

# The Influence of Culture toward Risk-Taking in SMEs in Regency of Ende, East Nusa Tenggara

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# The Influence of Culture toward Risk-Taking in SMEs in Regency of Ende, East Nusa Tenggara

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**Abstract**—This paper has purpose to examines how does culture influence risk-taking of SMEs, which is a key dimension of entrepreneurial orientation. Data from 40 self-administered questionnaires were utilized. Hofstede's four cultural dimensions were adopted in stating the four hypotheses developed for this study. The data were analyzed using descriptive statistic, Person's Product Moment Correlation Coefficients and Multiple Linear Regression Analysis. The findings of this study indicate that in Regency of Ende masculinity had a significant positive relationship with risk taking. But, uncertainty avoidance, individualism and power distance recorded a non-significant positive relationship with risk taking. Hence, this study recommended that SMEs owner/manager must give employee security assurance, make good cooperation with others, find opportunity for high income and also seek opportunities for promotion to get higher assignments.

**Keywords**—*entrepreneurship; culture; risk taking; Small Medium Enterprise (SMEs)*

## I. INTRODUCTION

There have been many studies that discuss the relationship between culture and risk taking. Li, et al. investigate the role of national culture in corporate risk-taking. They postulate that culture influences corporate risk-taking both through its effect on managerial decision-making and through its effect on a country's formal institutions. Further, they postulate that the influence of culture is conditioned on the extent of managerial discretion as measured by earnings discretion and firm size. Using firm-level data from 35 countries and employing a hierarchical linear modeling approach to isolate the effects of firm level and country-level variables, they show that individualism has a positive and significant association, whereas uncertainty avoidance and harmony have negative and significant associations, with corporate risk-taking. Greater earnings discretion strengthens and larger firm size weakens the association of culture with corporate risk-taking [1]. We conclude that even in a highly globalized world with sophisticated managers, culture matters.

Ashraf, et al. has studied how a country's national culture influences bank risk taking behavior and they use four cultural dimensions based on alternate cultural dimensions from House et al. framework of national culture. Ashraf find robust

evidence that three dimensions of national culture (uncertainty avoidance, individualism and power distance) have significant direct effects on bank risk-taking. Specifically, findings suggest that bank risk-taking is significantly higher in high individualism, low uncertainty-avoidance, and low power distance countries [2].

Culture has been associated with creditor rights and investor protection [3,4], with judicial efficiency [5], with corporate governance [6], with bankruptcy and bankruptcy management protection [7] and with overall levels of transparency and corruption [8,9]. Further search establishes that national culture has an impact on the composition and structure of the board of directors [10] and also on individual decision making at the micro level [11-13]. On the other hand, attitudes toward risk are likely to be indirectly influenced by culture through many of the factors listed above, as well as directly by national cultural norms, which can encourage or hinder risk taking.

There is a lot of research on the influence of culture on corporate risk taking and the majority of them argue that individualism has a positive effect on corporate risk taking, however there is a theory that support this situation. It is called The Planned Behavior Theory (TPB). According to Ajzen, the Planned Behavior Theory (TPB) describes and predicts human behavior where each individual has limited intentional control or intentional control in a particular context. Examples of such behavior are entrepreneurship [14]. This entrepreneurial behavior is not only influenced by the individual's will, but is also influenced by external events that cannot be controlled by the individual. TPB's focal point is the concept of intention, which indicates an individual's willingness and perseverance to show certain behaviors, and such things are a reflection of motivation for behavior. Therefore, an individual will be more likely to show that behavior when he has strong intentions. TPB has proposed that the intention of an action is driven by three factors, namely attitude towards the act, subjective norms and perceived behavioral control. Attitudes toward the act describe the degree to which an individual perceives behavior as to be profitable or unprofitable, while perceived behavioral control illustrates the degree to which individual perceptions feel that performing behavior is easy or difficult, for example perceived perceived feasibility. Subjective norms relate to the

degree to which behavior is perceived as a behavior that is acceptable to society or not. Therefore, the intention to do the assignment will be strong when we perceive the task as easy and acceptable to the community and in accordance with their wishes.

