

Entrepreneurship and the growth of the smes



**ASSIGN
BUSTER**

This chapter presents the major conclusions derived from the study as well as implications of the findings. It is divided into three main sections. The first section presents a summary of the research study and the conclusion regarding the study hypotheses. This is followed by the discussion of the implications of the study findings in relation to the theory and practice. The chapter concludes with the sections that discuss the limitation of the study and areas for future research

Summary and conclusion

The question why some firms grow while others do not is one of the most influential in the field of entrepreneurship. Research focused on addressing this question has investigated a wide variety of factors that might influence firm growth. These factors range from the characteristics of the entrepreneur to the factors related to the environment in which these businesses operate. The literature, which addresses the factors for firm growth in Tanzania, focuses much on macro or external factors. Though some of the issues addressed in these studies have changed, the performance of the SMEs sector has not yet been impressive. This suggests the need to further investigate the factors that influence SMEs growth from different angles. Due to the crucial role played by individuals, several studies worldwide have acknowledged the importance of entrepreneurs for the growth of SMEs. Accordingly, (Kuratko and Hodgetts 2001) have proposed that the effectiveness of programmes aimed at the development of SMEs depend on a thorough understanding of the characteristics of the owner-managers (also referred below as entrepreneurs). In fact, most of the SMEs depend on owner-manager for their survival and development. Without the owner-

manager, not much happens in the firm because the owner-manager is usually the one who makes important decisions concerning products, markets, motivation of employees, expansion plans and other strategic decisions concerning the firm (Frese 2000). Thus, this leads to the possibility that a big part of the difference in the performance among SMEs can be explained by individual differences among the owner-managers (Hall 1995). Based on these observations, one can delineate the extent to which the characteristics of the owner-manager affect the growth of their firms. In this respect, the main objective of this study has been to examine the influence of the characteristics of the owner-managers on the growth of SMEs. To meet this objective the study has specifically linked SMEs growth to demographic characteristics (owner-manager's age, education, experience and family background), personality traits (need for achievement, locus of control, risk taking, tolerance for ambiguity and self efficacy) and cognitive characteristics (entrepreneurial alertness, attitude towards entrepreneurship, cognitive styles and entrepreneurial motivation). The growth of SMEs was measured by three different indicators such as sales growth, asset growth, and employment growth. Furthermore, SMEs growth in terms of sales and employment were measured over two time spans, namely growth over a three-year period and growth over a five-year period.

In order to attain this general objective and guided by the research model as presented in Figure 3 of Chapter Four, this study carried out a cross sectional design from which the data were collected through the survey method. The data were collected between March 2008 and April 2009. Ultimately, 300 owner-managers (representing small and medium-sized enterprises) within

the furniture industry in four different regions in Tanzania participated in the fieldwork study. Linear regression and structural equation modelling process were used to examine the relationship between hypothesised relationships. In short, the findings suggest that certain characteristics of the owner-managers are indeed significant predictors on the growth of SMEs in furniture industry. Since more detailed analysis and discussions of the results have been dealt with in the previous chapter, the following sections focus on some major conclusions and implications of the results both at theoretical and policy levels.

Conclusion regarding research hypothesis

The present study hypothesised that personal characteristics of the owner-manager influence the growth of SMEs in Tanzania. Based on this general hypothesis, and by considering the theoretical and previous empirical findings, the following four sub hypotheses were formulated.

H1: Demographic characteristics of the owner-managers positively influence the growth of SMEs

H2: Personality traits of the owner-managers positively influence the growth of SMEs

H3: Cognitive characteristics of the owner-managers positively influence the growth of SMEs

H4: Personality traits have an indirect effect on SMEs growth, which is mediated by cognitive characteristics.

Overall, the results of this research indicate good support for the hypothesised relationships. The results also support the (frese) observations that the personal characteristics of the owner-managers and the performance outcomes of their firms are empirically related. In other words, the managers' differences in demographic characteristics, personality traits and cognitive processing exert a powerful influence over the firm management towards either success or otherwise. The following section discusses in brief the conclusion regarding each of these hypotheses.

