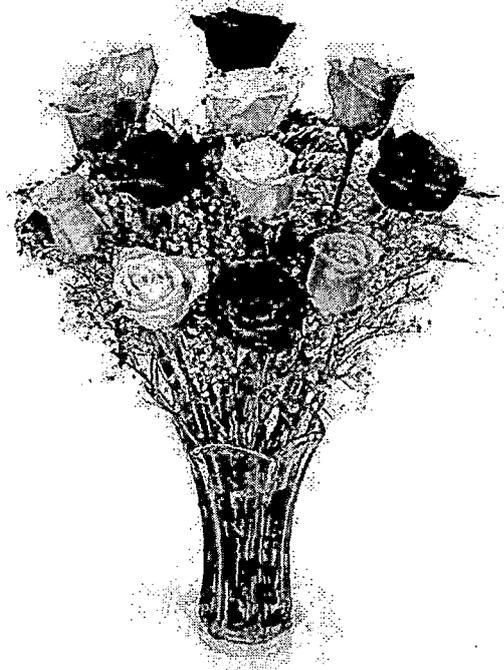# Chapter – I

Introduction

Chapter I

Introduction

The role of small and medium businesses in facilitating global economic development has attracted increasing attention over the past decade (Verheul and Thurik, 2001). The small and medium business sector is seen as an important contributor in the transition to a market economy, through the processes of innovation, job creation, income generation and business dynamics (Hisrich and Ozturk, 1999). The majority of western countries identify small and medium enterprises as significant contributors to wealth creation and thereby economic development (Holmund & Kock 1998; Hodgetts & Kock 1998).The development of small and medium enterprise (SME) is one of the recent key issues in developing countries (Davidsson, 2004; Gibb & Ritchie, 1982). As a developing country, the development of the SME sector in India is important. The assistance of SME as a support industry helps to strengthen the large industries. SME development is the future candidate of large industries because every large enterprise has had the experience of starting their business as an SME. The future of the large enterprises is dependent on the development of SME. The development of SME is also an important for the labor market because it employs the labor force and offers wages to workers (Kirchhoff, 1994). In India, the development of the SME sector is not only a key issue for the industrial

development, but also for the socio-economic development of the country (Kirchhoff, 1994). The role of SMEs in economic development of the nations has been recognized as important by every nation around the world. It is considered an engine for growth and poverty reduction for the country through the creation of jobs and incomes for the people (Morris, May, Godden & Nicholson, 2001; World Bank Group, 2004; Ngasongwa, 2002; Hashim, 2004); export (Hisrich & Szirmai, 1993; McMillan & Woodruff, 2002); entrepreneurial skills and industrial linkages (Chee, 1992; Wyer, 1999; Goh & Chew, 1996; Mohd Shariff, 2003); and individual initiative (Clapham, 1985). The development of SME is also considered as a tool for economic survival during the crises of the nations. (Tambunan, 1992; Goh & Chew, 1996; Frank & Landstrom, 1997). Moreover, SMEs are increasingly becoming more important for poor and developing countries (Chico, 1983; Khan, 2002). It would be fair to say that this role has achieved a consensus by all nations. According to the President of the World Bank Group, James D. Wolfensohn: "SMEs are the private sectors for employment generation and sustainable growth" (World Bank Group, 2004, p. 19). The concern of transitional economies from the former Soviet Union to Central and Eastern Europe to China and Vietnam are similar in one important aspect: SMEs help to improve and sustain the health of the market economy in terms of job creation, domestic production, and exports (Hisrich & Szirmai, 1993; McMillan & Woodruff, 2002). This is true especially when the surplus of labor, scarcity of capital within the rapidly growing population in the poor and developing countries are high (Chico, 1983; Khan,

2

2002). Clapham (1985) also indicated that SMEs help to promote basic social values, and are highly viewed as a crucial tool towards achieving a social and regional integration. Evidence from the World Bank Group (2004) shows that SMEs in China helped nearly 200 million people escape from extreme poverty as a result of the economic reform in 1979. As in the case of Taiwan, SMEs dominated 97.81 percent of total industrial establishments and contributed 69.27 percent of total employment; 32.11 percent of total sale values; and 48 percent of total exports for the country's economy (Ministry of Economic Affair, 1997). SMEs not only helped during the period of economic growth but also in economic recession. It also becomes the engine for growth of Multinational Companies (MNCs) in Singapore (Goh & Chew, 1996). The strong turbulence in the world economy in 1970s had made many large firms in 56 developed countries lay off their employees. SMEs then were regarded as the problem solver to these structural changes (Frank & Landstrom, 1997).

