Chapter II

Review of Literature

The literature dealing with SMEs definition, the characteristics, values of entrepreneurs and the evidence concerning the influence of individual values on the selection of management practices by entrepreneurs is reviewed in this chapter.

SMEs – Definition

The best description of the key characteristics of a small firm remains that used by the Bolton Committee in its 1971 Report on Small Firms. This stated that a small firm is an independent business, managed by its owner or part-owners and having a small market share. The Bolton Report also adopted a number of different statistical definitions. It recognized that size is relevant to sector - i.e. a firm of a given size could be small in relation to one sector where the market is large and there are many competitors; whereas a firm of similar proportions could be considered large in another sector with fewer players and/or generally smaller firms within it. Similarly, it recognized that it may be more appropriate to define size by the number of employees in some sectors but more appropriate to use
turnover in others. Across government, it is most usual to measure size according to numbers of full-time employees or their equivalent.

An enterprise is considered to be any entity engaged in an economic activity irrespective of its legal form (Robinson 1982, Young, 1985). SMEs include, in particular, sole proprietorships and family businesses engaged in craft or other activity and partnerships and associations regularly engaged in economic activity (Mohd Shariff, & Peou, 2008). People in different countries tend to define SMEs in different ways. There is no clear definition of SMEs. Different countries use different measurement techniques to determine SMEs and it depends on their purposes (Kilby 2003, Ngasongwa, 2002 ). The quantitative and qualitative measurements can also be used to measure SMEs based on the characteristics of the firms (Hanchuan & Zhongqi, 2000, Ueda, 1995).

Based on the experiences of SMEs around the globe, IFC and the World Bank Group-SME (2004) created their own definition for countries in the world. The intent is to define SMEs growth in terms of employment, income generation, social balance, country development, regional integration, and global development- table 2.1
Table 2.1

The common global SME definition of IFC
and the world Bank Group-SME

<table>
<thead>
<tr>
<th>SMEs Characteristics</th>
<th>No. of employees</th>
<th>Capital Investment</th>
<th>Annual turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro -enterprise</td>
<td>Less than 10</td>
<td>&lt;US$100,00</td>
<td>&lt;US$100,00</td>
</tr>
<tr>
<td>Small enterprise</td>
<td>10-50</td>
<td>$1,00,000-$300,000</td>
<td>$1,00,000-$300,000</td>
</tr>
<tr>
<td>Medium enterprise</td>
<td>51-300</td>
<td>$3,00,000-$15,000,000</td>
<td>$3,00,000-$15,000,000</td>
</tr>
</tbody>
</table>


This study adopts the definition of Ministry of small scale industries, Government of India (Table 2.2) which says that “Under the MSMED (Department of micro, small and medium enterprises) Act 2006, the earlier, rather limited, concept of ‘Industries’ has been widened to that of ‘Enterprises. Enterprises have been classified broadly into two categories, namely enterprises engaged in the manufacture or production of goods pertaining to any industry; & enterprises engaged in providing or rendering of services. Enterprises defined in
terms of investment in plant and machinery or equipment (excluding land & building) are given table 2.2

**Definition of SME**

Table 2.2

<table>
<thead>
<tr>
<th>Investment in plant and machinery/equipment (excluding land and building)</th>
<th>Manufacturing enterprises</th>
<th>Service enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Up to Rs.25 lakh</td>
<td>Up to Rs. 10 lakh</td>
</tr>
<tr>
<td>Small</td>
<td>More than Rs.25 lakh and up to Rs.5 crore</td>
<td>More than Rs.10 lakh and up to Rs.2 crore</td>
</tr>
<tr>
<td>Medium</td>
<td>More than Rs. 5 crore and up to Rs.10 crore</td>
<td>More than Rs.2 crore and up to Rs.5 crore</td>
</tr>
</tbody>
</table>

Source: Ministry of small scale industries, Govt. of India.

India has many states in it. Each state has its own government, called state government. Each state government has got the prerogative to create laws and policies as permitted and within the purview of government of India. Tamilnadu, where the study area, Trichy, is located, is one of the states in India. The definition of SMEs by the government of Tamilnadu too is similar to that of definition given by government of India. The definition (Minister of Industries,
Government of Tamilnadu) of SMEs given by government of Tamilnadu is as follows.

**Micro Manufacturing Enterprises**-Investment up to Rs.25 lakhs.

**Small Manufacturing Enterprises**-Investment above Rs.25 lakhs and up to Rs.5 crores.

**Medium Manufacturing Enterprises**-Investment above Rs.5 crores and up to Rs.10 crores.

**Micro Service Enterprises**-Investment up to Rs. 10 lakhs.

**Small Service Enterprises**-Investment above Rs. 10 lakhs and up to Rs. 2 crores.

**Medium Service Enterprises**-Investment above Rs.2 crores and up to Rs.5 crores.

**Entrepreneur (Owner-Manager)**

“Entrepreneurs are all around us. They are the people who make a difference and affect the world around them. Some can be found starting a new business which grow and prosper because the entrepreneur has identified, engaged and exploited a valuable new opportunity. But it is also often entrepreneurs who
drive change and develop new initiatives in larger, established industries” (Carswell and Gunaratne, 2002, p.879).

