

Influence Of Risk Management Practice On Performance Of Micro Small Entrepreneurial Projects In Nairobi City County, Kenya

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ABSTRACT

This study aimed at assessing the influence of risk management practice on the performance of Micro Small Entrepreneurial Projects in Nairobi County Kenya. Pragmatic paradigm guided the study. Correlational survey and cross-sectional survey designs were used. Target population was 350 consisting of 327 entrepreneurs and 23 project managers. Using Krejcie and Morgan table of sample determination, a sample of 186 was reached. Proportionate stratified random sampling was used to select 174 entrepreneurs and 12 project managers. Structured questionnaires and key informant interview guide were used in data collection. The split-half method was used to test the internal stability of the questionnaire and the resultant 0.730 (scale reliability) was tested using Cronbach's Coefficient Alpha method at the widely-accepted social science cut-off of at least $\alpha = 0.70$. Both descriptive and inferential statistics were used in the data analysis. Hypothesis was tested using F-test at 95% confidence interval. At 5% level of significance, the correlation coefficient between risk management practice and performance of Micro Small Entrepreneurial Projects was $r=0.014$ for $p=0.047<0.05$, $R^2=0.00$. This implied that there is no significant relationship

between risk management practice and performance of Micro Small Entrepreneurial Project and that risk management practice was a poor predictor of the performance of Micro Small Entrepreneurial Projects. Nonetheless, there is need to integrate risk management practice into the other practices of project management so as to safeguard performance of Micro Small Entrepreneurial Projects.

Key words: Performance, Micro Small Entrepreneurial Project, Risk Management Practice, Jua-kali entrepreneurs,

INTRODUCTION

In modern times, project managers try as much as possible to make informed project decisions based on risk awareness so as to increase the chances of project success. Whereas risk management contributes to the effectiveness and better decisions, risk management is one of the project knowledge management areas that is claimed to influence project stability [15]. Since project managers are continuously involved in making critical project decisions, decisions which are informed by risk awareness may strengthen decision outcome and increase the chances of project success [22]. Thus appropriate risk management practice ensures that there is efficient scheduling and utilization of project resources in the strive towards meeting the expectations and stated requirements of the clients. Similar arguments are advanced by [17] that assessment of the performance of risk management practice is a critical step towards efficient and effective utilization of resources and guarantees project success. It follows that management of risks is claimed to be an effective and responsive technique that connects risk data with project schedules for enhanced project success. This is because untreated risks may have adverse effects to the project health. Hence risk management can be enhanced by robust practices of identification, analyzing, treating and controlling process.

Risks as factors or events of uncertainties with likelihood of occurring. When risk occur they may have potential threats to the project stability. The likelihood of risk occurrence together with the consequences of risk is what matters in project well-being. Whereas risks can be classified by the likelihood of occurrence and similarities in the mitigation strategy [29], risks can cause multiple negative consequences to project performance depending on the frequency of occurrence and significance of the impacts [13]. Consequently, it is important to constitute appropriate risk management approaches so as to safeguard project performance.

Risk management is the administration policies, practices and procedures for identifying risk, analyzing risk, evaluating risk, treating risk, monitoring and reviewing risk [27]. While studying the effects of risk management on construction projects in Jordan, [30] concluded that effective risk management approaches reduces adverse effects of risks which intern improves performance of projects [23]. Thus appropriate risk management ensures efficient scheduling and utilization of project resources in the strive towards meeting the expectations and requirements of the clients. [17] support that assessment of the performance of risk management is a critical step towards efficient and effective use of resources that guarantee project success. Thus risk management is claimed to be an effective and responsive technique that connects risk data with project schedules for enhanced project success. This is because untreated risks have adverse effects to the project health. Hence risk management can be enhanced by robust practice of identification, analyzing, treating and controlling process.