Statement of the problem

Business performance today has assumed special significance, since it is a key to economic development. The industrial development, regional growth and employment generation depend upon business performance. Successful business performance depends on people who run them and most business enterprises are run by entrepreneurs. Entrepreneurs are thus the seeds of industrial development (Eisenhardt & Schoonhven 1990).

3

The performance of business, whether success or failure could be caused by many factors. It is difficult to identify the factors contributing to the success and the failure of business[1]. It is not easy to bring out in questions, how entrepreneurs choose strategy, how firms behave, and how they are managed (Porter 1994). Many businesses fail or succeed. Several factors might have been involved in the prediction of success or failure of the business. But an ability to predict the likelihood of an individual business succeeding or failing could help avoiding those financial and emotional risks and enable potential business operators to get training in the areas of perceived weakness. Further, this ability could help the community and government planners to allocate resources appropriately.

The future of a small or medium sized enterprise (SME) depends upon the strategic choice of one or just a few individual managers, most commonly the entrepreneur owner-manager[2] (McMohan 2001).

---

1. The words business, SMEs, business firms, business houses and enterprises are alternatively used referring to same meaning.

2. The words, entrepreneurs, owner-managers, business-operators, are alternatively used referring to same meaning

Empirical evidence suggests that entrepreneurs in SMEs plan in a way that is quite from the standard textbook approaches (McCarthy, 2003). In SMEs, not the top management teams, but the entrepreneur himself is the enterprise's main strategist and decision maker, developing the vision, mission and strategies, and also implementing them (Analoui & Karami, 2003).

The success or failure is the result of a variety of factors: economics, politics, socio-cultural factors, technology, industry and strategic factors. While these factors may be beyond the control of a single entrepreneur, the process of choosing management practices or strategies is commonly highly intuitive and based upon an aggressive search for opportunities: with individual owner-managers often having more influence on strategy than managers in large business (Miller 1987).

Since the future of a small or medium sized enterprises depends on the strategic choice of owners or business managers and those strategies have more influence of individual owner-managers than managers' influence on strategies in large business houses, it is thought that strategies are likely to play an important role in determining the success or failure of small or medium sized business houses.

Strategic decisions reflect the subjective orientation and attitudes of the entrepreneur (Kraus 2007, McKenna, 1996). The resulting strategies, therefore,

are frequently an extrapolation of the personality of the entrepreneur and an image of his or her vision. In turn, those decisions are guided by many factors, such as, the characteristics, values, and expectations of the individuals that make them and those factors may thus influence the performance of the business (Bamberger 1983). This leads to the belief that there could be some linkage between the entrepreneurs' characteristics, values, strategies and business performance.

Kotey and Meredith (1997) claim that small business owner-managers with so called 'entrepreneurial values' were more likely to manage organization that had superior performance than owner-managers with 'conservative values'. This finding has got good support from Kickul and Gundry (2002). The role of individual characteristics, values and expectations in determining the subsequent actions of those who start and run their own businesses has been explored in the academic literature and linked to business performance by a number of researchers.

Besides, the literature agrees on how the individual's characteristics affect management practices or strategies (Fitzimmons, Steffens & Douglas, 2005, McMahon, 2001).Therefore, the purpose of this research is to find out the linkage between the performances of enterprises and values, characteristics of the entrepreneurs and management strategies chosen by the entrepreneurs. From this, the study seeks to identify the unique predictive tie-in between the characteristics,

values of entrepreneurs in SMEs, the management practices or strategies they choose and the relationship of those practices to business performance.