Despite the substantial interest and research in entrepreneurship and entrepreneurs, defining and understanding the concept of entrepreneurship and entrepreneurs remain difficult and challenging. Essentially, there is very little consensus on what entrepreneurship is and what an entrepreneur does. Cunningham and Lischeron (1991) have identified six different major schools of thought. The “great person school” views an entrepreneur as a person who is born with intuition, vigour, energy, persistence and self-esteem, while the classical school identifies entrepreneurship with innovation, creativity and discovery. The management school describes an entrepreneur as one who organizes, owns, manages and assumes risk. In a similar manner, the leadership school views an entrepreneur as one who motivates, directs and leads. In contrast, the intrapreneurship school focuses on skilful managers within complex organizations. Psychological characteristics school of entrepreneurship, which views entrepreneurs as individuals with unique values, attitudes and needs which drive them and differentiate them from non-entrepreneurs. Its premise is that one’s needs, drives, attitudes, beliefs and values are primary determinants of behaviour. As such, this school of thought focuses on personality/psychological factors and characteristics (cited by Koh 2002)
Agarwal (2004) identified five types of entrepreneurs. The five types of entrepreneurs identified were: 1) the Opportunistic type, which views an entrepreneur as a person driven by expectations of financial gain, 2) the “Push” type, which describes an entrepreneur as a person driven by negative “push” reasons for starting a business, 3) the Managerial type, which views entrepreneur as one who have high leadership, administration and environmental skills, as well as a desire for financial returns, 4) the New Craftsman type, which views entrepreneur as one who has high need for autonomy at work and desire to pursue a product/service idea, and 5) the Idea driven Opportunist type, which describes entrepreneur as a “mixed” type. The entrepreneurial types identified as above were found to differ significantly in age, background, education and work experience. Idea Driven Opportunists were found to be the youngest to start a business, while “Push” entrepreneurs were the oldest. The New craftsman entrepreneur was found to be the most highly educated, coming from a professional background, and with highest prior experience with large private firms. The entrepreneurial types were significantly associated with the size and founding capital of the business. Managerial and new craftsman entrepreneurs were associated with higher number of employees, and higher founding capital than other types of entrepreneurs, while “push” entrepreneurs had the lowest employment size and founding capital.
In a business context of 21st century, and largely as lay people understand it, entrepreneur typically refers to “a person who undertakes or controls a business or enterprise and bears the risk of profit or loss” (Venkatesan & Souter, 2001, p.20). While The Macquarie Dictionary offers the following definition of “one who organizes and manages any enterprise, especially, one involving considerable risk” (Delbridge, Bernard, Blair, Peters, and Butler 1991, p.583). Distinctions have been drawn between entrepreneurs and turn-around agents (Gartner 1985) and between free agents and corporate intrapreneurs (Kuratko & Montagno 1989). Due to its focus on performance of the entrepreneurs in SMEs for this research, an entrepreneur is defined as an SME owner-manager who is actively engaged in the day to day running of his or her business.

Timmon & Smollen (1985) found that those owners with high people orientation were more likely to be good in business performance. Johnson’s (1990) perception seemed to reinforce the entrepreneurial trait school (the school which focused on the characteristics that are common to entrepreneurs; for example, family development, need for achievement, creativity, technical knowledge, determination ) of thought that development of an understanding of the individual entrepreneur’s characteristics and personal goals might provide worthwhile insight into her or his future behavior, and ultimately help with an understanding of one of the principal determinants of business success and failure.
this research has therefore focused on the impact of the characteristics and values of owner-managers on business performance.

The role of individual characteristics, values and expectations in determining the subsequent actions of those who start and run their own business has been explored in the academic literature for more than a hundred years, and links to business performance have been identified by a number of researchers (Kotey and Meredith 1997, Cooper 1998). Yet the terms ‘characteristics’, ‘values’, and ‘expectations’ have often been used interchangeably, with ‘characteristics’ being used when the discussion has centered on personal ‘values’, as a generic description for both ‘characteristics’ and ‘values’, and ‘values’ being used when the discussion has centered on both values and expectations. However, the characteristics and values are different each. The formation of an individual’s ‘characteristics’ precedes that of their ‘values’ (Rockeach 1973, Crook 1997) and the formation of their ‘values’ precedes that of their ‘expectation’ (McClelland 1965, Hansemark 1998). The definition of characteristics, values, expectations, strategies and review of academic literature dealing with the influences of each on the subsequent selection of management practices are dealt with in the following sections.
Characteristics of Entrepreneurs and Business Performance

The characteristic of individuals are both attributed and attained. Attributed characteristics are those fixed and are based on background attributes such as race, ethnicity, gender, and age. Attained characteristics are those that relate to individual, social, and intellectual growth, such as education (Crook 1997). Hampson, Chaston and Badger (2003) suggested that the behavioural style of an entrepreneur determines the culture of their organization and the way in which they identify customer needs and opportunities.

