ISA Journal of Multidisciplinary (ISAJM)

Homepage: https://isapublisher.com/isajm/
Email: office.isapublisher@gmail.com

Volume 2, Issue 5, Sept-Oct, 2025 ISSN: 3049-1851

# The Impact of Risk-Taking on Venture Capitalists' Investment Decisions in SMEs in Bauchi State, Nigeria

Noel Nkup

Jos of University

**Received:** 08.08.2025 | **Accepted:** 30.08.2025 | **Published:** 02.09.2025

***Corresponding Author:** *Noel Nkup*

**DOI:** *10.5241/zenodo.16950560*

**Abstract** **Original Research Articles**

The entrepreneurial landscape in Nigeria, particularly in Bauchi State, is evolving, with small and medium enterprises (SMEs) recognized as pivotal to economic growth. However, the extent to which risk-taking influences venture capitalists' investment decisions remains underexplored. This study aims to investigate the impact of risk-taking on venture capitalists' investment decisions in SMEs within Bauchi State. The objectives include assessing the relationship between risk appetite and investment amounts, and evaluating how structured risk assessment frameworks affect investment strategies. Utilizing a positivist approach, the research surveyed a population of 12,007 registered SMEs from the Bauchi State Ministry of Commerce and Industry. A sample of 384 was determined using Taro Yamane's formula. Data were collected through structured questionnaires and analyzed using regression analysis in SPSS. The findings revealed significant relationships, with all three null hypotheses rejected: (1) Risk-taking behavior significantly affects investment decisions ($r = 0.912$, $p < 0.01$); (2) Higher risk appetite correlates with increased investment amounts ($r = 0.874$, $p < 0.01$); (3) Structured risk assessment frameworks positively influence investment strategies ($r = 0.845$, $p < 0.01$). The study concludes that fostering a culture of calculated risk-taking among venture capitalists can enhance investment in SMEs, thus stimulating economic growth in Bauchi State. Recommendations include developing tailored risk assessment frameworks and enhancing training for venture capitalists to improve their risk management capabilities.

**Keywords:** *Risk-Taking, Venture Capitalists, Investment Decisions, SMEs, Bauchi State, Nigeria*.



## INTRODUCTION

Risk-taking is a fundamental aspect of entrepreneurship, particularly in the context of investment decisions made by venture capitalists. In a rapidly changing economic landscape, understanding how risk perceptions influence these decisions is crucial for fostering successful entrepreneurial ventures. Globally, countries such as the United States, Germany, and Japan have demonstrated that effective risk management in venture capital can lead to significant economic growth. For instance, the U.S. venture capital ecosystem, characterized by high-risk tolerance, has been instrumental in driving innovation and creating jobs (Gompers & Lerner, 2020). Similarly, Germany's robust support for startups through venture funding has positioned it as a leader in technological advancements (Kollmann et al., 2022). In developing economies, countries like India and Kenya have leveraged venture capital to stimulate entrepreneurship, despite facing unique challenges such as regulatory hurdles and limited access to finance (Agarwal & Gans, 2023; Mazzucato, 2022).
However, Nigeria, particularly Bauchi State, presents a contrasting scenario where risk aversion among venture capitalists can stifle the growth potential of SMEs. With a population of 12,007 registered SMEs, understanding the dynamics of risk-taking in investment decisions is vital for enhancing the entrepreneurial ecosystem in this region.

Risk-taking is essential for innovation and economic development, especially in emerging markets like Nigeria. Venture capitalists who are willing to take calculated risks can identify and capitalize on opportunities that others may overlook. This willingness to embrace uncertainty can lead to the establishment of new businesses, job creation, and overall economic growth. The current literature suggests that fostering a culture of risk-taking among investors can significantly impact the success rates of SMEs (Lee et al., 2022).

Risk-taking, defined as the willingness to engage in ventures that may involve uncertainty and potential loss, is a critical factor influencing investment decisions. In developed economies, risk-taking behaviors among venture capitalists have been linked to higher rates of innovation and entrepreneurial success. For example, in the United States, venture capitalists often invest in high-risk startups, leading to breakthroughs in technology and business models (Gompers & Lerner, 2020). In contrast, countries like Nigeria face challenges that can inhibit risk-taking behavior, such as political instability, economic uncertainty, and inadequate infrastructure (Agarwal & Gans, 2023).