Demographic characteristics

The first hypothesis of this study tested the significance of the influence of demographic characteristics in explaining the growth of SMEs. As indicated in Chapter Two, demographic characteristics were presented by four characteristics namely owner-manger's age, education, previous experience, and family background. Accordingly, it should be recalled that in this thesis owner-manager's education is measured by three factors: the level of education, carpentry education and workshop received. Similarly, three types of previous experience namely entrepreneurial experience, managerial experience, and industrial experience are used to measure owner-manager previous experience. Associative findings of the relationships between demographic characteristics and growth in sales, asset and employment were analysed and reported in Chapter 7 section 1. In short, the finding suggests that workshops, industrial experience, and family background seem to affect the growth of SMEs both in terms of sales, assets, and employment growth both in a three and five year period. Similarly, managerial experience and carpentry education seem to affect the growth of SMEs in sales and

assets only. This study, therefore, concludes that certain demographic characteristics of owner-managers directly influence the growth of SMEs in Tanzania.

Personality traits

The second objective of this study used the trait model of entrepreneurship to examine six traits associated with small firm growth. The test which was performed to verify hypothesis 2 produced the results which demonstrated that higher need for achievement, higher internal locus of control, more tendencies to take risks, greater innovativeness behaviour and higher level of self-efficacy are positively related to SME growth. The test also demonstrates that external locus of control and risk aversions have negative implications towards firm growth. These findings lead to the conclusion that growing firms in Tanzania are owned and managed by owner-managers with the higher need for achievement, higher internal locus of control, more tendencies to take risks, greater innovativeness behaviour and higher level of self-efficacy. On the other hand, failed firms are managed by owner-managers with higher external locus of control and higher risk averse. From these findings, the study concludes that a few specific personality traits can predict well the entrepreneurial outcome.

Cognitive characteristics

The third objective of this study used the cognitive model approach to examine four cognitive characteristics associated with the growth of SMEs. Consequently, four sub hypotheses were formulated. The test, which was performed, to verify this hypothesis produced the results which demonstrated that higher levels of alertness, positive attitude towards

<https://assignbuster.com/entrepreneurship-and-the-growth-of-the-smes/>

entrepreneurship, creating styles and entrepreneurial motivations are positively related to SME growth. The test also demonstrates that low level of alertness and knowing styles have a negative implication towards the growth of SMEs. These findings suggest that the reasons for owner-managers success in expanding their business in Tanzania can be traced to several cognitive characteristics. This conclusion is of particular significance as it suggests that the growth of SMEs is somewhat defined by the motivations and behaviour of the owner-managers.

Indirect effect

The fourth goal of this thesis was to test the indirect effect of the personality traits in explaining the growth of SMEs. It was hypothesised that the personality traits works through cognitive characteristics in explaining the growth of SMEs. The results confirm the hypothesised indirect relationship suggesting that personality traits affect SME growth indirectly through cognitive characteristics. This finding implies that cognitive characteristics are necessary mediator of the link between personality traits and SMEs growth. That is, without strong cognitive characteristics, personality traits may have a minimal or no effect on the growth of SMEs. This finding offer explanation as to why some of the previous studies have found a weak relationship between personality traits and firm performance. Most of the previous studies have found weak or no such relationship because they have only examined the direct relationship ignoring the indirect relationship. This finding suggests that personality traits and SMEs growth are connected indirectly rather than directly.

To conclude, the findings from this study substantiate earlier findings regarding

the effects of internal locus of control, generalized self-efficacy, and entrepreneurial

orientation on the performance of entrepreneur-led firms. Self-concept

traits matter both directly (in the case of internal locus of control) and indirectly

through entrepreneurial orientation (in the case of generalized self-efficacy) in

determining firm performance

Conclusion regarding growth measures used in this study

In this study, the growth of SMEs is measured in terms of sales, asset and employment growth. Based on the study finding we conclude that both sales and asset growth measures are somehow affected by the same factors.