Objectives and Hypotheses

In the light of issues discussed earlier and the available literature relating to performance of entrepreneurs with reference to small and medium enterprises, the following objectives are framed to conduct the present research study.

Objectives

1. To study the attributed and attained characteristics of the entrepreneurs.

2. To portray the values and expectations of the entrepreneurs.

3. To identify the linkage between characteristics and values of the entrepreneurs.

4. To study the details regarding the management practices of the entrepreneurs.

5. To find out the linkage between values and management practices of the entrepreneurs.

6. To find out the linkage between the business performance and characteristics, values, and management practices of the entrepreneurs.

Hypotheses

On the basis of given objectives, the following hypotheses are proposed in this study.

1. The occupation of one or both of entrepreneur's parents influences the education level of an entrepreneur.

2. Female entrepreneurs hold values that are similar to the values held by male *entrepreneurs*.

3. The education level of entrepreneurs makes the difference in the values held by them.

4. The values held by entrepreneurs influence on the selection of management practices or strategies.

5. The business performance between the entrepreneurs who founded their business and purchased is same or uniform.

6. Entrepreneurs who emphasize people management practices have superior performing businesses.

Methodology

The description of detailed methodology applied for this research follows.

In the light of discussion and literature concerning demographic characteristics of entrepreneurs, values and expectations, and management strategies, the following hypothesized linkage between an entrepreneurs characteristics, values and expectations, management practices and business performance is presented (fig.1.1). Based upon the works of Rockeach (1973), Bamberger (1983), Kotey and Meredith (1997), and Cooper (1998) the conceptual model, figure 1.1, which explains proposed linkages between entrepreneurs' characteristics, values and expectations, management practices and business performance is shown below.
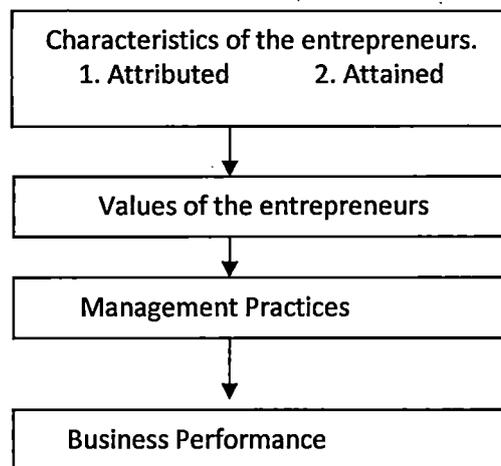
Figure 1.1

Figure:1.1 Conceptual model explaining the linkages between entrepreneurs' characteristics, values, management practices and business performances.

This model, fig 1.1 has provided the basis of this research.

This study employed the same values of the entrepreneurs used by Kotey and Meredith (1997). In addition, this study furthered Kotey's work by adding 1) need for Achievement measures (McClelland 1962; Alderfer 1972), 2) locus of control (Robbins (1989) measure, and 3) details on attributed and attained characteristics not included by Kotey. The model described by figure 1.1 has been used as a guide to investigate the relationships between variables.

That leaves five sets of relationships to be investigated: first, that variables representing attributed characteristics will impact upon variables representing attained characteristics; second, the attained characteristics will impact upon variables representing the values and expectations of entrepreneurs; third, variables representing attributed characteristics will also impact upon variables representing the values and expectations of entrepreneurs; fourth, variables representing the values and expectations of entrepreneurs will impact upon variables describing management practices or strategies; and fifth, that variables representing management practices or strategies will impact upon variables representing indices of business performance.

With the support of previous study found in the literature, the variables representing attributed characteristics, attained characteristics, values and expectations of the entrepreneurs, management practices, and business performance have been included for this study. These variables and the

corresponding categories, for which those variables represent, are listed below.

