

# Factors leading to success of enterprises commerce essay

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Small Medium Enterprise, (SMEs) make a significant contribution to the Malaysian national economy, accounting for more than a quarter of all manufacturing output (Saleh & Nbudisi, 2006a). Despite this importance, SMEs also face various challenges, with many struggling to achieve desired levels of performance. In fact, across the world in the current global economy, not many small businesses can be developed to sustain long in the market. Many of these small businesses regularly fail during their initial start-up, and some even several years after entering the market (Ladzani & van Vuuren, 2002). Various government initiatives have been introduced over the years in recognition of the importance of SMEs to the economy, all aimed at developing SMEs and improving SME performance. Although government initiated programs may facilitate SME performance to some extent, there seem to remain some barriers for many (Saleh & Ndubisi, 2006b). This would suggest that a better understanding of how to improve performance may be necessary. In order to do this, an understanding of the underlying factors affecting development is therefore required. This literature review therefore focuses on identifying the possible factors which may affect SME development and performance, including those factors anticipated to have a moderating effect.

### **Small Medium Entrepreneurs**

The Small and Medium Enterprises are becoming one of the important components of much economy across the world. The success and development of firms that are initiated and run by entrepreneurs of small means are slowly recognized as potential companies that will slowly make waves in the economic world. The emergence of new Small Medium

Enterprises has contributed to the nation's economy in a major way by introducing new job opportunities, new products and new industries and to a certain extent, new technologies. The significant contribution of SMEs cannot be denied towards the development of Malaysian economy. Thus, emphasis should be given to efforts that would develop the success of SMEs.

## **2. 1Indices for determining a successful SME**

One of the first things to consider when discussing successful SMEs is the characteristics which are actually considered to comprise a successful SME. One of the critical components of a successful SME which most would believe may of course be the survival of the company, or the continued transaction of the business. This, in itself is likely to be determined by a number of other factors, and may actually on its own, not be a particularly useful indicator of business. This is argued by Headd (2003) based on the observation that a significant number of businesses closing each year were actually successful at the point of closure. Instead, the growth of the firm may be a more accurate dimension of success, and is also likely to have a positive influence over firm survival (Mead & Liedholm, 1998). Ahmad and Seet (2009) suggest that the perception of precisely what constitutes a successful business may also differ according to nationality. For example when these researchers investigated a set of different constraints, they found that several elements of financial, lifestyle and social factors were more important in determining business success in Australia than they were in Malaysia.

## **2. Clustering of Successful SMEs**

Pasanen et al. (2000) suggest based on their investigation of peripheral SMEs in Eastern Finland that successful SMEs may actually be divided into three distinct clusters. These were: 1. Stable SMEs operating successfully in local markets with no aspirations for growth 2. Innovators operating in growing markets with plans for continuous growth 3. Efficiency-oriented SMEs with leapwise growth This is important as it indicates that the factors impacting on success of SMEs may not be consistent across different clusters. Instead it may be that there are a different group of factors determining success within different clusters of successful SMEs.

## **Entrepreneurs**

In more recent years, the rise of entrepreneurs all over the world has contributed to the popularity of this field that led to more sophisticated definition of entrepreneurs. Scarborough and Zimmerman (1988) define entrepreneurs as someone who is able to define opportunities and develops a new business in an uncertain situation to gain profit. Thus a simple idea generated from an opportunity can be turned to a suitable business. Kuratko and Hodgers (2004) on the other hand described an entrepreneur as someone who dare enough to take risk in a business and who is creative in searching for new resources to replace old resources for the sake of making profit. Entrepreneurs can also be defined by describing the personal characteristics of the people who carry out those entrepreneurship activities. A desire for responsibility, confidence, a high level of energy, a future orientation, flexibility and tolerance for ambiguity are said to be the special characteristics possessed by entrepreneurs. (McClelland, 1986). Although

business ownership is not a prerequisite of entrepreneurship (Chell, 1991), an entrepreneur should be a founder, or at least an owner of a business venture. ( Dollinger, 1999, Littunen, 2000). Hisrich and Peters (1998) also pointed out that entrepreneurs are different from employee-managers because as business owners they assume certain attitudes towards risk, status, decision making, time orientation, et cetera.

