

Growth of Small and Medium Enterprises in South East Nigeria through the Management of Psychological Variables

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Abstract: *Growth of small and medium enterprises through the management of psychological variables aim to evaluate the relationship between psychological variables of entrepreneurship such as risk taking ability, high need for achievement, and self confidence on the growth of business firms in South East, Nigeria. The researcher adopted descriptive analytical research design with a population of 2070 small and medium enterprises drawn from the five states of South East, Nigeria. Instrument was administered on 335 respondents being the sample size gotten with the Taro Yamane formulae. The instrument for data collection which was questionnaire was administered on the shop owners/Managing Directors of those businesses. Data collated from 280 valid responses were analyzed using inferential statistics while hypotheses of study were tested with chi-square statistical tool. The researcher found risk taking ability to have significant positive relationship with growth of firms studied. High need for achievement was found to have significant positive relationship with overall growth of firms studied, while Self-confidence have positive but not significant relationship with growth of firms studied. It concludes that good management of psychological variables by Managing Directors/shop owners themselves and the management of the variables on their employees creates growth opportunities in small and medium enterprises in South East, Nigeria. The study recommends that entrepreneurs should learn to take and manage risk inherent in businesses, imbibe the spirit of achievement which increases commitment and believe in themselves while conducting their businesses.*

Key words: *Risk taking ability, high need for achievement, self confidence and growth*

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I. Background of the Study

Starting and nurturing small and medium enterprises (SMEs) in Nigeria is generally a difficult process because of the dynamic, complex and sometimes turbulent environmental factors that entrepreneurs must encounter in the process. The most difficult stages in the business cycle is the introduction stage and the period between the introduction stage and the growth stage. The first stage is difficult because virtually everything is new and there may be nothing like personal experience or history to rely on. The possible lack of experience and the dynamic and or complex business environment join the usual competitive environment to compound the problems of business startups and entrepreneurs in Nigeria.

The introduction stage is a testing stage when a business person is not sure that his investment would grow to fruition. He will certainly face so many challenges. Those already in the industry will be praying and struggling to ensure that he fails. Needed fund may not be available or accessible. Necessary experience may be nonexistent or inadequate to survival. Relevant Government agencies like the Tax authority may not be patient or considerate. Yet, customers will be very skeptical about the new business's products and or services. It may look very disheartening and quitting may even sound more attractive.

In the concepts, principles and theories of entrepreneurship, the psychological school of thought provides some traits or variables or motives inherent and or learnt by entrepreneurs that are assumed to be capable of assisting them to cope with difficulties associated with starting and nurturing businesses to growth stage. Those traits referred to as psychological variables in this study includes: risk taking ability, high need for achievement, self confidence, fore-sightedness, independence, optimism, tolerance for ambiguity and passion (Udu and Udu 2017). Psychological variables can therefore be seen as inherent or learned goal-oriented behavior that drives or motivates the starting up of a business as well as nurturing and developing it to its peak because of those driving forces.

Growth is noticeable increase in essential areas or indices of a business like size, value of asset, number of employees, market coverage, sales volume, shareholders' fund, number of loyal customers, number of lines of services and product brands. Growth is essential for sustaining the viability, dynamism and value-enhancing capability of a firm. A growth-oriented firm is not only able to attract the most talented employees, but it would also be able to retain them. Growth leads to higher profits and increase in shareholders' value.

Business growth can be achieved either by boosting the top line or revenue of the business with greater product sales or service income or by increasing the bottom line or profitability of the operations by minimizing costs. A growing company is any firm whose business generates significant positive cash flows or earnings, which increase at significantly faster rates than the overall company cash outflows.