Name of the category that variables represent	Variables
Attributed characteristics	Age, gender, ethnicity, and family influence
Attained Characteristics	education
Values and expectations of the entrepreneurs	Need for achievement, locus of control, ambition, aggressiveness, autonomy, equality, power, creativity, Money material success), energy,(good health),prestige (dignity, status),security, pleasure, compassion, loyalty, trust, risk, affection, competence, completion, national security, social protection (government assistance),growth(personal development), innovation, honesty, responsibility, hard work and optimism.
Management Practices/Strategies	Consultative decision making, employee rewards, employee amenities, direct sales, quantity emphasis, service emphasis, productivity emphasis, set objectives, set

Management Practices/Strategies	performance goals, budgeted, developed plans, documented plans, cost reduction, borrowings, searched for cheaper funds, intellectual property, assessed job satisfaction, advertised products, extended credit, distribution channels, long warranties, reviewed progress, corrected for budget variance, used industry associations, and attended trade exhibits.
Business Performance.	Change in income, high productivity, industry leadership, creating job opportunities, high profit rates, contribution to community development, business growth, and business stability.

To measure the 28 values of entrepreneurs, the semantic differential technique described by England (1975) and modified by Kotey, B. & Meredith, G.G (1997) was used. Measurement of the need for achievement was done by using the scale of Alderfer (1972) and for locus of control the scale adopted by Robbins (1989) was used. The variables on management practices and business performance are measured through the same the scale used by Kotey & Meredith,

(1997). Kotey & Meredith included 50 variables for measuring variables on management practices or strategies. This has been reduced in this study from 50 to 25 for the objective reasons of making it convenient to the respondents and also for increasing the response rate.

Data Sources

The primary data from entrepreneurs of SMEs were collected personally through questionnaire. The DIC (District Industies Centre, A Government Body) Trichy, supplied the lists of SMEs' business names and addresses.

Sampling Procedure

The data was initially collected with the help of formulated sample frame list. The method of selecting the sample is based on simple random sampling. Random digit table is used to choose the sample from the lists' of sample frame. Due to the geographic location of the author and to the need to continue to control for city influences, the sample selected for the study was limited to the district of Trichy.

Cook and Campbell (1976) described four types of validity that a researcher must consider when designing and evaluating their research: internal validity, construct validity, external validity, and statistical validity. The following

sampling procedures and design techniques were used to reduce error, to ensure internal, construct and statistical reliability, and to optimize external validity.

The overall research design is quasi-experimental and multi-factorial. It is therefore largely quantitative and deductive, rather than qualitative and interpretive (Glaser and Strauss 1967, Locke 2001). However, very little, unprompted qualitative data were sought via a single open-ended question, which provided an opportunity for respondents to offer some explanation of contextual issues. Textual analysis (Silverman 1995) was done for the qualitative data so collected. These qualitative data, wherever found useful, have been used.

To enhance reliability of the instrument used, the questionnaire material was pre-tested in the survey development stage. A pilot study was conducted. Ten entrepreneurs in SMEs from Thuvakkudi Industrial Estate,(one of the locations in the study area) were interviewed to identify and correct problems related to the proposed survey instrument, questionnaire. Each entrepreneur was interviewed for an average of 20 minutes. In particular, the interview was sought to verify clarity of the understanding by entrepreneurs of the questions posed and this pilot study was done to identify those questions that might have resistance. As a result of the interviews, a number of minor changes and fine tunings were made to the wording of questions to improve clarity for those entrepreneurs of SMEs in the study area to improve the questionnaire's construct reliability.

Criteria for selection of SMEs

The following criteria supported by the literature, have made the researcher to choose SMEs for the study.

"Most large firms have their beginning in small entrepreneurial enterprises. It *is in these small firms, which are intrinsically different in their make up from the* larger firms, that entrepreneurial activity is most visible" (Carswell & Gunaratne, 2002, p.879).

