

# **Mediating Effect of Uncertainty Avoidance on the Relationship between Entrepreneurial Talent and SMEs Performance in Nigeria: A Conceptual Analysis**

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## **Abstract**

Several studies have established the relationship between entrepreneurial talent and performance. However, these studies present inconsistent findings, some found negative, positive or weak relationship. But, to date, most of these studies were conducted in developed economy as such there were few or no studies on entrepreneurial talents effect on SMEs performance in developing countries like Nigeria. The paper suggests that entrepreneurs that possess entrepreneurial talent are likely to achieve greater performance. It also argued that in contrast to high uncertainty avoidance culture where people will make sure that they have all the necessary talent requirements before starting any entrepreneurial journey, people in low uncertainty avoidance culture just storm the castle without considering whether or not they have what it takes to be entrepreneurial. Given that entrepreneurial talent is important to aspiring individuals and the economy as a whole, this paper provides propositions that will guide the future studies and provide suggestions to entrepreneurs/managers and policy makers to improve SMEs performance. It provides a conceptual analysis of moderating effect of uncertainty avoidance on the relationship between entrepreneurial talent and SMEs performance in Nigeria.

Keywords: Entrepreneurial Talent, Performance, Uncertainty Avoidance, SMEs, Nigeria

## **1. Introduction**

Small and medium enterprises (SMEs) play an indispensable role in the world economy and contribute considerably to productivity, income, job creation. SMEs, by number, control the world business arena and has been estimated that more than 95% of businesses across the globe are SMEs, creating almost 60% of the total private sector jobs (Ayyagari, Demirgüç-Kunt and Maksimovic, 2011)

Performance of SMEs has received great attention in the entrepreneurial literature as it contributes to the individual and nations' economic wellbeing. In Europe for instance, there were almost 20 million SMEs representing 99% of all European businesses employing nearly 86.8 million people and contribute to more than half of the total value-added created by businesses (Gagliardi, et al. 2013). Similarly, According to the Organization for Economic Co-

operation and Development (OECD) (2006), SMEs control over 95% of all businesses and created 60-70 percent of all new employment in OECD countries (OECD, 2006). Furthermore, SMEs are the engine of growth of American economy; created 64 percent of new private sector employment for the past 15 years, thus 40 million net new jobs. Realizing that, President Obama stated: ‘Small businesses are the backbone of our economy and the cornerstones of our communities. They create two of every three new jobs in America, spur economic growth, and spark new industries across the country’. (The White House, Office of the Press Secretary 2011). Moreover, In the United Kingdom in 2012, 99% of the 4.8 million Businesses was SMEs, employing less than 250 people (Rhodes, 2014). These underscore why SMEs are regarded as economy’s backbone in terms of job creation (employment) and innovation.

Studies from Africa provide encouragement for the dominant and significant role of the SMEs in the continent (Lyakurwa, 2009). In Kenya, SMEs created 3.2 million jobs, In Ghana 70% are employed through microenterprises, (Benzing and Chu, 2009). More than 90% of all formally registered firms are SMEs in South Africa which account for one fifth of the total employment (Robinson, 2004). Even though, SMEs played significant role, Global Entrepreneurship Monitor (2012) report predicted that in the next three years, only 14 percent of Africans intend to start a business compared to Chileans 43 percent, Brazilians 36 percent, Chinese 20 percent and 19 percent of Thais. Furthermore, Prior investigation revealed that only 2% of African businesses had more than 10 employees (Spring and McDade, 1998).

**Table 1**

Total Number of the world SMEs

Countries	Total Number of SMEs in Million
High Income- OECD Members	36.87
Latin America and the Caribbean	13.76
Europe and Central Asia	6.67
Middle East and North Africa	4.49
South Asia	7.45
East Asia and the Pacific	39.29
High-income: Non-OECD economies	1.85
Sub-Saharan Africa	13.15
<b>Total</b>	<b>123.53</b>

Sources: MSME Country Indicators 2010

In Sub-Saharan African economy, Nigeria has the highest Total early-stage Entrepreneurial Activity (TEA) rates, with 39% of the adult population (18-64 years old) are directly or indirectly involved in early-stage entrepreneurial activity (Global Entrepreneurship Monitor 2013). According to minister of trade and investment, Mr. Olusegun Aganga, the SMEs employ about 25 million people and contributed to about 40 per cent of the country’s GDP (Thisday, 2014), But, the Federal Bureau of Statistics (FBS) survey of SMEs in Nigeria revealed that 99% of businesses operating in Nigeria are micro businesses with less than 10 employees. Thus, there

were 17.28 million SMEs in the country but 17.26 million were micro in nature valued at less than N5million (USD31, 089.5) and employs 32.4 million people, (Osagie, 2012).