This study attempts to evaluate the relationship between selected psychological variables and growth of SMEs in South East Nigeria. South East is one of the six geo-political zones of the country located at the Southern part of the country. The zone is occupied by the Igbo speaking people of Nigeria who are predominantly business people, egalitarian and highly independent minded in nature. The choice of the zone is basically because of the number of businesses the spring up daily within the zon

1.2 Statement of Problem

Through mere observations and empirical studies (Udu and Agha 2015; Udu 2016), starting business in Nigeria and nurturing it to growth stage is a herculean task. Sustaining growth for the few who succeed in doing so is also difficult. This is basically because business environment is currently not conducive. Many businesses die at the introduction stage because of the unhealthy environment. Apart from inadequate fund and difficulty in accessing it from Financial institutions, entrepreneurs face multiple taxation, lack or inadequate infrastructure, lack or inadequate public utilities, ethnicity, insecurity of lives and property, stiff competition from foreign and older local competitors, corruption, among others.

The assumption that entrepreneurship psychological variables of risk taking ability, high need for achievement, and self confidence are capable of assisting entrepreneurs to nurture their businesses to growth stage has not been tested in the South East Nigeria. This study has the task of establishing the extent of the relationship between those three variables of the psychological school of thought and growth of businesses in South East Nigeria.

Objectives of the study

- i. To determine the extent of the relationship between risk taking ability and growth of SMEs in South East Nigeria.
- ii. To determine the extent of the relationship between high need for achievement and growth of SMEs in South East Nigeria.
- iii. To determine the extent of the relationship between self confidence and growth of SMEs in South East Nigeria.

Research Hypotheses

H₀₁: Risk taking ability does not significantly affect the growth of SMEs in South East Nigeria

H₀₂: High need for achievement does not significantly affect the growth of SMEs in South East Nigeria

H₀₃: Self-confidence does not significantly affect the growth of SMEs in South East Nigeria

II. Review Of Related Literature

Conceptual review

There are basically four major schools of thought that exist in the field of Entrepreneurship which give credence to entrepreneurial practices and determine why and what motivates people to venture into businesses. Each of the schools holds the view that it is variables within their schools that motivates individuals into entrepreneurship. The indentified schools are psychological, sociological, resource- based, and economic. Although some authors refer to the schools as theories, it's worthy to note that each of the schools has many who theorized in them.

In the psychological school, theorists there hold the view that those who become entrepreneur do so because of psychological variables or motives such as love for taking risk, independence, need for achievement, optimism, locus of control, creativity and innovation. In the sociological school, theorists there believe that people become entrepreneurs because of sociological variables such as peer group influence, cultural values, society's personality, change in taste and preferences and religion. The economic school theorists basically believe that a person becomes an entrepreneur either when demand from the society he found himself pulls him or supply pushes him into it. It is there through demand pull or supply push according to them. The resource based theorists argue that it the availability of necessary resources (finance, man power, materials, valuable connections, and time) that motivates individuals into entrepreneurship. This study is on three variables of the psychological school as briefly discussed below.

Risk taking ability

Risk taking ability is defined as an individual's current tendency to take or avoid risk (Petraakis, 2005). The world of business venturing is incredibly risky, especially for those seeking high-growth opportunities.

Risk-taking is related to innovation and creativity and it is necessary for the realization of objectives. Åstebro, Herz, Nanda and Weber, (2014) report that over half of startups are no longer operating after six years, and 75% of entrepreneurs exit with no equity. Discussions of risk and entrepreneurship can possibly be attributed to Knight (1921), who proposes that entrepreneurs are differentiated from others by their astuteness toward perceiving and acting on opportunity despite uncertainty and risk.

Knight further separates risk, where the probability of future states of the world are knowable if beyond one's control, from uncertainty, where it is hard to even describe exactly what the future states might be. Pure risk can often be priced and diversified away, while Knight identifies entrepreneurs as those who can handle well his business uncertainty. Despite the intuitive and important nature of this distinction, most subsequent work has continued to meld together risk and uncertainty as having influence on growth of businesses.

Need for Achievement

Need for achievement refers to an individual's desire for significant accomplishment, mastering of skills, and attaining challenging goals. Need for achievement holds that individuals who hold a higher need for attainment of objectives are likely to gather more resources than others who don't have. It is this variable that makes one to strive to move from one level of attainment to the other where others are already contented with. It helps people in building a business from scratch and demonstrates one's individual abilities in ways that are often hard to match. Along with Locus of Control (LOC), this important role for need for achievement finds strong support in the literature along several dimensions. The belief that entrepreneurs might have a distinctly higher need for achievement is widely held (McClelland, 1965; Cromie, 2000).