Entrepreneurial projects also face daily challenges that continue to pose potential risks to their performance and success. In broad, these challenges relate to production, management and even market access. Whereas entrepreneurial projects are innovative stimulants to vibrant economic development of nations [25], the dynamic nature of risks has limited the ability of entrepreneurs to optimize factors of production for greater productivity and performance [21]. This despite the numerous empowerment interventions aiming at minimizing the challenges associated with risks [12]. Questions arise on the effectiveness of risk management practice among the entrepreneurial projects. Given huge time and resource expenditures on entrepreneurial projects, it raises questions as to why entrepreneurial projects fail to meet the performance expectations in terms of resource utilization, product development, skill development, increase in sales and income and even graduation to larger enterprises. In order to fill the knowledge gap, this study sought to examine how risk management practice influences performance of Micro Small Entrepreneurial Projects in Nairobi County in Kenya.

Performance of Micro Small Entrepreneurial Projects cannot be evaluated without considering the stimulus of productivity. Evidence from empirical literature portray productivity in terms of resource utilization, volume of production, volume of sales and market access as critical determinant of performance of entrepreneurial projects [2, 8, 20, 24]. In this study, entrepreneurial projects are profit oriented. Thus performance of Micro Small Entrepreneurial Projects from the aspects of product quality, skill acquisition, skill application, access to new markets, sales, income and customer relation.

Jua-kali means micro small enterprises involved in commercial production and sale of commodities using local resources at the local level (Nairobi County). In addition, micro small entrepreneurs are the entrepreneurs whose capital does not exceed 50,000 USD and level of employment don't exceed 50 employees. Micro Small Entrepreneurial Projects are the commercial endeavors ran by micro and small entrepreneurs involved in the production of commercial commodities like metal products, textile products, wood products and automobile work.

STATEMENT OF THE PROBLEM

When supported, Micro Small Entrepreneurial Projects have the potential to contribute to over 45% of Gross Domestic Product (GDP), 80% of total employment and double wealth accumulation [19] However, entrepreneurs continue to face risks related to poor production sites, lack of capital, inadequate skills, use of redundant technologies, poor product qualities, lack of market and stiff competition with large firms that continued to hinder their potentials to perform better. As a result, many enterprises (75%) have died within their third year of startup [5]. In Kenya, three out of five (60%) of Micro Small Entrepreneurial Projects break by the third year of operation [17,18,19]. Further, about 1.5Million Micro Small Entrepreneurial Projects could not transit into larger entrepreneurial projects due to production risks. Appropriate risk management decisions determine the stability and progress of entrepreneurial project [1].

There is growing concern on why Micro Small Entrepreneurial Projects are not productive and performing to the expectations yet they are heavily invested. While entrepreneurs are perceived to have negative perception to risk management, this may be attributed to ignorance of the consequences at the excuse of cost implication and technical inadequacies in risk management plan. This may be perceived as a contributor towards poor performance of the Micro Small Entrepreneurial Projects. In order to fill the knowledge gap with empirical support, this study

sought to establish the influence risk management practice on performance of Micro Small Entrepreneurial Projects in Nairobi County, Kenya. The independent variable was risk management practice and was indicated by risk identification, analysis of risk, prioritization of risk and risk control. The dependent variable was performance of Micro Small Entrepreneurial Projects and was indicated by the product quality, skill acquisition, skill application, access to new markets, sales, income and customer relations.

RESEARCH OBJECTIVE

The study sought to examine the influence of risk management practice on the performance Micro Small Entrepreneurial Projects in Nairobi County, Kenya.

RESEARCH HYPOTHESIS

H₀: There is no significant relationship between risk management practice and performance of performance Micro Small Entrepreneurial Projects in Nairobi County, Kenya.

THEORETICAL FRAMEWORK

This study was guided by theory of constraints which assumes that efficient dedication of resources and efforts to right alternatives ensures effective solutions and prosperous projects [7]. Developed in 1984 by Dr. Eliyahu Goldratt, theory of constraints emphasizes on prioritization of activities that focus on overall improvement of the constraints and risks through five steps names: constraint identification, exploitation, elimination and subordinating the system to the constraint, constraint elevation and starting over again as illustrated in Figure a.