### **3. 1. The Importance of Owners as the Entrepreneurs to Success**

An entrepreneur may be defined as " the owner or manager of a business enterprise, who, by risk and initiative, attempts to make profits" (Henry et al., 2005: 99). It would actually be expected that any person who owns and operates a business would then need to be an entrepreneur in order to succeed. This is based on the definition of business success outlined in the previous section, which indicates that business growth is required to maintain the business, and therefore create a ' success'. Further analysis may however show exactly how entrepreneurs may be very crucial to business success in the modern business climate. As the process of globalization pushes forward, there is a level of change which continuously be present within any market, and to remain successful, businesses need to be able to adapt to this. Gibb and Cotton (1998) suggest that entrepreneurs hold the appropriate skills to be able to adapt to these changes, thereby creating an immediate advantage over businesses not led by entrepreneurs. The skills which are held by entrepreneurs would also be expected to be entirely transferrable across industries, making the business adaptable in

terms of business function as well as markets. This then would be expected to further enhance the chances of business success.

### **3. 2. Characteristics Associated with the Entrepreneurs Success**

It has been shown in the literature that the characteristics of entrepreneurs can be very important in determining the success of the individual entrepreneur themselves. For example McClelland (1987) investigated the characteristics of a group of entrepreneurs deemed to have achieved an average level of success. These were then compared to characteristics of entrepreneurs deemed to have achieved high levels of success. They found that the characteristics which were associated with the higher levels of success were proactive qualities such as assertiveness and initiative, achievement orientation and commitment. They found that some qualities seemed to be less important, including self-confidence, persistence, expertise and persuasion skills. Other studies have examined a select number of different characteristics to find those most commonly associated with business success. For example Benzing et al. (2009) found that in Turkey, the two characteristics most associated with success of entrepreneurs were honesty and friendliness. Another study in Mexico measured the frequency of different characteristics in entrepreneurs considered to be successful found that the two most commonly reported characteristics were innovation or creativity and entrepreneurship. This study did however involve only small numbers of business owners. Other characteristics were also less frequently reported, but still could be significant, which includes persistence, positive attitude, problem solving and

enthusiasm (Butler). A Malaysian study by Rose et al. (2006a) found that personal initiative was the quality which was most associated with growth of a business venture, which would according to our definition be equated with success. A further study conducted by the same team identified business ventures which were considered to be successful and then used self-reported questionnaires to gain managers' or owners' opinions on the factors which made them so. This study also identified entrepreneurial qualities to be important, with a particular emphasis on personal initiative. The explanation which was given for the perceived importance of this quality was that this enabled business owners to overcome challenges which may be a limitation in the absence of this level of positive attitude. A literature review and theoretical discussion produced by Casson (2005) also suggests that optimism may be an important quality in successful entrepreneurs. Although no empirical evidence is presented, Casson argues that if the entrepreneur is optimistic they create an optimistic atmosphere within the organization, thereby encouraging employees to engage to high levels, driving firm growth. Although the number of studies which have identified different entrepreneur characteristics as important to SME success is quite large, not all studies agree. For example Sehora et al. (2009) examined the interrelationship of several entrepreneurial characteristics including risk taking and networking with other factors such as government support. Their study included a number of e-service businesses in Thailand, and found that while achievement orientation may be related to success in combination with other factors, risk taking and networking were found to be unrelated to the level of success of the venture.

### **3. 3 Multiple Entrepreneurship**

For SMEs, being run by an entrepreneur with certain skills or personal characteristics may not be the only important factor in determining the success of the business. Work by Pasanen (2003) suggests that SMEs owned by multiple business entrepreneurs may also be more successful than those owned by single business entrepreneurs. In particular, the businesses owned by multiple business entrepreneurs were those which showed high levels of growth, indicating this as a potentially important factor in ensuring not only current success but also future success.

#### **3. 3. 1 Entrepreneurship Education and Training**

Since entrepreneurship has been recognized as a particularly important factor in determining the probability of success in SMEs, it would seem sensible that attempts to develop this would lead to better chance of success. This has given rise to the concept of entrepreneurship education and training, based on the premise that it is possible that some characteristics of successful entrepreneurs may be developed as opposed to simply being inherent (Ladzani & van Vuuren, 2002).