Self-confidence

Having high self-confidence increases the tendency to take risks. However, it is also known that excessive self-confidence leads to an ignorance of risk factors. Given that an entrepreneur is generally regarded as one who prefers his own business, it can be expected that the entrepreneur must believe that he is able to achieve the goals that are set (Koh, 2006). Self-confidence also brings about more happiness and higher level of optimism. Typically, when one is confident in his abilities he is happier due to his successes. Ho and Koh (2002) opine that self-confidence is a necessary entrepreneurial characteristic and that it is related to other psychological characteristics. Empirical studies in the entrepreneurship literature have found entrepreneurs to have a higher degree of self-confidence relative to non-entrepreneurs (Ho and Koh, 2002).

Concept of Firm Growth

Business growth is the noticeable increase in all aspects of businesses like asset, number of staff, number of brands, customer based, and profitability. Growth is the product of an internal process in the development of an enterprise and an increase in quality and or expansion. It can be defined as a change in size during a determined time span (Dobbs & Hamilton, 2007). According to Janssen (2009), a company's growth is essentially the result of expansion of demands for products or services. It first results in a growth in sales and consequently in investments in additional production factors to adapt it to new demands (Janssen, 2009).

Growth is an important phenomenon in small and medium enterprises. In fact, their survival essentially depends on their power to participate in the market with other big companies. Growth decreases the possibility of closing small businesses (Rauch & Rijkskik, 2013). Strengthening is important not merely for the enterprises and their owners but for all stakeholders since these companies improve the economy by underscoring diversity of products and services. The growth phenomenon of small and medium enterprises had been widely analyzed within entrepreneurship. Davidsson, Achtenhagen and Ndid, (2010) reported that growth may be related to new markets, especially in the case of technology firms, with reference to diversification. They are also of the opinion that growth may occur alternatively as an integration of part of the value chain, a sort of vertical growth, or when a firm introduces itself within a market not related to the technology in which it works, which would be a non-related diversification.

Table 1: Forty two psychological variables

1. Self-confidence	22. Reliability
2. Constancy	23. Precision
3. Being active and energetic	24. Honesty
4. Skill	25. Commonality
5. Risk taking	26. Being profit-minded
6. Dynamism & Leadership	27. The Ability of Learning from mistakes
7. Optimism	28. Desire for Power
8. Ambition	29. Good personality
9. Versatility	30. Self-centeredness
10. Creativity	31. Courage

11.The ability of Manipulation	32. Imagination
12.The Ability to Communicate with people	33. Understanding/Sympathy
13.Initiative	34. The Tolerance against uncertainty
14.Flexibility	35. Aggression
15.Intelligence	36. Satisfaction
16.Focusing on Clear Objectives	37. Advantage
17.Being competitive	38. Being promising
18.Independency	39. The Ability to rely on employees
19.Sensitivity to critical situations	40. Sensitivity
20.Efficiency	41. Integrity
21.Being Decisive	42. Maturity

(Source: Kuratko&Hodgetts (1998) in Melek and Canani, 2012: P.9)

2.2 Empirical Review

Many of the previous studies in this area related all psychological motives and variables to and business growth creating a gap in the area of evaluating the relationship between specific psychological variables and growth of businesses, especially the small and medium enterprises in South East Nigeria.

(Isiwu and Onwuka, (2017) examined psychological factors that influence women entrepreneurial intention in Nigeria. One hundred and seventeen (117) women were drawn within Enugu metropolis using purposive random sampling technique. Their ages ranged between 18 and 50 years, with a mean age of 22.07. Cross-sectional design was adopted. Job involvement (JI), self-efficacy, goal orientation and entrepreneurial intention scales were variables studied. Three hypotheses were tested using Step-wise multiple regressions analysis. Results of the regression analysis showed that among the studied variables, only self-efficacy was a significant predictor of women participation in entrepreneurship ($p < 0.01$). The three dimensions of goal orientation, learning goal orientation, prove (performance-prove) orientation, and avoid (performance-avoid) orientation, were not significant predictors of women participation in entrepreneurship. Similarly, JI did not also significantly predict women participation in entrepreneurship. *Although the title signified the whole country, only Enugu women in business were studied making generalization difficult.*