Breuer et al. found that individualism was related to excessive trust and excessive optimism and had a significant positive effect on individual financial risk taking and the decision to own shares [15]. Tse et al. showed that home culture has a significant effect on manager's decision making [16]. Twenty years later Graham, using survey data in the US, also shows that CEOs are not immune to cultural impacts [13]. They found that CEO decision making was strongly influenced by cultural values such as reluctance to uncertainty and individualism. Yeboah, using survey data of SMEs in Ghana recorded that there was a significant positive relationship between uncertainty avoidance, masculinity, power distance and risk taking. And a non-negative significant relationship between individualism and risk taking [17]. This result implies that in as much as owner/managers in the Sekondi-Takoradi Metropolis take bold decisions. Salmi found that people considered both individualistic characteristics (overconfidence, over optimism and pursuit of self-interests) and „cushion theory“ to have positive effect on corporate risk-taking [18]. This could indicate that the mechanisms in culture are not exclusive, but they work at the same time.

#### A. Structure of SMEs in Ende

Micro, Small and Medium Enterprises (MSMEs) have an important and strategic role in the economic development of a country and region. As an illustration, despite the contribution of MSMEs in Indonesia's national (GDP) output to only 57-60% and only 15% in non-oil and gas exports, Small and Medium Enterprises are able to contribute around 99% of the number of business entities in Indonesia and have a 97% share in employment national (Business Profile of MSMEs, LPPI and BI, 2015). But the reality so far in the field of Micro, Small and Medium Enterprises still lacks serious attention.

BPS Data, Ende Regency describes some descriptions of the conditions of Ende's native entrepreneurs, as follows [19]: a) the number is increasing even though not as many as non-native Ende entrepreneurs; b) in terms of business size, no one is classified as a big entrepreneur; c) most of the Ende-Lio community lives from farming, fishing and raising livestock such as horse buffalo, cattle and goats. The types of animals are used as payment tools for dowry. And past lives also often use horse animals as a means of transportation. In addition to the profession, the most prominent thing from the Ende-Lio tribe area is the woven weaving craft in addition to the cooking oil business (VCO), sweet potato / banana chips, brick making, blacksmith, furniture and wood processing. The business of sweet potato / banana chips and tie weaving that absorbs the most workforce; e) the main problems vary and are known to the person first; f) most of these SMEs are constrained by capital which is a major problem; g) most are not independent, the organization is not healthy and manages the business traditionally. The development of small and medium micro enterprises in Ende District has not been stagnant from year to year when viewed from the number of business units, the level

of employment, investment value and production value. It appears that the number of borrowers in the industrial sector has decreased, this is in line with the analysis presented by the NTT provincial government through Regional Economic and Financial Studies in 2018, namely: in the midst of improving credit quality, only medium-scale MSMEs continue to experience quality deterioration in 2017 (Table 2). The medium-scale MSME NPL ratio at the end of 2017 was recorded at 6.00% from the previous 5.99%. MSME credit scale since the third quarter of 2016 was also recorded above the safe limit, however, credit disbursement continued to grow [20].

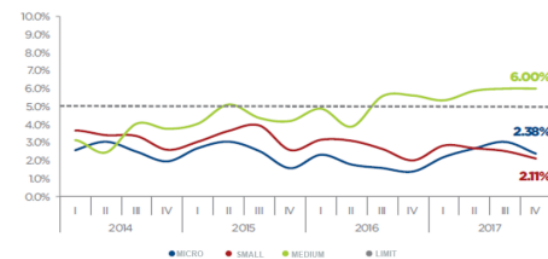


Fig. 1. MSME NPL by type of business [20].

Various conditions of problems and obstacles faced by small micro-enterprises (MSEs) in Indonesia, especially in Ende Regency are generally the same, different aspects of behavior and entrepreneurial intensity, natural resource potential, and culture both related to behavior, intensity and geodemographic aspects. Regarding culture, that the similarities or differences in cultural values in each society grow from their life experiences, their history and belief systems and from the social environment.