SMEs differ from big businesses in several ways. In the management of SMEs, the role of the entrepreneur is particularly important (Kraus & Kauranen, 2008). Research conducted by Olsen & Johannessen (1994) confirms that the business experiences and competence levels of SME owners are important factors influencing SMEs' performance. According to Penrose (1995), the conduct of management plays an important role in SMEs' growth performance. In SMEs, the principal owner is the entrepreneur or the owner-manager or the business operator. In SMEs, the owner-manager is fully engaged in his or her business and he or she is taking care of all day-to day activities of the businesses. The principal owner in SMEs is likely to be working in 90% of small and medium businesses, whereas that situation is likely in just 35% of larger businesses (Kennedy & Drennan 2002). The individual owner-managers often have more influence on strategy than managers in large businesses (Miller 1987).

Sample Size

The sample size was determined as follows. A pilot study was conducted among 25 owner-managers with 10 basic questions to find out their overall entrepreneurial pattern. Based on the survey conducted, the confidence interval was estimated as 7.5%, which means, the standard error of mean value of all the basic 10 questions.

Based on estimated CI 7.5%, the ISS (Initial level of estimating sample size) is

$$SS = \frac{z^2 \times (P) \times (1-P)}{c^2}$$

$$= \frac{1.96^2 \times 0.5 \times (1-0.5)}{\left(\frac{7.5}{100}\right)^2}$$

$$new = \frac{170.7377}{1 + \frac{170.7377 - 1}{1520}}$$

$$= 153.6876$$

And by rounding it off, the sample size has been determined as 155.

(Where Z = 1.96, p = 0.5, and CI = 75%)

Sampling Error

The response rate achieved is 78 percent (non-response error 100-78 = 22) and the unanswered questions and not properly decoded (response bias) were removed from collected data set. It account for minimum of six percent. The sample was duly collected to achieve required and determined sample size of 155.

Data Collection and Analysis

The primary data were collected personally through questionnaire from the entrepreneurs. Particulars required to fulfill the objectives of the study were asked in the questionnaire. The data collected from entrepreneurs were transcribed into a master table to facilitate easy tabulation. Averages, percentages and ratios were worked out and frequently used to facilitate a meaningful discussion. Tools like correlation, regression and discriminant function were also used to analyse the data especially to describe the relationships between each set of variables in the research. All these statistical analysis have been done with the help of SPSS – Windows 11th version.

Period of study

The period covered by the study is three years from 2003-2004 to 2005-2006. This period of three years was found sufficient to investigate the proposed the linkage between characteristics, values, management practices and business performance.

Significance of the study

The present attempt by the researcher under the topic " Performance of entrepreneurs in Small and Medium enterprises- A perception Analysis" is to find the proposed link between firm performance and characteristics, values and management strategies. This has been analysed diligently to arrive at valid conclusions. This study is helpful to identify whether there is a link between management strategies, values, characteristics, and business performance. This leads to framing of suitable policy implications.

Limitations of this Research

In this study the investigator aims at analyzing the performance of entrepreneurs in small and medium industries in Trichy district for a period of three years from 2004 to 2006. The study is related to private SMEs only. No public sector units were considered in the process. The researcher was able to collect the data from the entrepreneurs of SMEs after careful and continuous

persuasion. The entrepreneurs were very scared in supplying the data due to income tax and other related problems.

Correlation and regression are the statistical tools used by this study. In regression, causality is not found between the predictor variables and the dependent variables. The use of exploratory factor analysis was appropriate for exploring the measurement models and regression was appropriate for structural relationships. This research had not made use of those appropriate tools.

The study is confined to Tiruchy. Hence the results of the present study cannot easily be generated to govern all places because of varied nature of social and economic condition classifications of industries, demography structure, etc. in the whole economy.

Plan of the study

This thesis consists of five chapters.

The first chapter commences with this introduction (Chapter 1) and is followed by second Chapter 2 titled 'Review of Literature'. This chapter has the comprehensive review of literature relating to characteristics, values and expectations of entrepreneurs, management practices and indices of business performance.

It is followed by Chapter 3. It deals with the setting, SMEs in developed and developing countries and profile of the study area.

In Chapter 4, analysis and discussion is presented.

Chapter 5 then provides the conclusion of the thesis with suggestions for future research and policy implications.