Akhuemonkhan, Raimi and Sofoluwe, (2013) examined entrepreneurship education and employment stimulation in Nigeria. The researchers employed systematic collection of quantitative data and subjected them to econometric analysis on the basis of which informed conclusions were drawn. On the strength of the data sourced, analyzed and interpreted, it was discovered that entrepreneurship development could be effective tools for poverty reduction, stimulating employment as well as fast-tracking realization of universal primary education and promoting gender equality. The paper recommended that institutions must imbibe creativity training. *The study was on entrepreneurship education without specifying whether it was institutional, family or apprenticeship education.*

Isa, (2011) examined the effects of business education on students' entrepreneurial characteristics. Therefore, this study was conducted on a sample of undergraduate students in department of business administration from two state universities, Bilecik University and Dumlupinar University, in Turkey. He applied the survey to these student groups in a space of four years. The results of the study show that there is no significant effect of business education on students' entrepreneurial characteristics at the end of four years period in those universities. *Unfortunately, entrepreneurial characteristics may not be displayed by the students within the universities if requisite entrepreneurship environment are lacking.*

Covin and Slevin (1989) analyzed performance implications of small businesses in hostile environments. In a hostile environment, organic structure and an entrepreneurial strategic posture were related to high performance, while in a non-hostile environment, a mechanistic structure, and a conservative strategic posture were related to success. Similar, competitive aggressiveness was related to performance in hostile environments, while it had negative consequences in non-hostile environments (Covin & Covin, 1990). *The study considered some aspects of the environment and business structure leaving entrepreneurial characteristics.*

Psychological Entrepreneurship Theories

The level of analysis in psychological theories is the individual (Landstrom, 1998) and not the society or the economy. These theories emphasize personal characteristics which are mostly inherited from parents that define entrepreneurship. Need for achievement (N-Ach) refers to an individual's desire for significant accomplishment, mastering of skills, control, or high standards. The term was first used by Henry Murray (1938) and associated with a range of actions. The concept of N-Ach was subsequently popularized by the psychologist David McClelland in 1958 .McClelland's research led him to formulate psychological characteristics of persons with strong need for achievement (Udu and Udu 2015) as follows:

- Moderate risk propensity;
- Undertaking innovative and engaging tasks;

- Internal locus of control and responsibility for own decisions and behaviors;
- Need for precise goal setting.

Risk taking and innovativeness, need for achievement, and tolerance for ambiguity had positive and significant influence on entrepreneurial inclination Mohar, Singh and Kishore (2007). However, locus of control (LOC) had negative influence on entrepreneurial inclination. The construct locus of control was also found to be highly correlated with variables such as risk taking, need for achievement, and tolerance for ambiguity.

III. Research Methodology

Table 2: Observed and Expected Frequencies on RQ 2

s/n	SA		A		U		D		SD		Oi	Ei
	Oi	Ei	Oi	Ei	Oi	Ei	Oi	Ei	Oi	Ei		
1	80	123.75	95	98.75	20	6.75	45	31.25	40	20	20	20
2	130	123.75	100	98.75	0	6.75	30	31.25	20	20	20	20
3	120	123.75	90	98.75	5	6.75	45	31.25	20	20	20	20
4	165	123.75	110	98.75	0	6.75	5	31.25	0	20	20	20

Expected Frequency (Ei) = $\frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$

$$X^2 = \sum \frac{(O_i - E_i)^2}{E_i}$$

$$X^2 = \frac{(80-123.75)^2}{123.75} + \frac{(95-98.75)^2}{98.75} + \frac{(20-6.75)^2}{6.75} + \dots + \frac{(0-20)^2}{20}$$

$$X^2 = 15.45 + 0.015 + 30.25 + 6.05 + \dots + 20 = 149.05$$

Table 3: Observed and Expected Frequencies on RQ 3

s/n	SA		A		U		D		SD		Oi	Ei
	Oi	Ei	Oi	Ei	Oi	Ei	Oi	Ei	Oi	Ei		
1	20	55	35	66.25	60	47.5	95	62.5			70	48.75
2	55	55	80	66.25	60	47.5	40	62.5			45	48.75
3	95	55	105	66.25	5	47.5	45	62.5		30	48.75	48.75
4	50	55	45	66.25	65	47.5	70	62.5		50	48.75	48.75