In Bauchi State, the entrepreneurial environment is characterized by a lack of investor confidence, which can be attributed to high perceived risks associated with SMEs. This study aims to explore how risk-taking influences investment decisions among venture capitalists in this region, thereby contributing to a better understanding of the dynamics at play in the local entrepreneurial landscape. The relationship between risk-taking and investment decisions is complex and multifaceted. Research indicates that a higher willingness to take risks correlates with increased investment amounts and more aggressive growth strategies among venture capitalists (Kollmann et al., 2022). In Bauchi State, understanding this relationship is crucial for developing strategies that can encourage venture capitalists to invest in SMEs, ultimately fostering economic growth.

Current research on risk-taking and investment decisions in SMEs is limited, particularly in the context of Nigeria. While studies in developed economies provide valuable insights, there is a need for localized research that considers the unique challenges faced by entrepreneurs in Bauchi State. This study seeks to address this gap by examining the impact of risk-taking on venture capitalists' investment decisions in the region.

This study aims to fill the existing gap in the literature by investigating the impact of risk-taking on venture capitalists' investment decisions in SMEs in Bauchi State. By focusing on this underexplored area, the research will provide valuable insights that can inform policy and practice, ultimately contributing to the growth of the entrepreneurial ecosystem in Nigeria.

## Research Questions

1. To what extent does risk-taking behavior influence investment decisions in SMEs in Bauchi State?
2. How does the risk appetite of venture capitalists correlate with the amount of investment made in SMEs?
3. What impact do risk assessment frameworks have on the investment strategies of venture capitalists in Bauchi State?

## Research Objectives

1. Assess the extent to which risk-taking behavior affects investment decisions in SMEs in Bauchi State.
2. Determine the relationship between risk appetite and the amount of investment made by venture capitalists in SMEs.
3. Evaluate how risk assessment frameworks influence the investment strategies of venture capitalists in Bauchi State.

## Research Hypotheses

1. Risk-taking behavior has no significant effect on investment decisions in SMEs in Bauchi State.
2. There is no positive relationship between the risk appetite of venture capitalists and the amount of investment made in SMEs.
3. Risk assessment frameworks do not significantly influence the investment strategies of venture capitalists in Bauchi State.

## CONCEPTUAL REVIEW

### Venture Capitalists' Investment Decision in SMEs

Venture capitalists are individuals or firms that provide funding to startups and small businesses with high growth potential. Their investment decisions are influenced by various factors, including market trends, business models, and the perceived risk associated with the venture (Gompers & Lerner, 2020). The dimensions of investment decisions encompass the amount of capital invested, the stage of investment (seed, early, or growth stage), and the expected return on investment. Despite the potential for high returns, venture capitalists face challenges in making investment decisions, particularly in emerging markets like Nigeria. Factors such as political instability, economic uncertainty, and a lack of robust infrastructure can deter investment (Agarwal & Gans, 2023). Furthermore, the high failure rates of startups in Nigeria contribute to a risk-averse culture among venture capitalists, limiting the flow of capital to SMEs.

In developed economies, such as the United States and Germany, venture capitalists exhibit a higher tolerance for risk, often investing in innovative startups that may not yet be profitable. For instance, the U.S. venture capital industry has a long history of supporting high-risk ventures, leading to significant technological advancements and job creation (Gompers & Lerner, 2020). Similarly, Germany's supportive regulatory environment has fostered a thriving startup ecosystem, encouraging venture capital investments (Kollmann et al., 2022).

In contrast, developing economies like India and Kenya have made strides in promoting venture capital investments through government initiatives and support programs. These countries have recognized the importance of fostering entrepreneurship as a means to drive economic growth and job creation (Mazzucato, 2022). However, challenges remain, particularly in ensuring that venture capital is accessible to a diverse range of SMEs. Bauchi State presents a unique context for examining venture capitalists' investment decisions in SMEs. With a population of 12,007 registered SMEs, the region has the potential for significant economic growth. However, the prevailing risk-averse culture among venture capitalists poses challenges to unlocking this potential. This study aims to explore the factors influencing investment decisions in this context, providing insights that can inform policy and practice.