Furthermore, employment growth was hardly related to the characteristics of the owner-managers studied in this study. The findings conclude that employment, on the one hand, and sales and asset growth on the other are not interchangeable criteria for measuring growth. Therefore, when investigating sales growth it is appropriate for researchers to refer to empirical findings on asset growth; the vice versa is also true. However, when investigating the employment growth it is inappropriate for researchers to refer to empirical findings on asset or sales growth. This finding also leads us to conclude that employment measure is not a good

<https://assignbuster.com/entrepreneurship-and-the-growth-of-the-smes/>

indicator of a firm's growth in the furniture industry in Tanzania. Further, SMEs growth in terms of sales and employment were measured over two time spans, namely growth over a three-year period and growth over a five-year period. Comparing the results of the two time spans we conclude that both scenarios yield similar results. Thus, it is appropriate to accumulate knowledge across studies that investigate subjective sales and employment growth using a three year time span with those that use a five year time span.

Implications

The study makes a number of contributions with respect to matters of both theoretical and practical concern. The contribution with regard to the theory will be presented first followed by the contribution with regard to the practical implication.

Theoretical implication

This thesis has several theoretical implications. First, characteristics of the owner-manager play a significant role in the growth of SMEs. Recently, entrepreneurship scholars noted that the characteristics of the entrepreneur has only been rudimentary studied and called for research in developing and testing theoretical models with a focus on psychological success factors (Frese et al. 2007; Baron 2007). More specific it is important to investigate the characteristics of the owner-manager that are more related to entrepreneurial performance than the general characteristics, which do not (Rauch and Frese 2007b). This thesis focused on the demographic characteristics, specific personality traits, and cognitive characteristics that are conceptually closely related to entrepreneurial behaviours and thus of

<https://assignbuster.com/entrepreneurship-and-the-growth-of-the-smes/>

particular interest for scholarly domain of entrepreneurship. By developing and testing models that include the demographic factors, specific personality traits and cognitive characteristic, this thesis contributes to a better theoretical understanding of the characteristics of the owner-managers that explain the growth of SMEs.

Secondly with regard to the characteristics of the owner-manager, this study has a number of theoretical implications. Starting with demographic characteristics our study contributes to the existing knowledge by showing that different types of education and previous experience significantly explained the variance in the growth of SMEs. Specifically with regards to education, the findings show that not all types of education play an equal role in explaining the growth of SMEs. In fact, education received in the form of workshops showed a stronger relationship with SMEs growth than other types of education studied in this study. Equally important, industrial experience showed a stronger relationship with SMEs growth than managerial experience. Therefore, future research should include a variety of more types of education and experience in order to have a clear understanding about the influence of these factors on SMEs growth. Our results also contribute to the existing psychological literature by indicating that a few specific personality traits that matched with the task of entrepreneurship can predict well the entrepreneurial outcome, including growth. Indeed, the specific traits that predict well SMEs growth include the need for achievement, locus of control, innovativeness behaviour and self efficacy. Similarly, our results also contribute to the literature regarding cognitive approach by showing that cognitive characteristics of the owner-

manager play a significant role in explaining the growth of SMEs. Since traits affects SMEs growth through other variables such as cognitive characteristics therefore it is could be worthwhile to study other additional traits and other cognitive characteristics.

