found to be 0.255*. To test the null hypothesis that there is no link between risk taking and operational performance, a Pearson product moment correlation was used. First impressions indicated that normalcy and linearity were assumed. There is enough data to rule out the null hypothesis and suggest that the listed Nigerian industrial products manufacturing enterprises have a positive link between risk taking and operational performance ($r=0.255^*, p<0.01$). The answer to research question nine has been found. There is a high degree of uncertainty, risk, and reward connected with entrepreneurship. Schumpeter was the only classic economist and philosopher who did not identify the entrepreneur as a risk carrier (Cantillon, 2005; Say, 2003; Marshall, 2000; Knight, 2021), an uncertainty bearer (Knight, 2021), or an agent who is less likely to avoid losses (Knight, 2021). (Knight, 2021; Marshall, 2000). 10 The following is an intuitive explanation of these three distinct notions. In economics, the term "risk aversion" has a very particular connotation. It's the readiness of individuals to forego anticipated rewards in order to avoid incurring risks. To put it another way, it assesses the value of a guaranteed return (for example, 50) in comparison to the utility of the same predicted reward achieved with risk (for example, 50). (for instance 100 with 50 percent probability and 0 with 50 percent probability). To avoid risk, people avoid circumstances where probabilities may be ascribed to different outcomes. An individual's preference to avoid losses rather than gain is known as "loss aversion". In their prospect theory, Kahneman and Tversky were the first to establish loss aversion (Kahneman & Tversky, 2009, 2004). If you lose 50, you'll lose more value or pleasure than if you gain 50. This is because of the concept of loss aversion. In the well-known endowment effect (Kahneman et al., 2000), individuals value commodities and assets they possess more highly than those they don't own. Loss aversion accounts for this phenomenon. True Knightian uncertainty (e.g., Ellsberg (2001) and Holm et al.) is a preference for risk with known probabilities over risk with unknown probability (ambiguity aversion) (2013). To put it another way: ambiguous events have a higher degree of uncertainty than dangerous events since not only is their result unknown but so is their chance of being realized and, therefore, their anticipated payout. The success of a business is defined by the market's reaction to the activities of its owners. If there is a demand for the items or services given by the company, then the firm will do well. Entrepreneurial ability and both the internal (e.g., employees' reactions to various choices) and external (e.g., changes in customer interactions) environments are thus crucial for company success. Performance as an entrepreneur is separated from that of a business under this concept. Unexpected or uncontrollable occurrences might lead an entrepreneur's company to function badly, even if the entrepreneur is working well. For example, a company owner may want to grow, but the competition is too fierce, or a governmental decision prevents the development. Instead, since no single aspect that affects a company's performance can or should be managed by a sole proprietor, it makes more sense to talk about entrepreneurial success in terms of the particular activities that are under his or her control. In this context, a company's capacity to survive or to develop is considered a measure of its success.

CONCLUSION

Employees are more likely to stay on board with a company if the task they're doing is both interesting and fulfilling to them. Intrapreneurs put in a lot of time and effort in their jobs. Others are motivated to become engaged and attempt new things because of their enthusiasm and drive. The organization expands as they expand. As a matter of fact, intrapreneurship has become an essential component in the survival strategy of many firms. According to the findings of the study, companies that have adopted Intrapreneurship have seen stronger financial returns, improved productivity, more creativity, and higher levels of employee engagement.

RECOMMENDATIONS

1. To increase the company's market and financial performance, managers of industrial goods manufacturing enterprises should constantly guarantee that their companies are among the first to introduce innovative processes and new products/services in the industry.
2. Management might benefit greatly by investing in unpredictable outcomes on occasion.
3. In order to improve business performance, manufacturing company managers should participate in R&D for new product creation, and strive to absorb the losses from risk taking as a regular business development.
4. that the systematic search for, invention of, and examination of new avenues for the production and sale of products and services may lead to entrepreneurial activity. For example, the introduction of a new product in an established company may also contribute to the development of new value.

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