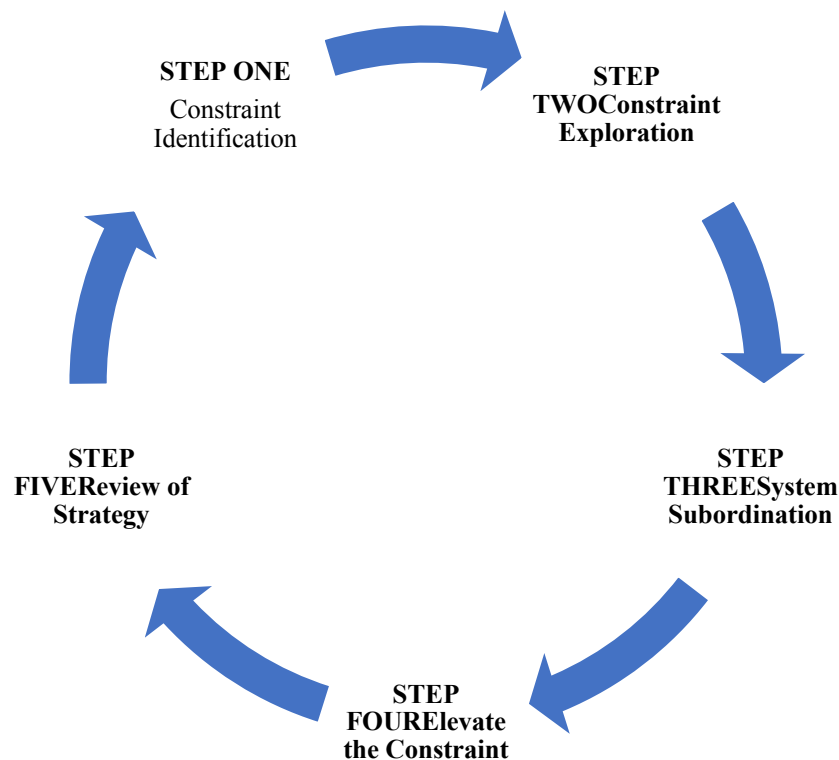


Figure a: Steps in Solving Constraints [7]

In Figure a, the first step compels the organization to identify the constraint or need that impede the productivity of a process for appropriate intervention either in form of a policy, project or other support alternatives [7]. Step two involves cause-effect analysis of constraints in order to devise the best alternative mode of exploiting the constraint for optimal output production. The next step involves subordination of other activities in favor of the constraint while integrating and linking the output to the institution's goal. Step four focuses on the screening of the constraint progress for elevation in order to maximize the value and output. Finally, a general review of the entire process is made so as to assess the changes. If changes occurred another assessment of a constraint is repeated from step one [7]. Similarly, risk management requires systematic practices of risk identification, risk assessment, risk prioritization and risk control whose outputs should represent solutions to the identified problem. If this is effectively done, then the performance of Micro Small Entrepreneurial Projects is guaranteed.

CONCEPTUAL FRAMEWORK

The flow of risk management practice to trigger performance of Micro Small Entrepreneurial (MSE) Projects is demonstrated in Figure b. The independent variable was risk management practice and the dependent variable was performance of Micro Small Entrepreneurial Projects