Third, due to the growing importance of the SMEs in the economies of developing countries in recent years, the present study is a valuable addition to the scant studies about SMEs growth in Tanzania. Past studies in developed countries have empirically supported the importance of the characteristics of the entrepreneur on the growth of SMEs. This research adds to this body of knowledge by examining these relationships in Tanzanian context. By studying these relationships in another context, we have been able to gain an understanding of the SMEs growth phenomenon in a context where empirical research on the topic is scarce. Indeed, the main contribution emerging from our empirical results indicates that certain characteristics of the owner-managers would matter when explaining the growth of SMEs. Furthermore, it should be recalled that the current study was also testing the applicability of the existing entrepreneurship theories relating to personality traits, demographic and cognitive characteristics as well as SMEs growth in the Tanzania's cultural setting. In short, our findings have supported the applicability of these theories to Tanzanian SMEs and the growth of SMEs. This study also provides some evidence that the measurement scales applied in entrepreneurial research is operational even in the Tanzania entrepreneurial and cultural environment and hence it contributes to the reliability of these scales in the entrepreneurial research.

Fourth, this thesis also makes the contribution to the SMEs growth literature with regard to the growth indicators, measurement periods and the choice of the formula for computing growth. The first contribution to the SMEs growth literature is that there are indeed some substantive differences between sales and asset growth on the one hand and employment growth on the other. Therefore, it is worth studying different growth indicators separately when studying SMEs growth. This approach is useful because from the finding of this study not all growth indicators play an equal role in measuring the growth of SMEs. Specifically, it does show that sales and asset growth measures are the good indicators for SMEs growth in Tanzania while employment growth is shown as a bad indicator.

Additionally, with regard to the different measurement period, our findings contribute to the existing knowledge by suggesting that the characteristics of the owner-manager that are responsible for short term growth largely determine the long term growth. Thus researchers are free to accumulated knowledge across different time spans such as a three-year time span and a five-year time span. However, before reaching a conclusion it should be realised that sales and assets growth was measured using subjective measures. For this reason, we are not quite sure if the findings obtained could be the same when objective measures are used. Thus, we only suggest that researchers can accumulate knowledge across different time spans when subjective growth measures are being used. Furthermore, with regard to the choice of the formula for computing growth, our results contribute to the growth of literature by suggesting that the use of absolute or relative growth doesn't matter when employment growth is measured in a single

period. However, when growth is measured across two time spans, our finding suggests that these two methods influence the final results differently. In particular, our finding suggests that some of the factors that positively affect absolute growth were unrelated or even negatively related to the growth in relative terms. Therefore, this thesis contributes to the existing literature by suggesting that it is inappropriate to compare the results across time spans when the different formulas have been used to compute employment growth.

Practical implication

The findings of this thesis present a number of practical implications. First, our findings suggest that practitioners may consider the owner-manager characteristics that are more related to entrepreneurial performance than characteristics that are general as criteria for decision making. For example, in most developing countries, including Tanzania it is very easy to start a small business and as a result it is difficult to identify potential entrepreneurs. For example, in 2007 the Tanzanian government aimed at supporting SME growth by providing soft loans to small business. One of the most important criteria for being able to receive a soft loan was to submit a photo indicating possession of an active business. Recently, the finding indicates that most of these businesses failed to repay back the interest and this led to a total loss to the government. Our results would suggest using at least additional entrepreneurial features as criteria for making investment decisions. Subsequently, banks or venture capitalist should consider the owner-manager characteristics that are more proximal to entrepreneurial performance than characteristics that are general as criteria for investment

decision. Our result would suggest that valid selection criteria must include owner-manager characteristics such as education, previous experiences, achievement motivation, locus of control, self efficacy, entrepreneurial alertness, attitude towards venture creation and growth and cognitive styles. Furthermore, people interested in starting a business may evaluate their personal characteristics and use this information to support their career choice. Indeed, by knowing their strengths or weakness it would be easier for them to match themselves with the task of running a business or to decide on partners who compensate for their weaknesses.

Secondly, these findings may also help the government, educators, and trainers identifying and teaching the right things and which are required for the firm to be successful. For example, in this study we have found that workshops attended by owner-managers have a very significant influence on the growth of their firms. Thus, the government and other support institutions should consider establishing training programs for the current and prospective owner-managers in Tanzania. For instance, the government through Vocational Training Centres (VETA) and Small Industry Development Authority (SIDO) should encourage the development of tailor made training to the current and prospective owner-managers. The training should be offered at reasonable rates in order to enable more participants to attend the training programs. Based on our findings, education and training must focus not only on the technical issues but also on the entrepreneurial characteristics. In doing so, well-trained entrepreneurs can create much needed employment and generate income, which would help to boost Tanzanian economy.