Ende is a Regency City located in the middle of the island of Flores, East Nusa Tenggara Province (NTT), Indonesia. In the Ende Regency there are two (2) tribes that inhabit the area, namely the Ende tribe and the Lio Tribe. In general, the Lio tribe lives in mountainous areas. Its location is around the northern region of Ende Regency. And the Ende tribe lives in the coastal area, namely the southern part of Ende Regency. Basically, the cultural form of the two tribes is almost the same, the difference between them is the result of mixing culture or acculturation. The Lio tribe culture is a blend of indigenous Lio tribes with Catholic Christianity under the Dutch. While the culture of the Ende tribe is a blend of the indigenous culture of the Ende region with Islamic culture which was under by traders from Sulawesi, namely Makassar.

Although there are two religions that live in areas that still have one cultural family; religious life in the Ende-Lio region has various peculiarities. However religious life in Ende-Lio as in other areas is very colored by cultural elements, namely the original tradition patterns of ancestral heritage. In addition, historical elements, namely outside traditions also play a role in people's lives. Both of these elements are given shape by the Flores cultural system so that in the Ende-Lio area there is a strange kind of mixing between religious life and paganism (ancestral religion) [21].

## II. METHOD

The object in this study is the SMEs who had the government assistance for developing their business at the Ende Regency (South Ende, East Ende, Central Ende, North Ende). The population in this study were all managers/owners of SMEs, a total of 120 people. The sampling technique in this study is census sampling, but only 40 responden return the questionnaire. In testing all the hypothesis using multiple regression tests,

### A. Hypothesis

1) *Risk-taking and uncertainty avoidance*: There is a strong theoretical link between uncertainty acceptance and risk-taking. Hofstede noted that “a low UAI means by definition a greater willingness to take risks” [22]. Since risk-taking generates high levels of outcome uncertainty, managers must be willing to cope with ambiguity in strategic situations. Managers in uncertainty accepting societies, who are willing to deal with ambiguity and uncertainty, will be more willing to immerse themselves in such situations. Managers in uncertainty accepting societies have also been shown to score highly on McClelland’s need for achievement. Individuals with a high need for achievement tend to be assertive, ambitious, and willing to take risks. This suggests that managers with a high need for achievement, such as those in uncertainty accepting societies, will be more willing to take risks than will managers in uncertainty avoiding societies. Therefore :

**Hypothesis 1: Organizational risk-taking is negatively associated with the level of uncertainty avoidance in a culture.**

2) *Risk-taking and individualism*: Individualism is closely related to the psychological literature in this regard regarding excessive trust and excessive optimism. In a more individualistic society, decisions are the product of individuals rather than groups, and this decision is more likely to be driven by excessive trust and excessive optimism [23]. Pan and Statman found that highly confident individuals tended to be more tolerant of risk than people who were overconfident, overestimating their ability to control outcomes and overstating their knowledge [24]. When individuals are too confident of their abilities, they tend to overestimate the accuracy of their predictions and are too safe in their parameter estimates, such as future stock returns [25,26].

Individualism, which correlates with excessive trust and excessive optimism, will have a positive and significant effect on risk taking. On the other hand, individualism can also have the opposite effect because of the chusion hypothesis. In collectivist countries, everyone is responsible for helping in the event of major losses and most likely as a result of risky options, while in individualistic countries, each is responsible and will bear the consequences of his own actions. Collectivism therefore acts as a bearing on the possibility of losses [27]. To explain this difference, our model will take into account and control the mechanism of protection of creditors

and shareholders, as well as the cost of bankruptcy. To summarize, the second hypothesis is

**Hypothesis 2: Organizational risk-taking is positively associated with the level of individualism in a culture.**

3) *Risk-taking and masculinity*: Managers in masculine cultures (along with uncertainty accepting cultures) have been found to score highly on McClelland’s need for achievement [28,22]. As mentioned earlier, managers exhibiting a high need for achievement will be more willing to engage in the taking of calculated, business-related risks than other managers. Hofstede’s findings also indicated that managers in masculine cultures will value decisive and immediate actions, while managers in feminine cultures will be more likely to make decisions that have been more carefully thought out. Managers in feminine cultures, who spend great amounts of time analyzing strategic situations, will be more likely to talk themselves out of an action that they perceive as containing unnecessarily high levels of risk [29].