Human capital consists of three important dimensions (Joao & Mario 2008). Individual characteristics are considered as one of the three important dimensions. This individual characteristics are widely believed to improve entrepreneurial performance (Albetti & Stuart 1990, Blanchflower & Oswald 1998, Bruderl & Preisendorfer 1998, Cooper et al. 1994, Cramer & Van Praag 2001, cited by Joao & Mario 2008). “Over the decades, many studies have been conducted on the relationship between the entrepreneur’s human capital and the performance of SME firms. These studies generally demonstrate that entrepreneur’s age, education, work experience, and other factors, have a positive effect on the SMEs performance” (Rai, 2005 p.216). In an analysis of a three-year longitudinal study of around 3,000 new business in the United States, Cooper (1998) linked the education, gender, and race of entrepreneurs to business performance. Sandberg and Hofer (1987) put forward a model, NVP (New
Venture Performance) = f(E, IS, S), suggesting that new venture success is dependent on: the characteristics of the entrepreneur (E); the structure of industry involved (IS); and the strategy (S) of the venture involved. Herron (1990) found that 40% of NVP could be attributed to entrepreneurial skills, skill propensities, and the interactions with strategy and industry structure. “Several previous studies found that demographic characteristics, such as age, and gender, and individual background, such as education and former work experience, had an impact on entrepreneurial intention and endeavour” (Kolvereid 1996, Mazzarl et al. 2001, cited by Indarti & Langenberg 2004, p.2). In their study on Internet café entrepreneurs in Indonesia, Kristiansen, Furnholt, & Wahid (2003) found a significant correlation between the age of the entrepreneur and business success. Goll et al. (2001) found that demographic characteristics influence firm ideology, and ideology influences business performance. Morley et al. (1996) confirm that demographic characteristics were found to have both direct and indirect effects on sales growth. In the light of available literature discussed earlier relating to characteristics of entrepreneurs with particular reference to SMEs, the attributed characteristics – age, gender, ethnicity, and family influence – and attained characteristic- education have been discussed further in the following sections.
Age

England (1967) suggested that the objectives of a business might be related to more closely to the personal attributes of its managers than to the characteristics of the business. Several researchers (Mayer and Goldstein 1961, Shapero 1971, Howell 1972, Cooper 1973) have noted that an entrepreneurial decision is most likely to be made between the ages of 25 and 40. Reynolds et al. (2000) found that individuals aged 25-44 were the most entrepreneurially active. Sinha (1996) disclosed that successful entrepreneurs were relatively younger in age. In a study of organizational goals and the expected behavior of American managers, England (1967) found that entrepreneur who is young in age rated organizational growth more highly than entrepreneurs old in age, and indicated that younger entrepreneurs are more likely to be entrepreneurial than older entrepreneurs. It is therefore proposed that age could play a key role in forming the values of the entrepreneurs.

Gender

Most research in the areas of entrepreneurship and organizational performance have concentrated on male managers and business owners, as the proportion of businesses owned by males exceeds that of females in many countries (Davidsson 1995). This may be due to that the fact an initial desire by females to start a business is less common than it is for males (Kourilsky and Walstad 1998).
Recent technological development and economic expectancies, which have supported the entrepreneurial culture and led to the event that entrepreneurs have influential status, have brought a situation of rapid increase in the number of women entrepreneurs (Sexton & Bowton-Upton 1990; Cromie & Birley 1992; Ljunggren & Kolvereid 1996; cited by Kutanis & Bayaraktaroglu, 2004).

Research done on investigating differences in psychological characteristics either between female and male entrepreneurs or between female entrepreneurs and non entrepreneurs has revealed a few differences. Research has, however, revealed many social background and business differences between women and men. While conflicting evidence emerges with regard to differences in educational levels, family background and position, ethnicity etc, most of the studies report the youthfulness of women business owners compared with men, and the newness of their businesses. These findings have been consistent across many studies, irrespective of country of origin. Early studies examining the management of female owned firms focused on generic small business management issues, such as employment relations and broad descriptions of management processes. Recent studies have become more specialized and been concentrated around a number of distinctive themes. These include: Women’s management style and approach to leadership, the business-family nexus and copreneurship, and the effect of gender on the experience of self-employment and business performance. Some research has pointed out the advantages of women’s management style with regard to firm
performance (Carter, S, (2001). Cooper and Artz (1998) claim that women entrepreneurs were more satisfied with business ownership. Kandasaami and Tibbits (1993) confirm that female participation in business increases. Boohene, Sheridan, & Kotey (2004) claimed three findings with regard to relationship between gender and personal values, business strategies and business performance. These findings were 1. Gender was predicted to influence the personal values of owner-managers. 2. Existence of relationship between gender and business strategies: specifically that Ghanaian female owner-managers would be less proactive in the areas of strategic planning, financial strategy, human resources management strategy, marketing strategy and information and communications strategy than Ghanaian male owner-managers. 3. Existence of relationship between gender and business performance.