According to Nduka Chief Executive Officer of Domino Information Company Limited (DICI), the interview conducted by the company on the state of SMEs in Nigeria revealed that one of the problems facing businesses in the country was poor planning practices (Akingbolu, 2010). Furthermore, Ugochukwu Chris-Aladum, Stanbic IBTC's branch manager stated that a finding by Stanbic Bank study revealed that 80% of SMEs in Nigeria fail within five years due to lack of experience and other bad business practices Akinfe (2014). Similarly, Basil Onugu (2005), Ekpenyong and Nyong (1992) argued that one of the problems bedeviling SMEs in Nigeria is managerial problem which has to do with poor leadership, lack of entrepreneurial skills and training, lack of business planning, low level of education and lack of experience.

However, Previous studies have clearly established that acquisition and appropriation of entrepreneurial talent in an economy is central to its strength (Baumol, 1990, 2010) and they determine the success or failure of SMEs, therefore, vital for the entrepreneurship developments (e.g. Baumol, 1990; Brinckmann et al., 2010; Unger et al. 2011; Mengistae, 2006; Lange et al., 2007; Delmar and Shane, 2003; Wiltbank et al., 2006; Davidsson and Honig, 2003; Beckman et al., 2007 and etc). Furthermore, these studies have shown significant variations within different firm performance outcomes (e.g. Venkatraman and Ramanujam, 1986, 1987; Chaganti and Schneer, 1994). Baumol (1990) was the first person who coined the concept of entrepreneurial talent. Other researchers have built on his prominent work and define entrepreneurial talent as "the ability to discover, select, process, interpret and use the data necessary to take decisions in an uncertain world and, then, to exploit market opportunities" (Ferrante, 2005, p. 169).

Among the central issues in this paper is to explore these appropriate entrepreneurial talents that could make a significant contribution to the SMEs performance in Nigeria. Thus, based on the resource-based view, this study adds to the stream of literature by specifying the entrepreneurial talent boundaries and empirically establishes their interactions with performance outcomes Also the paper explain the mediating effect of uncertainty avoidance on the relationship between entrepreneurial talent and SMEs performance in developing economy, specifically Nigeria

## **2. Literature Review**

Entrepreneurial talent (education, experience, business planning, and network) have been considered to be indispensable resources and core factors for success in entrepreneurial venture (e.g Haber and Reichel, 2007, Florin et al., 2003; Pfeffer, 1994) So many researches have been conducted that clearly establish the relationship between entrepreneurial talent and various performance measures. (Bosma et al., 2004; Cassar, 2006; Van der Sluis et al., 2005). Researches such as Mayer-Haug, Read, Brinckmann, Dew and Grichnik (2013) discovered that entrepreneurial talent affect venture performance and that there is significant heterogeneity on performance measures. The study also found that the link between education and performance is unexpectedly weak. Also, performance measures (growth, employment and

sales) have significant relation with planning skills, but qualitative, profitability and other financial measures are significantly connected with the founder's network ties. Unger, Rauch, Frese and Rosenbusch (2011) posited that there is significant but weak relationship between human capital and entrepreneurial success. Haber and Reichel (2007) study found that the entrepreneurial human capital particularly managerial skills have greater impact on performance.

## **2.1 Education**

Education has been found to have impact on entrepreneurial performance. Entrepreneurship education and its relationship to performance have been extensively established (e.g., Bird, 1989; Cooper et al., 1994; Robinson and Sexton, 1994). Although (Bird, 1989; Ronstadt, 1984) argued the inconsistent findings regarding the impact of education on performance, (Mayer-Haug, Read, Brinckmann, Dew and Grichnik 2013) found weak correlation between education on performance, Cooper and Gimeno-Gascon (1992) conducted meta-analysis found a significant relationships between education and performance. Clercq, Lim and Oh (2013) found that education enhances the likelihood to start a new business.