Expected Frequency (Ei) = $\frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$

$$X^2 = \sum \frac{(O_i - E_i)^2}{E_i}$$

$$X^2 = \frac{(20-55)^2}{55} + \frac{(35-66.25)^2}{66.25} + \frac{(60-47.5)^2}{47.5} + \dots + \frac{(50-48.75)^2}{48.75}$$

$$X^2 = 22.25 + 14.75 + 3.3 + 16.9 + \dots + 0.05 = 198.05$$

Test of Hypothesis

The formulated hypotheses are tested at the 0.05 level of significance, under a corresponding degree of freedom. The degree of freedom (df) is calculated as:

$$df = (m-1)(n-1)$$

Where m is number of column and

n is number of rows.

Thus, $df = (6-1)(4-1) = (5)(3) = 15$

IV. Decision

Reject the null hypothesis if X^2 calculated is greater than X^2 tabulated, do not reject if otherwise.

s/n	Null Hypotheses	Level of sig.	X^2_{tab}	X^2_{cal}	Decision

1	Risk taking ability does not significantly affect the growth of SMEs in South East, Nigeria.	0.05	21.026	118.02	Since $X^2_{cal} > X^2_{tab}$ (i.e, 118.02 > 21.026), we reject the null hypothesis and accept that risk taking ability positively influence growth of SMEs.
2	High need for achievement does not significantly affect the growth of SMEs in South East Nigeria.	0.05	21.026	149.05	Since $X^2_{cal} < X^2_{tab}$ (i.e, 149.05 > 21.026), we reject the null hypothesis and accept that High need for achievement positively influence growth of SMEs .
3	Self-confidence does not significantly the growth of SMEs in South East Nigeria.	0.05	21.026	198.05	Since $X^2_{cal} < X^2_{tab}$ (i.e, 198.05 > 21.026), we reject the null hypothesis and accept that self confidence positively influence growth of SMEs .

Discussion of Result

- The first hypothesis tested showed the X^2 calculated was greater than X^2 tabulated (118.02 > 21.026), which made the researcher to conclude that risk taking ability has significantly positive influence on the growth of small and medium enterprises in South East Nigeria.
- The second hypothesis tested showed the X^2 calculated was greater than X^2 tabulated (149.05 > 21.026), which made the researcher to conclude that the need for achievement has significantly positive influence on the growth of small and medium enterprises in South East Nigeria.
- From the third hypothesis tested result show that self confidence has positive but not significant influence on the growth of small and medium enterprises in South East Nigeria.

V. Conclusion

The research evaluated the relationship between three variables (risk taking ability, high need for achievement, and self confidence) of the psychological school of thought in entrepreneurship and growth of small and medium enterprises in South East Nigeria. Result of the analysis of data collected show that all three variables are positively related to the growth of small and medium enterprises in South East Nigeria. However, risk taking ability and high need for achievement were found to have more significant influence in the growth of small and medium enterprises in the area of study. Self confidence influences growth of businesses but not as much as the first two variables of study.

VI. Recommendations

The researcher recommends that conscious effort should be made by entrepreneurs and business persons to painstakingly management those essential variables of growth to ensure that known negative environmental factors does not stop growth of SMEs. Specifically, entrepreneurs should search for risks, plan to mitigate their effects on their businesses, and take the risks with high level of anticipated success. They should not be contented with where and what they are. They should continuously search for new business opportunities and effectively manage the exploitation of those found viable and feasible among the opportunities. Optimism and high level of self confidence is one of the psychological variables of entrepreneurs that can take them beyond their imagination. This should be consciously managed to ensure growth but still avoiding costly mistakes.

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