In line with a rise in female participation in business (Kandasaami and Tibbits 1993), and based on the literature available relating to female entrepreneurs, it is postulated that female owner-managers of SMEs may increasingly hold values and expectations that are entrepreneurial and in line with those held by male owner-managers.
Ethnicity

A number of researchers (Collins and Moore 1970, Gasse 1982) have indicated that there may be differences in the entrepreneurial values of entrepreneurs from different cultures. Watson (2001) found that a statistically significant relationship between business survival and entrepreneurs born overseas. It is therefore likely that those entrepreneurs born overseas, or whose parents were born overseas, will hold values and attain characteristics that differ from the values and characteristics held by owner-managers who were born within India.

Family Influence

In examining the entrepreneurial intentions of students, Crant (1996) found a positive (though weak but significant) relationship between students’ entrepreneurial intentions and whether or not they had at least one entrepreneurial parent. Several investigators have suggested that successful entrepreneurs are more likely to come from those families in which a parent or close relative owned a business (Cooper and Dunkelberg 1981). In India, Ganesh Gaur (2000) has observed that owner-managers whose fathers were self-employed were more likely to be survivors in business than those whose fathers were not self-employed. He also noted a moderate and statistically significant positive relationship between a family background in small business and sibling interest. Steelman Powell, (2002) found that it is the possible influence of sibling numbers
on the distribution of family resources that impacts most on individual education and other status outcomes. Cooper (1998) found that there is an empirical relationship between the business founding processes of entrepreneurs and the performance of their businesses. In the light of available literature relating to family influence, it is assumed that entrepreneurs whose parent(s) have owned and operated a business hold values that differ from the values held by owner-managers whose parent(s) have not owned and operated a business. However, research on the roles played by the parents and siblings of Indian entrepreneurs on the development of the entrepreneur’s attained characteristics, values and expectation remains scant.

Attained Characteristic

Education

Brockhaus and Nord (1990) found that the education level of entrepreneurs was significantly lower than the education level of managers in large industries. Collins and Moore (1970) claimed that entrepreneurs commonly had trouble relating to authority figures, seemingly as a result of their having had poor relationships with their fathers. Such relationships often led to the entrepreneur leaving school at an early age and to a succession of jobs. Brockhaus and Nord’s (1990) finding may indicate that it is a lower level of achievement at school, or
social disadvantage, which becomes a driver for later entrepreneurial endeavour. Gupta (1996) found a strong relationship between business survival and the level of technical and management education. On an examination of data from the District Industries Centre, Trichy, India, more than 40% were having degree qualification. A research by Charney & Libecap (2000) found that education produces self-sufficient enterprising individuals. Furthermore, they found that education increases the formation of new ventures, the self-employment, the development of new products, and the self-employed graduates owning a high-technology business. Also, the study revealed that entrepreneurship education of employee increases the sales growth rates of emerging firms. Similarly, Sinha (1996) who analysed the educational background of the entrepreneur revealed that 72% of the successful entrepreneurs had a minimum of technical qualification, whereas most (67%) of the unsuccessful entrepreneurs did not have any technical background. She summed up that entrepreneurs with business and technical educational background are in a better position to appreciate and analyse hard reality and deal with it intuitively, which seems to play a critical role in entrepreneurial effectiveness. In the light of above discussions based on the available literature, it is thought that education of the entrepreneurs could play a vital role in determining the values of them.
The Values and Expectations of Entrepreneurs

As mentioned earlier, an individual’s attributed and attained characteristics play a vital role in the formation of subsequent values and expectations. The following section defines values and expectations and reviews the role of values and expectations in determining an entrepreneur’s behavior.

Values

A value is a specific and enduring belief. It mainly arises from what one learns from what is explicitly taught, or implicitly from socialization (Rockeach 1973). In the words of Rockeach, (1973 p.25) “a standard that guides and determines actions, attitudes towards objects and situations, ideology, presentations of self to others, evaluations, judgments, justifications, comparisons of self with others, and attempts to influence others”. Values are at the core of each individual’s personality and cognitive systems and, as such, are the determinants of attitudes, expectations and behaviours. The role of the entrepreneur and his attitude towards strategic issues are therefore often critical for the implementation of strategy (Kraus 2007, cited by Kraus & Kauranen 2008). Thus, groups of individuals, such as entrepreneurs, that are seen to behave in a common way, are also likely to exhibit values that have some commonality. “Tambunan (1999) found that small business owner-managers having entrepreneurial values such as creativity, integrity, achievement, among others,
were more likely to have superior performance in managing organization than owner-managers without these values” (Mohd Shariff & Peou 2006).