Managers in masculine countries have also been shown to place a higher emphasis on showing off (“machismo”) than feminine managers [28,22]. Many such managers feel that openly displaying their willingness to take chances and the potential to gain prestige and recognition through bold and daring strategic action is worth the potential risks that are involved. Therefore,

**Hypothesis 3: Organizational risk-taking is positively associated with the level of masculinity in a culture.**

4) *Risk-taking and power distance*: Power distance deals with issues of equality and trust. In countries that have high PDI, superiors and subordinates are distinguished in ways other than hierarchical and holders of power have the right to be denied privileges for the powerless. Because of these friction, countries with high power distances show latent conflict between the strong and the powerless, and which are later seen as a threat to one’s strength and are rarely trusted [22]. On the other hand, in countries with low power distance there is a latent harmony between the strong and the helpless: people at various levels of power feel less threatened and better prepared to trust each other.

People in countries with lower power distance will take greater risks because they have greater trust. Indeed, a long strand of psychological research has found a strong relationship between trust and risk taking. The more trust a person is, the greater the risk he will take [30,31]. We postulate that the same thing will apply at the company level and that companies in low PDI countries will be more confident and consequently will take more risks. Thus, our fourth hypothesis is

**Hypothesis 4: Organizational risk-taking is negatively associated with the level of power distance in a culture.**

B. Research Model

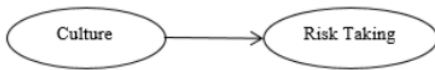


Fig. 2. Research model.

III. RESULTS AND DISCUSSION

A. Demographic Analysis

TABLE I. RESPONDENTS BASED ON GENDER AND AGE

Age Gender	30 – 40 years	41 – 50 years	> 50 years	Total
Male	9 (22,5%)	8 (20,0%)	6 (15,0%)	23 (57,5%)
Female	10 (25,0%)	4 (10,0%)	3 (7,5%)	17 (42,5%)
Total	19 (47,5%)	12 (30,0%)	9 (22,5%)	40 (100,0%)

Source : primary data, 2018.

Most of the MSME managers / owners who were respondents were men (57,5%) In the worldwide, the level of male entrepreneurs is higher than women, for example in the United States, 14% male business owners while 8% women and in Europe the number of male entrepreneurs is 19% and female entrepreneurs 10% [32]. This means that men have a stronger entrepreneurial personality and dominance of their role in making decisions in the businesses they run.

TABLE II. RESPONDENTS BASED ON GENDER AND EDUCATION

Education Gender	Diploma	Graduate	Post-graduate	Total
Male	1 (2,5%)	21 (52,5%)	1 (2,5%)	23 (57,5%)
Female	1 (2,5%)	14 (35,0%)	2 (5,0%)	17 (42,5%)
Total	2 (5,0%)	35 (87,5%)	3 (7,5%)	40 (100,0%)

Most of MSME managers / owners who were respondents were men, amounting to 23 people (57.5 percent). The male respondents were mostly undergraduate education, namely 52.5 percent, and for respondents with diploma and postgraduate education each 2.5 percent. For female respondents there were 17 people (42.5 percent), the distribution of which was the same as that of male respondents, namely more undergraduate education (35 percent). Education level has an impact on business productivity. Low education will have an impact on the lower activity of business activities.

B. Hypotheses Testing

Four hypotheses were used this study. The first and fourth hypotheses theorised that risk taking is negatively associated with uncertainty avoidance and power distance respectively. Whiles, the other two hypotheses indicated that risk taking is positively associated masculinity and individualism. The results from the multiple regression analysis as depicted in Table 4, show that uncertainty avoidance and power distance

had no significant negative relations with risk taking (p-value: .773 and .436 ). But also with individualism had a non-significant positive relationship with risk taking (p-value .989). However, masculinity has a significant positive association with risk taking (p: .000).