## **2.2 Experience**

Numerous researchers in the field of entrepreneurship have posited that work and entrepreneurial experience of individuals give an important insight that can be applied to business activity which ultimately improve entrepreneurial judgment (Baron and Ensley, 2006; Corbett, 2005; McGrath and MacMillan, 2000; Parker, 2006; Ronstadt, 1988; Shane, 2000; Wiklund and Shepherd, 2003) and is very crucial as it boost venture performance (Clement, 1999; Mikhail et al., 1997). Moreover, in an indirect relationship, many scholars found positive relationship between experience and early SMEs performance to be regular with more experienced founders being well equipped at evaluating business opportunities (Brudel et al., 1992; Dencker et al., 2009). For example, Lazear (2005) discovered that individuals with varied experience acquired from previous employment in different industries are more capable to deal with the liability of newness.

## **2.3 Business Planning**

The business planning proponents argue that, a business plan enhances faster and good decision-making and can help to reduce venture hold-ups (Delmar and Shane, 2003). Therefore, having skills to prepare a good business plan can facilitate venture start-up and performance (Mayer-Haug et al 2013). Brinckmann et al., (2010) have discovered a positive relationship between business planning and the performance of both newly created ventures and established ones. Also, other studies produced mixed and inconsistent result, thus some discovered the relationship as positive, negative or no relation (Lange et al., 2007; Liao and Gartner, 2007; 1988; Sexton and Auken, 1985; Robinson and Pearce, 1984)

## **2.4 Network**

Ventures usually face series of problems on start-up and studies have found that liability of newness (Stinchcombe, 1965) and liability of smallness (Aldrich and Auster, 1986) as the reasons behind the premature death of new and/or small businesses ventures (Freeman et al., 1983). The former being network-related challenges like lack of established ties which will compel the new firm to depend on sources that are not well known or familiar with (Stinchcombe, 1965). While the later entails the resources problems small firm experience (Aldrich and Auster, 1986). Making utmost utilization of network is seen as one sure way of overcoming the resource constraints. For instance, (Stuart et al., 1999) suggest that relating with the large firm by small firm can help the small firm to overcome the financial problem it faces. Clercq, Lim and Oh (2013) found that human capital in form of social capital (Network) enhances the likelihood to start a new venture.

## **2.5 Uncertainty Avoidance**

Hofstede (1980) distinguished four cultural dimensions that differ from countries and organizations: uncertainty avoidance (UA), the degree of uncertainty tolerance; power distance; the extent to which people accept that power is unevenly distributed; individualism and collectivism, people likelihood to value the individuals rather than the group and masculinity/femininity, the likelihood to value assertiveness, performance and success over warm personal relationships, quality of life and solidarity.

Uncertainty avoidance dimension is the most directly related to the entrepreneurial talent and performance relationship in Nigeria. Therefore, to explain why and how the relationship occur and for the purpose of achieving parsimony, the paper consider the underlying mechanism of how uncertainty avoidance affect entrepreneurial talent – performance relationship especially in developing economy like Nigeria.

## **3. Theoretical Framework and Research Propositions**

Previous studies have established the effect of business plans on new venture performance. (e.g. Brinckmann, Grichnik, and Kapsa, 2010). In literature, there are two contrasting school of thought that offer theoretical guide on the business planning and performance relationship, planning and learning schools of thought (Wiltbank et al., 2006; Brews and Hunt, 1999). The planning school on one hand hypothesized that planning mostly improves firm effectiveness and efficiency and help to achieve target (e.g Ansoff 1991). Delmar and Shane (2003) present several positive effects of planning. Planning allows speedier decision-making, firm resource flows can be enhanced, and holdups can be evaded. It entails the clear description of the aims and objectives and facilitates the identification of best way to achieve them. It also allows firms to control goal achievement. If there is any deviation from the original plan, reasons can easily be found. Furthermore, plans enable communication with the external as well as the internal environment of the firm. Planning proponents maintain that the value of business planning intensified particularly in ever changing and flexible external environments as it lessens uncertainty, aid in decision-making, presents controls for personal prejudice and/or

subjectivity, and improves new kinds of actuation (Dean and Sharfman, 1996; Delmar and Shane, 2003; Goll and Rasheed, 1997; Miller and Friesen, 1977; Priem et al., 1995).