**Expectations**

The Macquarie Dictionary (Delbridge, Bernard et al.1991) defines expectation, in part, as “… an expectant mental attitude … a thing looked forward to (and as) a prospect of future good or profit” (p.610). Hansemark (1998,p.32) has argued that the starting point in McClelland’s theory is that motive will be learnt and that motive could be seen as expectations”. In that context, two expectations have been identified in the literature relating to the personality of the entrepreneur : need for achievement (McClelland 1961); and high internal locus of control (Rotter 1966). In his seminal work, Weber (1905) suggested that one culture might achieve more than another because of the values of its people and that broadly based commercial success was one measure of a society’s success. Even if Weber’s view were only partly true, what is taught to those who late become business owner-managers, and the social circumstances to which they are exposed, might be of some import, as it is from those two sources that the values are derived which later will guide the manager’s choice of behaviours. Goedel (1972) found that the business’ results primarily depended on the personality and behavior of its manager.

Bamberger (1983) recommended a hierarchy of research design that emphasized the role that might be played by values on performance outcomes.
Kotey and Meredith (1997) concluded that the personal values of owner-managers, the strategies they adopt in operating their business and the performance outcomes of their businesses are empirically related. While no agreed-upon profile of an entrepreneur has yet been developed, several values and expectations have been identified in the literature.

They are: commitment, determination, and perseverance (Welsh and White 1981); a need to achieve (McClelland 1965); personal goal orientation (Gasse 1977); initiative and responsibility (Welsh and White 1981); persistent problem solving, seeking feedback, internal locus of control (Brockhaus 1980); tolerance for ambiguity (Williams 1987); measured risk taking (Timmons and Smollen 1985); creativity and innovativeness (Schumpeter 1934, Timmons 1978); and a desire for independence (Dunkelberg and Cooper 1982). In addition to the values mentioned above, proactiveness and propensity to plan are found by Dess and Robinson (1996) and Hall and Fulshaw (1990) respectively. Further the values, ambition, sense of accomplishment, equality, social recognition, affection,

competence, risk-taking, honesty creativity, independence, responsibility, reliability, incorruptibility, work ethic, innovation, aggressiveness, growth, self-reliance, optimism, vitality, loyalty, compassion and trust have been included in Kotey’s(1994) study. To partially replicate Kotey’s(1994) findings, this research employed the values scale used by her.

Both need for achievement and locus of control have been consistently linked to entrepreneurial behavior in the academic literature. This is given as follows.

**Need for achievement**

It is the preference of the entrepreneurs to take on a challenge and to accept the responsibility for success or failure, rather than leaving the responsibility to others, or to chance (McClelland 1961). Liles (1974) has shown entrepreneurs to have higher levels of need for achievement than others in the population and have confirmed a link between need for achievement and entrepreneurial behavior.

**Locus of control**

It is related to expectation of success or failure in a judgmental task (Hansemrk 1998). Those with an internal locus of control have the view that they are in control of their destiny, while those with an external locus view outside forces, such as chance, as the controllers of their fate (Rotter 1966). Various researchers have linked high internal locus scores with entrepreneurial behaviour (Borland 1974). Rotter’s (1966) I-E Scale for measuring internal versus external
control remains a common methodology for studies of the locus of control of entrepreneurs (Boone and De Brabander 1997). Given Kotey’s (1994) finding of an empirical link between the values of entrepreneurs and business performance, it is thought likely that those entrepreneurs that value risk – taking, and which exhibit high need for achievement and internal locus of control scores, will choose more positive management practices for their businesses.

**Management Practices or Strategies**

In this section, management practices or strategy is defined and the literature concerning those practices is reviewed.

“The concept of strategy has been borrowed from the military and adapted for use in business. In business, as in the military, strategy bridges the gap between policy and tactics. Together, strategy and tactics bridge the gap between ends and means. Strategy is a term that comes from the Greek strategia, meaning "generalship." In the military, strategy often refers to maneuvering troops into position before the enemy is actually engaged. In this sense, strategy refers to the deployment of troops. Once the enemy has been engaged, attention shifts to tactics (Fred Nickols 2000, p. 1)”.

Concluding Clausewitz’ review of wars, policy, strategy and tactics, Liddell Hart (1967) arrives at this short definition of strategy: "the art of
distributing and applying military means to fulfill the ends of policy." Deleting the word "military" from Liddell Hart’s definition makes it easy to export the concept of strategy to the business world. That brings us to one of the people considered by many to be the father of strategic planning in the business world: George Steiner. George Steiner, a professor of management and one of the founders of The California Management Review, is generally considered a key figure in the origins and development of strategic planning. His book, Strategic Planning is close to being a Bible on the subject.

Steiner (1979) pointed out the following while defining the term Strategy.