Figure b: Conceptual Framework

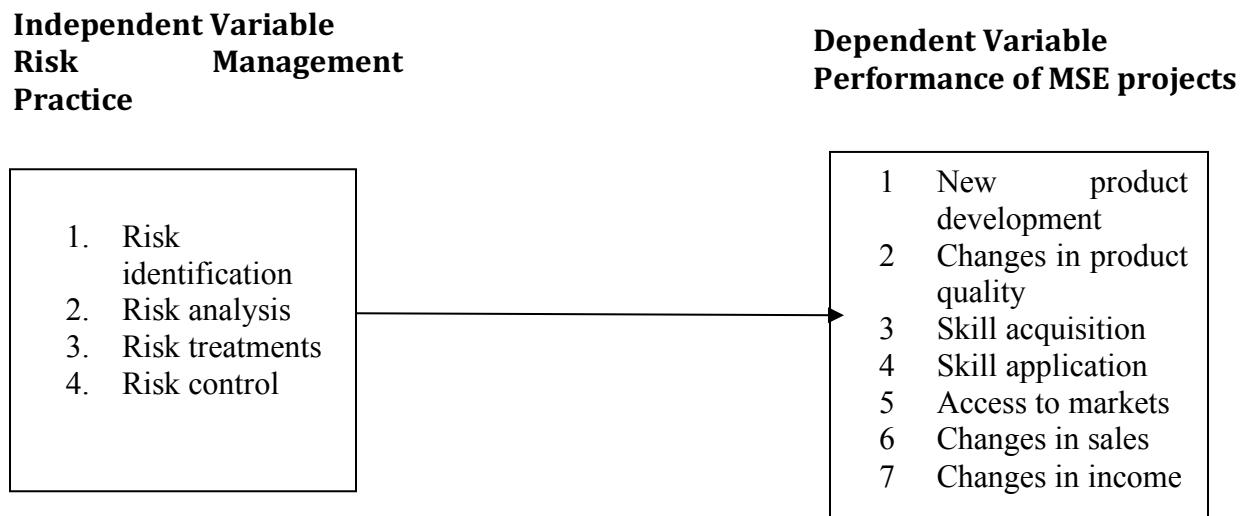


Figure 1: Conceptualization of the interaction between risk management practice and performance of Micro Small Entrepreneurial Projects

RESEARCH METHODOLOGY

The pragmatic paradigm that integrates both positivism and constructivism paradigm to sustain the reasoning that an objective reality can only be subjectively interpreted by human beings guided the study [4]. As a result, correlational survey was used to design the strategy of the inquiry. The target population was 350 comprising of 327 entrepreneurs and 23 project managers. Guided by Krejcie and Morgan table of sample determination a sample of 186 was reached. Proportionate stratified random sampling was used to select 174 entrepreneurs and 12 project managers. Structured questionnaires and key informant interview were used in the data

collection. The split-half method was used to test the internal stability of the questionnaire whereby the scale reliability (0.730) was tested using Cronbach's Coefficient Alpha method at the widely-accepted social science cut-off of at least $\alpha = 0.70$. Descriptive statistic (percentage) and correlational analysis (Pearson's Correlation Coefficient) as well as regression analysis (Coefficient of Determination (R) and ANOVA) were used in data analysis. Hypothesis was tested using F-test at 95% confidence interval.

The following research model was tested;

Performance of Micro Small Entrepreneurial Projects = f (Risk Management Practice)

$$E(Y) = B_0 + \beta_1 X_1 + \varepsilon$$

Where;

Y = Performance of Micro Small Entrepreneurial Projects

X_1 = Risk Management Practice

B_1 = Beta Coefficient for Risk Management Practice

β_0 = Constant term

ε = Error term

FINDINGS

The results from Correlational analysis are as shown in Table a.

Table a: Correlation between Risk Management Practice and the performance of Micro Small Entrepreneurial Projects

		MSE Performance	Risk Management Practice
Risk Management Practice	Pearson	0.014*	1
	Correlation		
	Sig. (2-tailed)	0.047	
	n	145	145

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

The statistics in Table a indicate that at 5% level of significance, the correlation coefficient between risk management practice and performance of Micro Small Entrepreneurial Projects was 0.014 for $p = 0.047 < 0.05$. This implies that there is no significant relationship between risk management practice and performance of Micro Small Entrepreneurial Projects.

The following hypothesis was tested:

Hypothesis H₀: There is no significant relationship between risk management practice and the performance of Micro Small Entrepreneurial Projects in Nairobi County

The null hypothesis was supported by the findings in Table 1 for $r = 0.014$ ($p = 0.047$) thus we fail to reject the null hypothesis as there is enough statistical evidence to conclude that risk management practice has no significant influence on performance of Micro Small Entrepreneurial Projects in Nairobi County.