The learning school on the other hand proposes that firm should concentrate on learning and chase flexible means to adapt strategies when confronting high level of ecological uncertainty (Hough and White, 2003; Quinn, 1980). Additionally, they argue that in dynamic external conditions, structured and predictive behaviour might generate internal stringencies. As a result, a firm's strictness to plans and guidelines can cause lower degrees of receptiveness, responsiveness and adaptation to external changes and lower performance (Haveman, 1992; Mosakowski, 1997). As a result of dynamic environments imply information gaps and doubtfulness of information, the tendency to produce dependable plans is uncertain (Bird and Jelinek, 1988). Pertaining to resource restrictions, business planning needs executive time, which could be utilized for other important activities instead (Carter et al., 1996). Instead of spending and wasting time on attempting to forecast the uncertain future, executives could benefit from leveraging the resources currently controlled and acquiring more resources (Wiltbank et al., 2006).

Past studies examining the business planning performance effect in the small firm context have found a positive relationship (Schwenk and Shrader, 1993). Furthermore, in the field of marketing, studies examining planning practices of new start-ups suggest the positive effect of planning on performance (Gruber, 2007). Recent study by Brinckmann, Grichnik, and Kapsa (2010) found a positive relationship between business planning and performance. Nevertheless, a comprehensive empirical investigation of the planning-performance relationship especially in developing economy has not been undertaken.

To test the business planning-performance nexus in SMEs context, the study follow planning school views and previous empirical findings. It is hypothesized that business planning supports nascent and serial entrepreneurs in setting and pursuance of their goals in an effective manner with their limited resource base efficiently. Thus, I put forth this hypothesis:

*Hypothesis 1. Business planning has positive affect on SMEs performance in Nigeria.*

There are several theories of entrepreneurship that have conventionally underscored the role of experience in providing the necessary knowledge and skills to start and successfully run a business (stinchcombe 1965) and suggested that established firm offer a good nurturing ground for entrepreneurs (Freeman, 1986). Even though experience have many dimensions, the study focus on the two dimension of business experience- industry and start-up experience, based on guidance from previous study (e.g. Cassar, 2014, Kim, and Longest, 2013, Dencker et al., 2009). The study advance argument around business experience – overall business capability and insight gained through involvement into a specific line of activity relevant to the new venture.

Experience acquired in related situation and settings minimizes uncertainties and assumptions a small business owner must make at the initial stage of the business (Chandler, 1996). Individuals with experience in an industry related to their new business are expected to get important, more detailed and accurate information about their new start-up in the same environment (Brudel et al., 1992; Landier and Thesmar, 2009). Information about cost, pricing,

the value chain or the profitability of the product and services in an industry can easily be acquired by individuals working in that industry (Brudel et al., 1992; Dimov, 2010). Moreover, industry experience can enhance the individual's knowledge of industry's current trend, development and changes in the production processes or service delivery and minimizing technological uncertainty (Delmar and Shane, 2006). Therefore, individuals with this experience most likely have information about new market opportunities which will in turn lessen the ambiguity when evaluating a venture (Dimov, 2010).

To compete favourably, dynamic environment of the business needs to be well understood and evaluated. Experience in a related setting lets the firm owner to better understand and appraise this environment (Chandler, 1996). Furthermore, working in an industry, offers ample amount of information that will guide opportunity evaluation which might not be acquired through other sources (Delmar and Shane, 2006). As a result, industry experience furnishes the entrepreneur with the ability to better evaluate opportunities accruing in that industry. (Ronstadt, 1988). Therefore, the study hypothesized that:

*Hypothesis 2. Industry experience improves SMEs Performance in Nigeria*

Due to the uncertainty nature inherent in the entrepreneurial process and new venture start-up, researchers posit that business owners acquire information regarding the creation and subsequent running of the business through learning by doing (Ardichvili et al., 2003; Delmar and Shane, 2006; Jovanovic, 1982).