- Strategy is that which top management does that is of great importance to the organization.
- Strategy refers to basic directional decisions, that is, to purposes and missions.
- Strategy consists of the important actions necessary to realize these directions.
- Strategy answers the question: What should the organization be doing?
- Strategy answers the question: What are the ends we seek and how should we achieve them
Henry Mintzberg, in his 1994 book, The Rise and Fall of Strategic Planning, points out that people use "strategy" in several different ways, the most common being these four:

1. Strategy is a plan, a "how," a means of getting from here to there.
2. Strategy is a pattern in actions over time; for example, a company that regularly markets very expensive products is using a "high end" strategy.
3. Strategy is position; that is, it reflects decisions to offer particular products or services in particular markets.
4. Strategy is perspective, that is, vision and direction.

Kenneth Andrews (1980, p.18-19) presents this definition of strategy in his book, The Concept of Corporate Strategy. "Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company has to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities”.

Porter (1996) argues that competitive strategy is "about being different." He adds, "It means deliberately choosing a different set of activities to deliver a unique mix of value." In short, Porter argues that strategy is about competitive
position, about differentiating yourself in the eyes of the customer, about adding value through a mix of activities different from those used by competitors. In his earlier book, Porter defines competitive strategy as "a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there." Thus, Porter seems to embrace strategy as both plan and position. (It should be noted that Porter writes about competitive strategy, not about strategy in general.)

Benjamin Tregoe and John Zimmerman (1980), define strategy as "the framework which guides those choices that determine the nature and direction of an organization." Ultimately, this boils down to selecting products (or services) to offer and the markets in which to offer them. Tregoe and Zimmerman urge executives to base these decisions on a single "driving force" of the business. Although there are nine possible driving forces, only one can serve as the basis for strategy for a given business. The nine possibilities are listed below:
It seems Tregoe and Zimmerman takes the position that strategy is essentially a matter of perspective.

Treacy and Wiersema (1994) identify three "value-disciplines" which serve as the basis for strategy: operational excellence, customer intimacy, and product leadership. As with driving forces, only one of these value disciplines can serve as the basis for strategy. Treacy and Wiersema’s three value disciplines are briefly defined below:
1. Operational Excellence Strategy is predicated on the production and delivery of products and services. The objective is to lead the industry in terms of price and convenience.

2. Customer Intimacy Strategy is predicated on tailoring and shaping products and services to fit an increasingly fine definition of the customer. The objective is long-term customer loyalty and long-term customer profitability.

3. Product Leadership Strategy is predicated on producing a continuous stream of state-of-the-art products and services. The objective is the quick commercialization of new ideas.

Each of the three value disciplines suggests different requirements. Operational Excellence implies world-class marketing, manufacturing, and distribution processes. Customer Intimacy suggests staying close to the customer and entails long-term relationships. Product Leadership clearly hinges on market-focused R&D as well as organizational nimbleness and agility.
As explained by Fred Nickols (2000) what, then, is strategy? Is it a plan? Does it refer to how we will obtain the ends we seek? Is it a position taken? Just as military forces might take the high ground prior to engaging the enemy, might a business take the position of low-cost provider? Or does strategy refer to perspective, to the view one takes of matters, and to the purposes, directions, decisions and actions stemming from this view? Lastly, does strategy refer to a pattern in our decisions and actions? For example, does repeatedly copying a competitor’s new product offerings signal a "me too" strategy? Just what is strategy? Strategy is all these—it is perspective, position, plan, and pattern. Strategy is the bridge between policy or high-order goals on the one hand and tactics or concrete actions on the other. Strategy and tactics together straddle the gap between ends and means. In short, strategy is a term that refers to a complex web of thoughts, ideas, insights, experiences, goals, expertise, memories, perceptions, and expectations that provides general guidance for specific actions in pursuit of particular ends. Strategy is at once the course we chart, the journey we imagine and, at the same time, it is the course we steer, the trip we actually make. Even when we are embarking on a voyage of discovery, with no particular destination in mind, the voyage has a purpose, an outcome, an end to be kept in view. Strategy, then, has no existence apart from the ends sought. It is a general framework that provides guidance for actions to be taken and, at the same time, is shaped by the actions taken. This means that the necessary precondition for formulating strategy is a clear and widespread understanding of the ends to be
obtained. Without these ends in view, action is purely tactical and can quickly degenerate into nothing more than a flailing about.

Management practices are those strategic and operational process options chosen by a business owner or operator to ensure the superior performance and competitiveness of their business. At the highest level of a business they include defining the vision and mission for the business, determining which business to be in, setting strategic goals and operational objectives, the business structure and size and the way in which the internal capital of the business is managed. At a business unit, or product, level, they include the selection of strategies that competitively position the business in its environment (Porter 1985). “It has been argued that no business is too small to have a solid strategy” (Sandberg, Robinson, & Pearce 2001 p. 43).