#### **3. 3. 2 Can Entrepreneurship be Taught?**

There is an ongoing debate in the literature as to whether entrepreneurship can actually be taught or whether it is instead an inherent characteristic which individuals are simply born with or without (Fiet, 2000). For example a paper by McCabe (1998) suggested that after extensive entrepreneurial training, business owners were still unlikely to radically alter the approach which they took to solving business problems. This was further supported by



a study by Rose et al. (2006) which indicated that there was no significant association between human capital and business growth in SMEs in Asia. The discussion in Henry et al.'s paper (2005) would appear to suggest that entrepreneurship cannot be taught as per se, but instead that the training process is a means of developing skills which are already held. This would still appear to indicate that entrepreneurial training would still be very desirable, as it would suggest that it would still lead to better equipped entrepreneurs. One of the main issues with the literature base on entrepreneurship education at the present time is that the focus is predominantly on the effects which such education may have on graduate opportunities and development as opposed to on business itself. For example Pittaway and Cope (2007) conducted a systematic review of the literature and found it to have a significant impact on student intentionality. If this were carried through then it would be very likely that these positive intentions would have a significant positive effect on the SMEs which these graduates went on to own or manage. This cannot however be assumed since intentionality may not necessarily lead to measurable effects, for any number of reasons, for example the graduates may not ever go on to manage or own an SME. Instead, evidence needs to be taken from entrepreneurial education's direct effects on SMEs to gain a better understanding of their true value in business applications.

### **3.3.4 Evidence of the Success of Entrepreneurial Education**

The evidence in the literature as to whether entrepreneurial education may aid in achieving success is not very straightforward. As discussed in the previous sub-section, there are some researchers who doubt that

entrepreneurial skills may actually be taught at all. Then, there is also evidence that teaching entrepreneurial skills may not actually produce a positive impact on business success at all. For example McCabe's (1998) research appeared to indicate that entrepreneurs undergoing training and becoming more task-oriented may actually be more prone to failure. Such failures may be attributed to the formal and rigid training which ignores the effect of the ever present changing environment or the different business structures across different industries. McGrath and King (1996, cited in Rogerson, 2000) presented evidence from South Africa which indicates that those entrepreneurs with higher levels of human capital are associated with more successful SMEs than those with only low level. This means that successful SMEs are generally associated with those entrepreneurs with higher levels of qualifications or vocational training. This was further supported by a study conducted by Sawaya (1995) which also found that in a selection of manufacturing businesses in South Africa the rate of success was also correlated with the level of education achieved by the business owner. There are various potential explanations for this. For example those business owners with better levels of human capital may be better equipped to cope with changing business environments, therefore finding it easier to grow and expand into new areas and fending off potentially threatening changes to the business environment. This evidence is also further supported by findings from other countries. Research from Slovenia across 168 SMEs showed that levels of entrepreneurial knowledge were positively associated with better performance of the SME. The authors suggested that

although evidence was collected solely from Slovenia, findings would be transferrable across other countries (Omerzel & Antoncic, 2008).

### **3.4 Effective Entrepreneurship Training**

The literature which provides evidence of the effectiveness of entrepreneurship education indicates that to be successful a number of different factors need to be included in training. Van Vuuren and Nieman (1999, cited in Ladzani & van Vuuren, 2002) suggest that the performance of an entrepreneur is determined by a combination of motivation, entrepreneurial skills and business skills. This then would indicate that each of these would need to be covered in entrepreneurial education to produce the greatest probability of success. An early paper by Jamieson (1984) suggests that entrepreneurial education may be distinguished into three different categories: education about enterprise, education for enterprise and education in enterprise. These different types of education all cover different aspects and are aimed at individuals with differing levels of entrepreneurial expertise. In particular, it would be expected that it would be the third type of education which would have the greatest impact on SME success. Education in enterprise is aimed primarily at established entrepreneurs, with the primary purpose of encouraging sustained growth and development of the business. This is in contrast to the other types of entrepreneurial education which instead are aimed at those with little experience, and may be less effective in relation to established businesses. It has been highlighted in the literature that current entrepreneurship education and training programmes may not be adequate and therefore contributing to the challenges faced by SMEs. One of the main problems

identified may lay in the apparent lack of consistency across training programs currently available (Henry et al., 2005). For example Garavan and O’Cinneide (1994) state that problems arise with this training when the focus on knowledge is too great at the expense of actual competence. Garavan and O’Cinneide (1994) suggest that the most effective entrepreneurship training is likely to be of one which focuses on individual or small group learning methods, including project teams, workshops and peer exchange. They suggest that training focusing instead on predominantly information transfer learning methods is likely to be much less successful. This is however not backed by evidence in their paper, mostly due to a lack of evidence available at the time. A paper by Albornoz (2008) focuses on a content analysis of the current literature on entrepreneurial training, using this to design and present a model of the competencies which need to be included on any training course. The four different components which were identified from this analysis were networks, opportunity recognition, business creation and business development. This content analysis also went further to suggest that the four competencies also need to be taught in that order to achieve the greatest effect. These different perspectives and theories on the components which should be included in any entrepreneurial training program may be crucial in any further research into the impact this type of training has on SME success. In addition to there so far being relatively few studies which have examined the impact of entrepreneurial training on SME performance, there is even less information available on how the content of this training may also be involved. For example it may be necessary to not only investigate whether training itself has any impact, but

compare different types of entrepreneurial training to determine whether this is a mediating factor. At the very least, any study which includes an analysis of the impact of entrepreneurial training should include a full description of the specific training delivered so that this can be considered when interpreting the findings.