One of the crucial advantage of engaging into the creation of new venture whether fruitful or the opposite, is the knowledge and learning acquired through the process (Baron and Ensley, 2006; Shane and Khurana, 2003) and entrepreneurial performance can be enhanced through learning by experimentation (Colombo and Grilli, 2005; Corbett, 2005). Experience aids in better understanding of the current activity (Dimov, 2010; Kolb, 1984) minimizing the ambiguities in predicting the uncertain future consequences of the task. Repetition in performing a task like exploiting and evaluating opportunities and subsequent creation and running of new business, entrepreneur accumulates variety of expertise (Choo and Trotman, 1991; Dew et al., 2009). Experience gained through the creation of ventures helps in the development of durable cognitive backgrounds that enhance the exploitation, evaluation and subsequent selection of the best business ideas and opportunities and also the design of more refined and exceptional judgment (Baron and Ensley, 2006; Gruber et al., 2008). The more business perform task repeatedly, the greater the acquisition of skills and expertise in that task (Haleblian et al., 2006)

Through reflection on the mistakes previously committed, entrepreneurs can remedy the future occurrences (King and Tucci, 2002; Jacob et al., 1999). Also by running a venture previously, entrepreneurs can have a firm belief on their ability to successfully explore opportunities and subsequent creation of another future venture (Parker, 2006; Shane, 2000). Also, Experienced entrepreneurs perceived and calculated the inherent risk associated with the venture creation and know how best to handle such risks (Bar-Hillel, 1983; Hayward et al., 2006)

However there is no guarantee of learning in entrepreneurship (McGrath, 1999; Sexton et al., 1997) and that experiential learning is very complex (Jacob et al., 1999; Russo and Shoemaker, 1992). One of the reasons why the benefit of entrepreneurial experience in start-up activity may be limited is that there is considerable inconsistency over business opportunities which cause inadequate transfer of the knowledge acquired (Bonner and Lewis, 1990; Jacob et al., 1999). Having prior experience of starting and running a successful business does not guarantee that the knowledge gained can be transferred to another different venture (Bonner and Lewis, 1990; Jacob et al., 1999). Considerable amount of knowledge acquired in a particular venture is applicable exclusively to that venture, its settings and the environment (Cassar, 2009). Although knowledge acquired from on business setting may possibly be used in other settings, it is argued that circumstances for transferability of the acquired knowledge are somehow limited (Clement et al., 2007; Gick and Holyoak, 1983; Singley and Anderson, 1989). When applying knowledge gained from prior experience in a relatively new and different business setting, the impact would significantly be limited (Clement et al., 2007). As such, prior experience in one business setting may be useless unless it is deployed in a similar business setting (Gruber et al., 2008). Given that each new business is unique in its sense, the extent to which prior business experience can be transferred to another business setting is equivocal. Although different arguments on the relationship between start-up experience and performance have been presented based on the critical survey of literatures, the study posits that

*Hypothesis 3. Start-up experience improves SMEs performance in Nigeria.*

The human capital theory postulates that one of the motivating factors of investing in education is the belief that it will facilitate the acquisition of skills and knowledge that will improve the performance. Hence, education is crucial for economic growth and development (van der Sluis, van Praag and Vijverberg 2008)

The educational level of individuals might determine the likelihood of entrepreneurial engagement in their effort to discover and exploit opportunities (Ferrante, 2005; Le 1999; Unger et al., 2011). Education improves managerial capability which consequently raises the possibility of starting a business (Calvo and Wellisz 1980; Lucas 1978) According to Mincer's approach to earning, the main elements that influence earning are schooling and experience. Schooling is recognized as having a productive effect on performance (van der Sluis, van Praag and Vijverberg 2008).