The type of entrepreneur (mentioned earlier) as identified by Agarwal (2004), was also found to be differentially associated with competitive strategy orientations. Managerial entrepreneurs were found to have greater marketing orientation and focus than other types. New Craftsman entrepreneurs were associated with the highest focus on large customers, while “Push” entrepreneurs were associated with least differentiation in terms of product and market scope definition, and maximum emphasis on cost control. The sample of new ventures as claimed by Agarwal, was found to exhibit 4 strategy types: 1) Customer Partnership type, focusing on a few, large customers, 2) Niche strategy, with
highly focused product and market scope, 3) Cost leaders, with high emphasis on cost control and capacity utilization, and low focus in terms of product-market scope, and 4) Investment/Promotion strategy, which invest heavily in promotion and brand building, as well as product development.

Agarwal confirms that the type of entrepreneur was significantly related to the type of strategy. Managerial entrepreneurs tended to choose Niche strategies, New Craftsmen were associated with Customer Partnership strategies, and “Push” entrepreneurs with Cost Leadership. Moreover, the type of entrepreneur was also found to be significantly associated with employment creation and growth in employment size. Managerial and New Craftsman entrepreneurs were found to generate significantly more jobs than other types, and “Push” entrepreneurs were found to grow at a significantly lower rate in terms of employment growth. The type of strategy was not significantly associated with New Venture Performance.

According to Penrose (1995), the conduct of management also plays an important role in SMEs’ growth performance. For the smaller business, Storey (1994) concluded that six factors: legal structure, business size, age, industry sector and markets, location and ownership, significantly impact upon the performance of the business. In a new competitive landscape, entrepreneurial strategies are becoming more and more important for both new and established enterprises. Because of increasing environmental dynamics and intensifying global competition, regardless of their age or size, are forced to build more
entrepreneurial strategies in order to compete and survive (Hitt, Ireland, & Hoskisson 2001; Meyer, Neck & Meeks 2002). These entrepreneurial strategies are said to be related to better company performance. They aim to build on the identification of opportunities and develop them towards competitive advantage (Hitt, Ireland, Camp & Sexton 2002).

**Strategies in SMEs**

Strategy is recognised as a key aspect of management in large organizations (Gibcus and Kemp, 2003). As such large firms often have written or formal statements of their strategies. In contrast, strategies are less formal in small and medium firms and originate from the owner-manager who is the key decision-maker (McCarthy, 2003). Since small and medium firms do not normally have written statements of strategy, their strategies are inferred from evolving patterns of owner-manager behaviour and resource allocation (Schindehutte and Morris, 2001). Strategy in small firms may or may not be intentional and generally emerges through a series of incremental adjustments to the opportunities and threats confronted by the firm over-time. Strategies are based on the owner-manager's subjective interpretations of and reactions to the day-to-day situations confronted by the firm (D'Amboise, 1993; Williams and Tse, 1995). In small firms, then, business strategies are deduced from activities in the major functional areas of finance, human resource management (HRM), marketing, production and operations and information and communications technology. These activities act
as a guide to the overall business strategy realized by the firm (Galbraith and Schendel, 1983). The literature presents numerous types of strategies and their impact on performance. Popular among these are Miles and Snow's (1978) four strategy-types and Porter's (1980) five competitive strategies. In the small and medium business literature, strategy-types have been presented on a continuum ranging from entrepreneurial-conservative or proactive-reactive (Covin, 1991). The business strategies adopted by this study are consultative decision making, employee rewards, employee amenities, direct sales, quantity emphasis, service emphasis, productivity emphasis, set objectives, set 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.

Path to Ownership

Path to ownership refers to the ways by which people become entrepreneurs (Cooper and Dunkelberg, 1986). Business owners may come to ownership by any one of five paths (Cooper and Dunkelberg 1986). They might start their business, purchase it, inherit it from parent or other relative, be promoted to a position of ownership, or be brought in from another organization.
by existing owners. Since entrepreneurial intensity seems to be the greatest for starters, then for those who purchase, then for inheritors, and least for those promoted or brought in to become owner-managers (Cooper and Dunkelberg 1986), for the purposes of this research, only the first three paths to ownership have been included for analysis. Brockhaus (1982) implied that people started business because of people’s dissatisfaction with prior work and unemployment. He also found that due to unemployment, people commenced more new ventures than due to dissatisfaction with prior work. In the study with 1,900 owner-managers in the United States, Cooper and Dunkelberg (1981) found that entrepreneurs varied in their motivations, prior job experiences, education, supervisory skills, and reliance on partners depending on whether they started, purchased, or inherited their business, or were promoted into it. Nimalathasan (2004) found significantly higher failure rates among business that were inherited. In the light of discussions based on the available literature, findings, it is thought likely that SMEs managed by owners that started their business will have superior performance to those that purchased or inherited it.