After establishing the existence of no significant relationship between risk management practice and performance of Micro Small Entrepreneurial Projects, the researcher sought to find out the influence of risk management practice on performance of Micro Small Entrepreneurial Projects. The following regression model was formulated.

$$\text{Performance of Micro Small Entrepreneurial Projects} = f(\text{risk management practice})$$

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Regression analysis was performed to determine the strength of the model in predicting the performance of Micro Small Entrepreneurial Projects. Data was analyzed and the regression results are shown in Table b.

Table b: Regression of Risk Management Practice and Performance of Micro Small Entrepreneurial Projects

Model Summary										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					
					R Square Change	F Change	df1	df2	Sig. Change	F
1	0.014	0.000	-0.007	0.28917	0.050	0.027	1	143	0.000	
ANOVA										
Model			Sum of Squares		df		Mean Square		F	Sig.
1	Regression		0.002		1		0.002		0.027	0.000
	Residual		11.958		144		0.083			
	Total		11.960		145					
Coefficients ^a										
Model			Unstandardized Coefficients		Standardized Coefficients		t		Sig.	
			B	Std. Error	Beta					
1	(Constant)		3.968	0.194			20.505		0.000	
	Risk management practice		0.008	0.051	0.014		0.164		0.870	
Dependent Variable: performance of Micro Small Entrepreneurial Projects										
Predictors: (Constant), risk management practice										
F (1,144) = 0.027, t=0.164 for p=0.870>0.05, r= 0.014 and R ² =0.000										

From the model summary in Table b, the coefficient of risk management practice ($r=0.14$) was not statistically significant at $P<0.05$. The model predicted 0.00% variation in the performance of Micro Small Entrepreneurial Projects.

From the ANOVA results in Table b, the model was deemed not fit in predicting the performance of Micro Small Entrepreneurial Projects for $F(1,144) = 0.027$ for $p=0.870$.

Also from the coefficient data in Table b, the t value of 0.164 is less than the standard $t(1.96)$. Holding other factors constant, one unit change in the risk management practice resulted into 0.008 variation in the performance of Micro Small Entrepreneurial Projects.

The model is, $Y = 3.968 + 0.008X_1$,

From the model it implies that risk management practice has no statistical significance (at $P=0.870$). Although related studies have concluded that the relationship between risk management practice and performance of project is strong [1, 2, 3, 6, 8, 9, 10, 11, 12, 13, 14, 17, 26, 28], this study concludes that the influence of risk management practice is weak.

SUMMARY

The purpose of this study was to assess the influence of risk management practice on performance of Micro Small Entrepreneurial Projects in Nairobi County. The null hypothesis stated that there is no significant influence of risk management practice on the performance of Micro Small Entrepreneurial Projects. The results were $F(1,144) = 0.027$, $t=0.164$, $P=0.870>0.05$, $r=0.014$ and $R^2=0.000$. Accordingly, the null hypothesis was not rejected because there was enough evidence to conclude that There is no significant relationship between risk management practice and the performance of Micro Small Entrepreneurial Projects.

CONCLUSION

This research aimed at examining the influence of risk management practice on performance micro small entrepreneurial projects in Nairobi County. Inferential statistics showed that risk management practice has no significant influence on performance of Micro Small Entrepreneurial Projects. Hence the conclusion that risk management practice is not a good predictor of the performance of Micro Small Entrepreneurial Projects.

RECOMMENDATIONS

Due to risky environment in which entrepreneurial projects operate, this study recommends for project managers to always conduct continuous risk assessment and control throughout the life of the project. Good risk management practices should entail appropriate risk identification strategies, risk evaluation, risk prioritization and risk control measures. Government should institute appropriate risk management policies so as to cushion micro small entrepreneurial projects against adverse potential risks through affordable insurance covers. Future studies should explore each aspect of risk management practices independently so as to contribute to wider knowledge on the influence of risk management practice on performance of micro small entrepreneurial projects.

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