C. Multiple Regression Analysis

TABLE III. REGRESSION ANALYSIS

Variable	Regression Coeff.	Error Standard	t test	Sig.
Constanta	-2.785	.838	-3.323	.002**
Uncertainty Avoidance (X1)	.022	.077	.291	.773*
Individualism (X2)	.001	.056	.014	.989*
Masculinity (X3)	.876	.038	23.121	.000**
Power Distance (X4)	.075	.095	.789	.436*

Dependent Variable : Risk Taking

R Square = .939

F Test=135,547

Probability=.000\*\*

Note :

\*\* Significant at p < 1%

\* Significant at p < 5%

Source: primary data, 2018

Thus, the result of multiple linear regression equation is :

$$Y = -2.785 + .022X1 + .001X2 + .876X3 + .075X4 + \epsilon$$

The first hypothesis formulated that risk taking is negatively associated with uncertainty avoidance. However, this study recorded a non-significant positive relationship between uncertainty avoidance and risk taking. This outcome is surprising because previous empirical findings are extant with the conclusion that risk taking is most practiced in business environments where inclination for uncertainty avoidance is discouraged. In fact, Hofstede argued that managers in societies or businesses that embrace uncertainty acceptance then to score extremely high on McClelland's need for achievement [28,22]. This result implies that SMEs owner/managers in Ende Regency occasionally make bold decisions in situations they perceive the outcome as unclear.

The second hypothesis recorded non-significant positive relationship between risk taking and individualism. But, research is replete with the affirmation that managers in individualistic countries are more autonomous and engaged in making risky decisions than their counterparts in collectivist cultures. Individualism, which comes with excessive trust and excessive optimism, will have a positive and significant effect on risk taking. On the other hand, individualism can also have the opposite effect because of the chusion hypothesis. This extreme levels of either individualism or collectivism weaken entrepreneurial behavior [27,33]. This result implies that in as much as owner/managers in the Ende Regency take bold decisions, they carefully think through situations before arriving at decision and also seek for business advice from other people.

The results from hypothesis three indicated a significantly and high positive relationship between risk taking and masculinity. This result collaborates other previous research studies particularly Hofstede [28,22]. Hofstede claimed that managers in masculine cultures demonstrate high on McClelland's need for achievement and are more willing to take business-related risky decisions than other managers. Thus, owner/managers of SMEs in Ende Regency are assertive and willing to take bold decisions in the face of uncertainty [28,22].

Hypothesis four postulated that risk taking had a negative association with the level of power distance. But, the findings showed a positive relationship (however it's non-significant relationship). This outcome disagrees sharply with earlier research works that stated commonly that business enterprises in cultures with high power distant are predisposed to instituting hierarchical and bureaucratic structures. Thus, business enterprises that practice high power distance inhibit managers/owners of SMEs from the freedom and autonomy to make bold decisions. This outcome brings to light the hierarchical manner in which SMEs in the Ende Regency operate their business. This also confirms previous research study by Kayanula and Quartey [34], they asserted that SMEs in Ghana are mostly managed by a sole person with little or no freedom for employees to act unilaterally. The more trust a person is, the greater the risk he will take [30,31].

#### IV. CONCLUSION

This study sought to examine the influence of culture on risk taking which is a key dimension of entrepreneurship. The findings indicated that masculinity had a significant and high positive relationship with risk taking. But, uncertainty avoidance and power distance recorded a non-significant positive relationship with risk taking. Individualism recorded a non-significant negative relationship with risk taking. Based on this outcome, hypotheses three was accepted while hypotheses one, two and four were not accepted.

It could be inferred from this outcome that SMEs in the Ende Regency operate their business enterprises in hierarchical manner with owner/manager dictating the pace of the business. Also, the SMEs owner/manager thinks through issues carefully before making bold decisions when confronted with uncertainty in the business environment and occasionally they seek for business advice from people. Thus, this study recommended that SMEs owner/manager must relax their business structures to allow for inputs and suggestions from their employees. In addition, they must not rely solely on their judgment in making business decisions but, seek for business advice from appropriate individuals and institutions. Especially for masculinity, better to give guarantee for security of employees fairly to both female employees and male employees; prioritizing good cooperation with other people; opportunities for higher income and opportunities for promotion to higher assignments.

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