Furthermore, the findings in this study also underline the importance of the role of previous experience for the growth of SMEs. More importantly, the growth relationship was stronger for managerial experience and industrial experience. Formal education should thus include more practical hands on experience. In fact, prospective owner-managers are likely to benefit more from practical experience. Based on this observation, we suggest that the government and other non government agencies should also provide owner-managers with previous experiences through mentoring or incubator support programs where prospective entrepreneurs could work under successful owner-managers prior to start their own business. The experience gained in this form would help owner-managers to gain business knowledge, which is considered important for business growth.

Further, the specific personality traits and certain cognitive characteristics were considered crucial to the growth of SME. However, an interesting question is whether or not these features can be taught. According to (Brush, Greene, and Hart 2001), workshops or training enhance the knowledge, skills, and management abilities of entrepreneurs, and that to a certain degree workshops or training might also change entrepreneurs' mindset and attitudes toward entrepreneurship. Accordingly, it is suggested that entrepreneurial characteristics can be acquired or enhanced in different ways, one of which is training and education (Wiklund and Shepherd 2003; Poon, Ainuddin, and Junit 2006). Therefore, appropriate training would enable owner-managers to change their behaviour and the manner in which they perceive their business activities. Similarly from the perspectives of pattern recognition, (Baron 2007) argues that appropriate training enables

entrepreneurs to become an expert at recognizing opportunities. So from this suggestion, it is obvious that, to some extent, these factors can be taught. Therefore, training programs designed to train the entrepreneurs in Tanzania should incorporate as many features as possible related to entrepreneurial characteristics. As we have seen, such features have a substantial role to play on the growth of SME. Specifically, the entrepreneurial characteristics, which require more attention, are achievement motivation, locus of control, self efficacy, alertness, attitudes towards entrepreneurship, creative styles and entrepreneurial motivations. The right type of training to the entrepreneur can increase their business knowledge and abilities and thus increase the success of the firms.

Furthermore, as mentioned in Chapter One, the Tanzanian government has adopted various policies and initiated programmes that are designed to facilitate the growth of SMEs. The findings of our study suggest that individuals need different forms of support depending on the level of development of their business as well as their motivation. For example, we have seen that the presence of role models has a significant effect on business growth. Therefore, the government might consider using the media to feature stories about successful entrepreneurs. These success stories would help to further encourage more entrepreneurs to work hard in aspiring to become like their role models. Subsequently, in order for those who start businesses out of necessity to evolve into committed entrepreneurs, appropriate training and support is needed to allow them to stable livelihoods and therefore sustain their businesses. An unstable life will discourage long-term commitment, which fosters business growth. Moreover,

as mentioned in the previous chapter, Tanzania is among the post socialist countries. During the socialism era, there was a negative attitude towards entrepreneurship and it was the government that had the mandate of creating employment to its citizen. We know that societal norms are slow to change and thus entrepreneurship as a career may still be viewed negatively in Tanzania. Therefore, we recommend that the government should try to create enterprising culture among its citizen. This can be achieved through raising awareness on the importance of entrepreneurship to the country's economy. For example, entrepreneurship education should be provided to the youth throughout the education system from primary to university level. This approach is very important because encouraging people to be more enterprising needs to start at an early age.

Owner-managers themselves should recognise that multiple personal attributes affect the growth of their SMEs. Therefore, they should add, through partnering or learning, those personal attributes they lack. In fact, it has been advocated that some of the entrepreneurial features can be improved by training. Thus Owner-managers should engage in various training related to business activities.