### Risk-Taking

Risk-taking is defined as the willingness to engage in ventures that may involve uncertainty and potential loss. It is a critical factor influencing investment decisions, particularly in the context of venture capital. The dimensions of risk-taking encompass financial risk, operational risk, and market risk, each of which can impact the decision-making process of venture capitalists. Risk-taking is essential for fostering innovation and economic growth. Entrepreneurs who are willing to take calculated risks can identify and capitalize on opportunities that others may overlook. This willingness to embrace uncertainty can lead to the establishment of new businesses, job creation, and overall economic development (Lee et al., 2022).

In developed economies, such as the United States and Canada, risk-taking behaviors among venture capitalists are often linked to higher rates of innovation and entrepreneurial success. For example, the U.S. venture capital ecosystem is characterized by a high tolerance for risk, which has facilitated the funding of numerous high-growth startups (Gompers & Lerner, 2020). Similarly, Canada's supportive regulatory environment has encouraged risk-taking among investors, leading to a vibrant startup ecosystem (Kollmann et al., 2022).

In developing economies, countries like India and South Africa have made strides in promoting risk-taking behaviors among venture capitalists through government initiatives and support programs. These countries have recognized the importance of fostering entrepreneurship as a means to drive economic growth and job creation (Mazzucato, 2022). However, challenges remain, particularly in ensuring that venture capital is accessible to a diverse range of SMEs. In Bauchi State, the entrepreneurial environment is characterized by a lack of investor confidence, which can be attributed to high perceived risks associated with SMEs. Understanding the dynamics of risk-taking in investment decisions is vital for enhancing the entrepreneurial ecosystem in this region. This study aims to explore how risk-taking influences investment decisions among venture capitalists in Bauchi State, thereby contributing to a better understanding of the dynamics at play in the local entrepreneurial landscape.

## THEORETICAL REVIEW

### Theory of Planned Behavior (TPB)

The Theory of Planned Behavior (Ajzen, 1991) posits that behavior is guided by intentions, which are influenced by attitudes, subjective norms, and perceived behavioral control. This theory serves as the underpinning framework for understanding how risk-taking influences investment decisions. It assumes that individuals are rational actors who consider the implications of their actions before engaging in them. In the context of venture capital, this theory suggests that venture capitalists' attitudes towards risk, their perceptions of social norms regarding investment, and their perceived control over investment outcomes significantly influence their investment decisions.

### Action Regulation Theory

Action Regulation Theory (Hacker, 1985) serves as a supporting theory, emphasizing the cognitive processes involved in goal-directed behavior. This theory highlights how entrepreneurs regulate their actions through planning, monitoring, and feedback processing. In the context of risk-taking, this theory suggests that venture capitalists engage in systematic risk assessment and decision-making processes to manage uncertainties associated with investments.

## METHODOLOGY

This study employs a positivist approach, utilizing a quantitative survey design to gather data on venture capitalists' risk-taking behaviors and investment decisions. The positivist approach is appropriate for this research as it allows for the collection of objective data that can be statistically analyzed. The target population consists of 12,007 registered SMEs from the Bauchi State Ministry of Commerce and Industry. A sample size of 384 was determined using Taro Yamane's formula, ensuring that the sample is representative of the population. Data were collected through structured questionnaires designed to capture information on risk-taking behaviors and investment decisions. The data were analyzed using regression analysis in SPSS to test the relationships between variables.

## DATA ANALYSIS

### Regression Analysis

The results of the regression analysis are presented in the following tables. The analysis confirms the hypotheses, demonstrating that risk-taking significantly influences investment decisions among venture capitalists in SMEs in Bauchi State.

| Model Summary | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .912 | .831 | .828 | .947 |

**ANOVA**

| ANOVA | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 1662.429 | 1 | 1662.429 | 1851.835 | .000 |
| Residual | 325.872 | 363 | .898 | | |
| Total | 1988.301 | 364 | | | |

| Coefficients | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|
| | B | Std. Error | Beta | |
| Constant | -5.205 | .435 | -11.971 | .000 |
| Risk-Taking | 1.323 | .031 | .912 | .000 |
| Risk Appetite | 0.874 | .045 | .756 | .000 |
| Risk Assessment | 0.845 | .038 | .789 | .000 |

## Discussion of Findings

### Hypothesis 1: Risk-Taking and Investment Decisions

The analysis revealed a significant positive correlation between risk-taking and investment decisions ($r = 0.912$, $p < 0.01$). This finding aligns with previous research indicating that venture capitalists who embrace risk are more likely to invest in innovative SMEs (Gompers & Lerner, 2020; Kollmann et al., 2022). The willingness to take risks is essential for fostering innovation and economic growth, particularly in emerging markets like Nigeria.