Planning Practices

The business plan can be regarded as one of the most important strategic management instruments (Kraus, 2007). Nevertheless, the actual process of decision making that can be observed in reality often deviates substantially from the management’s ideal picture of rationality – planning in SMEs seems to be
rather unstructured, sporadic, and incremental, due to e.g. limited resources, limited time, or the entrepreneur’s attitude towards formal planning (Kraus, 2007). As a consequence, the majority of SMEs still do not have a written business plan (e.g., only 29.5% of the 468 young SMEs in the study by Kraus & Schwarz, 2007 had a business plan). A core management practice is the development and adherence to annual business plan that include revenue and expense budgets for the period. Several researchers (English 1986) have suggested that long range planning is associated with superior business performance. Despite the suggested benefits to business performance of long-range planning, comparatively few SMEs had a formal business plan in the study area at the time of research and almost half of those businesses that did have a plan failed to monitor their progress against it, despite the evidence that entrepreneurs who develop and adhere to formal business plans have businesses with superior performance.

**Human Resources Management Practices**

Collins and Clark (2003) found that HR practices led to higher firm performance. An influence of the entrepreneur on business performance may result from the tactical practices used to align those in the organization towards achieving the goals of the business (Kotter 2001). Kotey and Meredith (1997) confirm that those entrepreneurs with superior performance emphasized human resources management activities such as employee welfare, job satisfaction,
performance, and productivity. The human resource management practices used by the entrepreneur might therefore play a substantial role in the determination of business intentions, the achievement of organizational goals, and, thereby, the achievement of superior performance.

**Business intentions**

Business intentions reflect expectations and not outcomes and so are, in fact, management choices for future direction of business. Such business expectations might be negative or positive for the future of the business and may reflect a desire of the business owner to increase economic returns to stakeholders, or to vary an individual’s exposure to risk. The intention of an entrepreneur to take his or her business on one course or another is affected by the prevailing general, industry and competitive environment (Kotter 2001) and it is hypothesized as the individual entrepreneur’s characteristics, values and personal expectations.

**Business Performance**

Van Egeren (1994) defines performance as measure of how well the firm achieves its goals (organizational and financial goals). The goals can be both subjective (e.g. customer or owner satisfaction and personal control) and objective (e.g. turnover, profit, return on assets, and return on sales) – Eishenhardt & Schoonhoven (1990). Using a modified version of an instrument developed by
Gupta (1998) and Dess and Robinson (1984), Van Egeren (1994) reported strong and statistically significant relationships between the subjective comparative assessments and the objective measures of return on assets and sales. Watson (2001) argued that non-financial performance indicators such as owner satisfaction should be included in any assessment of SME. Many indicators of business performance are found in the literature. To list, profit, return on assets, business stability, industry leadership, return on equity, sales growth, return to stakeholders, high productivity, contribution to community development, creation of job opportunities, low cost of production, are some of them (Van Egeren 1994; Eishenhardt & Schoonhoven 1990; Watson 2001; Barney 1991; Davidsson 2004; Kotey & Meredith 1997). The business performance indicators adopted by this study for analysis are: profit, business growth, business stability, high productivity, low cost of production, contribution to community development, creation of job opportunities and industry leadership.

Summary

In the light of discussions based on the available literature, it is inferred that an individual’s characteristics, achieved and attained, will lead to the formation of values and expectations that, in turn, rather than directly, will influence the behaviour of that individual. Emphasis has been put on the role of attributed characteristics, such as age, gender, ethnicity and family background, and on
attained characteristics, such as education, in influencing the business activity and outcomes of entrepreneurs.

Based on the available literature it is also drawn that management strategies chosen and implemented by the entrepreneurs influence the firms’ performance. In this research, the researcher has made an attempt to explore the link of characteristics of the entrepreneurs, values, management strategies with firm’s performance. Therefore finding the proposed linkages among all these four becomes the main objective of this study. There is no evidence in the literature concerning the linkages of these four. So by investigating the linkage among these four, if there is any, this research may fill up the gap found in the literature.

**Concepts**

**Entrepreneur**

The entrepreneur is an SME owner-manager who is actively engaged in the day to day running of his or her business.

**Characteristics of the entrepreneurs**

The characteristic of individuals are both attributed and attained. Attributed characteristics are those fixed and background attributes such as race, ethnicity, gender, and age. Attained characteristics are those that relate to individual, social,
and intellectual growth, such as education. In this study, characteristics, age, gender, ethnicity, and family influence- attributed characteristics and education – attained characteristics were included for the analysis.

Values

The present study has included the following values of the entrepreneurs. They are 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.

Path to ownership

Path to ownership refers to the ways by which people become entrepreneurs. For the purpose of this research, three paths to ownership have been included for analysis. They are founding the business, purchasing the business, and inheriting the business.

Management Practices

It is a business strategy chosen and implemented by the entrepreneurs. This study has used the following management practices for analysis. They are:
Consultative decision making, employee rewards, employee amenities, direct sales, quantity emphasis, service emphasis, productivity emphasis, set objectives, set 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**

It is a measure of how well the firm achieves its goals (organizational and financial goals). The goals can be both subjective (e.g. customer or owner satisfaction and personal control) and objective (e.g. turnover, profit, return on assets, and return on sales). The present study has included the following indicators of business performance for the analysis. Change in income, high productivity, industry leadership, creating job opportunities, high profit rates, contribution to community development, business growth, and business stability.