#### **4. 0Marketing in SMEs**

Marketing has been discussed as also having a crucial role in determining the success of SMEs. A number of other papers have shown that marketing behaviours of SMEs are likely to impact on firm performance through formation of new customer channels and maintenance of competitive differentiation (O'Dwyer, 2009). For example O'Dwyer et al. (2009) discuss the importance of innovative marketing in SMEs to ensuring the success of business activities. The paper does not however present any empirical evidence to show its specific role in overall SME success. Another paper by Keh et al. (2007) includes empirical evidence using a causal model, and further supports the important role which marketing has to play in determining SME success.

#### **5. 0 The Link Between Marketing and Entrepreneurs**

Thus far we appear to have discussed three distinct sets of factors which may impact on the success of SMEs, but they may actually all be connected. The potential connection between entrepreneurial characteristics and entrepreneurial training may be quite obvious, as the training is aimed at enhancing desirable entrepreneurial characteristics. Work by Keh et al. (2007) suggests however that marketing may also be related to these two

factors. This may be explained by the manner in which entrepreneurial characteristics and training may both influence the marketing decisions which are made by the organization, thereby providing a combined impact on the business. It has been shown that successful SMEs may rely on the decisions made by entrepreneurs, particularly those based on innovative marketing strategies (O'Dwyer et al., 2009), therefore providing further support of the link between entrepreneurial skills and marketing. In fact, Keh et al. (2007) went further and proposed that another important marketing variable which is marketing mix decisions, actually mediates the relationship between entrepreneurial orientation (as determined by training and characteristics) and the performance of the organization. This would appear to be a logical conclusion based on the evidence available which shows the importance of innovative marketing strategies to the business. Even if the SME is run by an entrepreneur with an optimal set of desirable skills, if the incorrect decisions are made with regard to marketing, this may have a detrimental impact on the effects noted. This is however not an issue which has been explored in any sufficient detail in regards to empirical evidence, despite the fact that the theory that supports this concept would be quite logical. It is therefore difficult to conclude at the present time whether this is in fact the case without further evidence.

## **6.0 Summary and Conclusions**

This paper has reviewed the literature available as to the factors that lead to development of successful SMEs. It may be concluded from the literature available that there are a number of key factors which may be crucial in determining the success of SMEs. In particular, a certain set of skills may

need to be possessed by the entrepreneur in charge of the business if the venture is to be able to achieve optimum growth and overcome the many challenges facing SMEs in the current global marketplace. The debate continues as to whether these may be taught or not, with most of the evidence currently taken from studies with graduates suggesting that if the appropriate education programs are used, there can be some hope of success. There are also several other factors which have been skimmed on by some studies examining success factors for SMEs. For example one study by Fink et al. (2008) identified self-commitment as an important determinant of the success of SMEs in central Europe. While this study may indicate important results, there is no other literature to support this at present, and it is difficult to determine at present precisely where this may fit in with the other factors discussed.

## **7.0 Research Rationale**

Many different authors in the literature have identified that entrepreneurship as a concept is in its infancy (Low, 2001). As a result this means that there is also so far only a very limited amount of research which has been so far been conducted on the impact of different characteristics of entrepreneurs on the performance of SMEs. . In fact studies of the precise impact of entrepreneurship education on SME success are even less freely available at the present time since this is an even newer concept in the literature. All of the literature studied points out the importance of research in this area There remains a high level of arguments in the literature regarding which entrepreneurial skills are most associated with SME success, with most studies looking at only a limited number, and many relying on self-report

rather than accurate skill measurement. Similarly, there remains a distinct lack of empirical evidence to indicate whether or not these skills may be taught to business owners and managers, and whether this has a measurable positive impact on SME performance. Finally, the role of marketing as a moderating factor is one which has been hinted at in several papers, but is yet to be thoroughly investigated. Therefore novel research should focus on the entrepreneurial skill elements that combines both entrepreneurship education and characteristics of entrepreneurs as significant causal factors in SME success, with marketing as a moderating factor.