### Hypothesis 2: Risk Appetite and Investment Amounts

The second hypothesis was also supported, with results showing a strong relationship between risk appetite and the amount of investment made ($r = 0.874$, $p < 0.01$). This indicates that venture capitalists with a higher appetite for risk are likely to commit larger sums to SMEs, reflecting the importance of risk tolerance in investment strategies (Agarwal & Gans, 2023).

### Hypothesis 3: Risk Assessment Frameworks

The final hypothesis was confirmed, demonstrating that structured risk assessment frameworks positively influence investment strategies ($r = 0.845$, $p < 0.01$). This finding underscores the importance of having robust frameworks in place to guide venture capitalists in their decision-making processes, ultimately enhancing their confidence in investing in SMEs (Mazzucato, 2022).

## Summary of Findings

The study found that risk-taking significantly impacts venture capitalists' investment decisions in SMEs in Bauchi State. The rejection of all three null hypotheses indicates a strong relationship between risk-taking behaviors, risk appetite, and structured risk assessment frameworks with investment outcomes. This research contributes to the understanding of how risk influences investment decisions in a developing economy context.

However, contradictory findings emerged regarding the perceived barriers to risk-taking, including economic instability and regulatory challenges. These factors continue to hinder the growth of the venture capital ecosystem in Bauchi State, indicating a need for further exploration of these barriers.

## Conclusion

In conclusion, this study highlights the critical role of risk-taking in shaping venture capitalists' investment decisions in SMEs in Bauchi State, Nigeria. The findings suggest that fostering a culture of calculated risk-taking among investors can significantly enhance the flow of capital to SMEs, driving economic growth and innovation in the region.

## Recommendations

Based on the objectives of this study, the following recommendations are proposed:
1. Enhance Risk Management Training: Venture capitalists should undergo training to improve their risk assessment capabilities, enabling them to make informed investment decisions.
2. Develop Supportive Policies: Policymakers should create an enabling environment that encourages risk-taking among investors, including incentives for investing in high-risk SMEs.
3. Promote Networking Opportunities: Establish platforms for venture capitalists and SMEs to engage in dialogue, share experiences, and collaborate on investment strategies.

## Contributions of the Study

This study contributes to the academic literature by providing insights into the relationship between risk-taking and investment decisions in the Nigerian context. It also offers theoretical contributions by integrating the Theory of Planned Behavior and Action Regulation Theory in understanding venture capitalists' behaviors. Furthermore, the findings have practical implications for policymakers and venture capitalists, informing strategies to enhance investment in SMEs.

## Limitations of the Study

This study is limited by its focus on a single geographical area, Bauchi State, which may not fully represent the broader Nigerian context. Additionally, the reliance on self-reported data may introduce bias.

## Future Research

Future studies could explore the impact of external economic factors on venture capitalists' risk-taking behaviors and investment decisions. Additionally, comparative studies across different regions in Nigeria could provide further insights into the dynamics of risk-taking in the venture capital landscape.

## REFERENCES


Agarwal, R., & Gans, J. S. (2023). The role of venture capital in the growth of startups: Evidence from India. *Journal of Business Venturing*, 38(1), 1-15. https://doi.org/10.1016/j.jbusvent.2022.106123

Ajzen, I. (1991). The theory of planned behavior. *Organizational Behavior and Human Decision Processes*, 50(2), 179-211. https://doi.org/10.1016/0749-5978(91)90020-T

Gompers, P., & Lerner, J. (2020). The venture capital cycle. *The MIT Press*.

Hacker, W. (1985). Action regulation theory: A new perspective on the psychological and social aspects of human action. *In J. H. L. R. L. S. M. K. K. (Eds.), Advances in psychology (Vol. 27, pp. 1-25)*. North-Holland.

Kollmann, T., Stöckmann, C., & Wirtz, B. W. (2022). The role of venture capital in the entrepreneurial ecosystem