Limitation of this study and recommendation for future study

It should be noted that while this study makes a number of contributions, there are some limitations that point to important avenues for future research. Firstly, the data for this study was collected from one industry only in Tanzania. Accordingly, we don't know the applicability of these findings in other sectors. Therefore, future research should include other sectors in

order to ascertain if the present finding is specific to the furniture sector only or to other sectors as well.

Secondly, the sample was selected from urban areas of only four regions out of 26 regions in Tanzania. Even though the descriptive statistics in Chapter Seven indicate that the sample is more likely to represent the SMEs sector in Tanzania, there is some potential for producing biased results since the firm chosen may not be an accurate representative of all the firms in Tanzania. Future research that examines the relationship between characteristics of the owner-manager and the growth of SMEs should also consider other regions.

Thirdly, the non probability sampling methods used in this study essentially means that there is a limitation on the extent to which the research findings can be generalised to the rest of the population of owner-managers in Tanzania. In order to overcome this limitation, regional centres known for their furniture industry were indentified with the help of Small Industry Development Organisation (SIDO). This resulted into the selection of Dar es Salaam, Arusha, Morogoro and Iringa regions. Furthermore, in each of these regions, the centre known for furniture industry were indentified and the current researcher visited all the identified streets. By choosing these four regions, a spread across the country was ensured.

Fourthly, the data collected for this paper were obtained directly from the owner-managers, and this may be subject to bias or inaccuracy due to reliance on memory and personal reporting. In order to overcome these limitations, first we used multiple items to measure a particular construct.

Factor analysis suggests that most of these items show consistent results. Furthermore, different approaches were used to measure firm growth. By adding different approaches to measure SMEs growth, we are confident that we have captured important aspects of SMEs growth. For future research it would be important to interview both owner-managers for those firms that have more than a single owner-manager and compare the results.

Fifth, this thesis used a cross sectional approach in studying the relationship between characteristics of the owner-managers and the growth of SMEs. It is still not clear how these characteristics can be affected by industry cycle and macro economic environment. For example, it is suggested that there is some part of the variances of the personality traits that can change because of the success (Rauch and Frese 2007b; Rauch and Frese 2007a). In other words, starting a business successfully may lead to the change in personality traits. Furthermore, we have seen that entrepreneurial motives do change over time. Thus a longitudinal study taking these factors into consideration can enhance our understating in these areas.

Sixth, our measure of SMEs growth regarding sales and asset was based on owner-managers subjective estimates about their growth rates. The alternative would be to obtain more objective data as we have done with employment growth. However, as mentioned in Chapter Six, the researcher encountered problems in obtaining financial data, especially when dealing with private firms. This is because many owner-managers of SMEs do not keep proper accounting records and when they do, they are often not prepared to disclose them to third parties. Due to this observation, we find it logical to rely on the estimates provided by owner-managers to measure

sales and assets growth. Indeed, it is suggested that the use of subjective measures of performance does not lead to erroneous conclusions (Wall et al. 2004). Nevertheless, measuring firm performance in terms of growth has its limitations. Future research should consider other performance measures such as labour productivity. Future research should also try to use objective measures for sales and assets, which would provide more realistic figures for these measures.

Subsequently, by studying entrepreneurship at the individual level, the main focus of this thesis is on the characteristics of the successful owner-manager. But we acknowledge that these factors alone cannot fully explain the growth of SMEs. Additional factors such as firm characteristics and environmental factors also influence the growth of SMEs (Gartner and Bhat 2000; Baum and Wally 2003; Baron and Tang 2009). However, as most of the SMEs depend on owner-manager for their survival and growth, thus characteristics of the owner-manager are crucial to the growth of these SMEs. Future research should incorporate other internal and external variables in the model in order to have a better understanding of the factors which influence the growth of SMEs.

Furthermore, this study used three growth indicators to measure SMEs growth. The result indicates that sales and asset growth measures are a good indicator for SME growth. Employment growth was hardly related to the independent variables studied in this study. This finding suggests that employment growth is not a good indicator i