There series of prior investigation on the impact of education on firm performance some positive (e.g., Jo and Lee, 1996; Mengistae, 2006), others negative or equivocal (e.g., Lange et al., 2007). Therefore, the study assumed that;

*Hypothesis 4: Education has positive effect on SMEs performance in Nigeria*

In Management research, the whole body of literature has been concentrated to theory on network which was adopted from the field of sociology (e.g., Granovetter, 1973, 1985). This notion has afterward been projected onto new firm to describe the ways entrepreneurs acquire resources such as information, talent, capital, advice and etc, outside the confines of their business (, see e.g., Hoang and Antoncic, 2003; Slotte-Kock and Coviello, 2010). At the initial



stage of the star-up, entrepreneurs experienced so many challenges especially in the acquisition of the required resources of the business. Studies have acknowledged the liability of smallness- explaining the difficulties small firm encounter in contrast with the larger firm. (Aldrich and Auster, 1986) and the liability of newness which involves network related aspect like shortage of established ties which compel the new and smaller firms to depend on aliens (Stinchcombe, 1965) as the two dominant challenges bedeviling the success of new and small venture (Freeman et al., 1983). Researchers suggest that making utmost utilization of network connections is one of the ways of managing these challenges (e.g., Stuart et al., 1999) Founder and firm network of relationships are effort at easing knowledge acquisition, and an attempt to facilitate knowledge gains, acquire more resources that will help to boost the firm performance (Davidsson and Honig, 2003). Therefore, the study hypothesized that

*Hypothesis 5: Firm Network has positive effect on the performance of SMEs in Nigeria*

Despite the numerous studies conducted which clearly established the effect of talent variables on the performance as mentioned above, little attention has been given to the variables that modify the talent-performance of SMEs relationship particularly in developing economy like Nigeria. The paper argued that in contrast to high uncertainty avoidance culture where individuals will not engage into any entrepreneurial activity unless they have what it takes to be entrepreneurial (talent). In low uncertainty avoidance culture people will just storm the castle. In other word uncertainty avoidance is the fundamental reason why entrepreneurial talent predict SMEs performance

Rules, procedures and regulations are very important when one intend to lessen the effect of the unknown in making decision. Hofstede (1980, 2001) identified uncertainty avoidance as a value that varies across cultures. Some cultures have high uncertainty avoidance and some have low. He defined it as “the extent to which the members of a culture feel threatened by uncertain or unknown situations” (Hofstede, 1991, p. 113). This feeling is “expressed through nervous stress and in a need for predictability: a need for written and unwritten rules” (Hofstede, 1991, p. 113). Uncertainty avoidance is one of the four dimensions of culture (others being individualism/collectivism, power distance, masculinity/femininity) that is being used to determine the degree of risk tolerance between nationalities, Hofstede (1991) Other scholars (e.g., Dorfman and Howell 1989; Hui, 1988; McCoy 2002; McCoy, Galletta and king 2005; Singelis, 1994; Triandis, 1995) built on the prominent work of hofstede to treat these dimension at individual level even though Hosftede (1980) cautioned its application at individual level. Therefore, individual-level uncertainty avoidance is the extent to which individuals or organizations within a country try to avoid unfamiliar situations. Individuals or organizations with high level of uncertainty avoidance established formal procedures, rules and regulations. While individual with low uncertainty avoidance culture behave the opposite. Therefore the study put forth the following hypothesis

*Hypothesis 6: Uncertainty Avoidance mediates the relationship between entrepreneurial talent and SMEs performance*

## **4. Research Implications**

### **4.1 Theoretical Implications**

This study attempts to propose a theoretical framework to examine the influence of uncertainty avoidance on the relationship between entrepreneurial talent and SMEs performance in developing economy like Nigeria. Previous studies have emphasized that entrepreneurial talent affect SMEs performance (e.g. Mayer-Haug, Read, Brinckmann, Dew and Grichnik 2013). However, these studies have presented inconsistencies in their findings. Therefore this study has proposed testable propositions in future study. It is expected to add to the existing body of knowledge by introducing uncertainty avoidance as a mediator

### **4.2 Practical Implications**

Understanding the various elements of entrepreneurial talent and their interaction with various venture performance outcomes dimensions is very crucial for policy makers as it guides to the efficient resources allocation. If the relationship is well understood, scarce resources could be deployed to enhance entrepreneurial talent elements that have more effect on the performance especially in hastening the entrepreneurship development programmes and policies recently going on in Nigeria so as to meet the millennium development goals.

## **5. Conclusion**

As SMEs are proven to be the engine of growth of the work economy at large, there is the need for academic researchers to concentrate on areas that will boost their performance. The current paper uses uncertainty avoidance to mediate the relationship between entrepreneurial talent and SMEs performance in developing country Nigeria

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Figure 1. Proposed Theoretical Framework

