

The impact of entrepreneurial characteristics in pakistan business essay



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The Small and Medium Enterprises (SME) plays a very important role in the success & development of any economy. According to the SME policy 2007, “SME sector is the backbone of Pakistan’s Economy”. “ Globally, this sector is the major growing force behind the fastest growing economy of China, in term of contribution to the national GDP, scale of assets, diversification of products and the creation of employment. Similarly, the role of SME is well acknowledged in the other countries such as Japan & Korea, and all other industrialized economies in terms of economic development” (Hand Book on Islamic SME Financing Islamic Banking Department, State Bank of Pakistan, 2009).

There are some hidden and apparent obstacles in the path of growth of small and medium enterprises in Pakistan as pointed out in the SME Policy development-2007; the poor national performance on the Human Development Index of the UN has its consequences for SMEs in Pakistan. These include inadequate and generic education and insufficient, poorly focused and under-serving training infrastructure. SME’s mostly draw their human resource (including the owners) from either the higher education institutions or the technical training infrastructure, both of which are not attuned to the SME needs nor are they equipped to address them. This situation limits the capacity and capability of SME’s to innovate, The SME sector neither possesses the financial strength nor the collective wisdom to climb its way out of this low equilibrium’ enterprise activity. In addition to these factors, according to the Hand Book on Islamic SME Financing (2007), “ political instability, law and order situation, financial constraints, energy crisis, taxation problems, labor issues, lack of coordination and regular

information exchange mechanism among institutions are contributing adversely to all the efforts done for the SME's development". Shabbir Kashif president of the Rawalpindi Chamber of Commers & Industry, (2009, Nov) pointed out the approach of the new entrants in the business and as a big cause of their failure, " People come to us & say we have such amount of money and we are going to invest in that business. But the point is that prior to Investment they don't think about the future of that Business in next few years, what would be the market demand in future? Instead, they imitate the current trends and current demands of the market, which lead them to the failure".

In these types of problems and uncertain situations, the entrepreneurs can do allot for the development and success of the SME's. According to Thompson, L (2004) " In today's world of change and uncertainty we need the talent of entrepreneurs more than ever, we need them to start new businesses, we need them to champion the change agenda in establish corporation and the public sector". Simpsin , M., Tuck, N. & Bellany, S (2004), " Entrepreneurs or owners-managers are individuals and have their own unique characteristics".

The previous studies conducted on the Owner characteristics support that Owner characteristics are the important ingredient for the success of a firm like Lumpkin & Dess (1996), Ferreira & Azevedo. (2007), Smith J. R, Okhomina & Mosley (2006).

Research Aims & Objectives

The aim of the research is to investigate empirically the influence of owner characteristics on the SME performance in Pakistan. Owner Characteristics that will be studied are related with personal pursuits that are considered the most important characteristics Naldi, Lucia.' Nordqvist, Mattias., Sjoberg , Karin., Wiklund, Johan, (2007), like Innovativeness, Risk Taking, Proactiveness.

Significance of the study

This study will contribute to the Knowledge base regarding the Owner Characteristics that contribute in the firms performance, According to Bhutta, M., Rana, A. & Asad , U (2008) “ A major frustration for most policy researchers in the SME area is the virtual non-existence of scientific data on this sector in the country (i. e. Pakistan)”.

Secondly, it will help entrepreneurs to understand their own strengths and potentials, and identify those characteristics that contribute more in the success of a firm.

Thirdly, to the policy makers in this sector to identify and polish the existing entrepreneurs and the people who intend to establish new businesses.

Problem Statement

The impact of entrepreneur's characteristics on firm's performance: An empirical study conducted on the surgical equipment manufacturing units in vicinity of Sialkot, Pakistan.

Research Question

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What is the impact of entrepreneurial characteristics like innovativeness, proactive-ness, risk taking, on the firm's performance?

Literature review

As cited by the Bhutta et al (2008), " Entrepreneurship is the act of being an entrepreneur which is a French word meaning one who undertakes an endeavor. Entrepreneurs assemble resources including innovations, finance and business acumen in an effort to transform innovations into economic goods. This may result in new organizations or may be part of revitalizing mature organizations in response to a perceived opportunity. The most obvious form of entrepreneurship is that of starting new businesses; however, in recent years, the term has been extended to include social and political forms of entrepreneurial activity. When entrepreneurship is describing activities within a firm or large organization it is referred to as intra-preneurship and may include corporate venturing, when large entities start spin-off organizations".

Whereas according to Lumpkin, G. T. & Dess, G. G. (1996) the term Entrepreneurial orientation means " the organizational process, methods and styles that firms use to act entrepreneurially".

Entrepreneur's Characteristics and Firms Performance

Entrepreneurial characteristic is an independent variable in our study.

Pointing out the importance of the owner' characteristics regarding the firms success and good performance. Ferreira & Azevedo (2007, p. 15)

commented that " the firms which grow more, are those which are

entrepreneurially oriented that detect opportunities and obtain an advantage when searching for those opportunities. However, not all firms search for opportunities, a possible explanation could be the entrepreneur's attitude, this is, the desire to grow or not".

In the previous literature the ownership characteristics has been defined differently by the researchers. According to Lumpkin & Dess (1996) " Efforts have served to point out the various dimensions of the entrepreneurial process; they have not led to any widely held consensus regarding how to characterize entrepreneurship. This lack of consensus has impeded progress for researchers towards building and testing a broader theory of entrepreneurship and has made it especially, difficult for them to investigate the relationship of entrepreneurship to performance".

As evidenced by the previous literature, the researchers have identified different ownership characteristics that influence the success and performance of an organization. These characteristics are autonomy, innovativeness, risk taking, proactiveness, (Ferreira & Azevedo, 2007 & Keh , H., Nguyen, T.& Ng, H 2007), competitiveness, aggressiveness, (Hughes et al. 2007& Lumpkin & Dess, 1996).

Smith, Okhomina & Mosly (2006) took psychological traits e. g. need for achievement, internal locus of control , tolerance for ambiguity and risk taking propensity, and social factors such as education, a supportive environment the researchers i. e. Smith , J. R. & Mosley , Alisa L (2006) also argued that personality traits viewed alone are inappropriate to explain the phenomenon of entrepreneurship.

According to Bhutta et al (2008) " There is dearth of knowledge in Pakistan on this sector (S. M. E)" further more he studied the owner characteristics/ orientation like education , media-related habits , use of information technology , number of investor and generation in the business (and found a positive relation) with the health of the firm.

In study of O'Regan, Sims & Ghobadian (2005) presented the relationship between ownership, decision making and employee deployment and the performance of the firm. Their findings showed that ownership profile is key factor in the success of any SME. As cited by Ferreira & Azevedo (2007) " Covin & Slevin (1991) supported Miller point of view by referring that organizations and not only individuals, can have entrepreneurially. They also use defend, use of risk taking innovativeness and proactiveness, as the relevant dimensions of the entrepreneurship. Nevertheless refer to this as a type of behavior labeled as entrepreneur posture. Also cited, Miller (1983), the concept of Entrepreneur orientation was seen as a combination of three dimensions.

Innovativeness: is concerned with supporting and encouraging new ideas experimentation and creativity likely to result in new products, services or processes (Miller and Friesen, 1982 and Yusuf, A. 2002).

Risk Taking: Measuring the extent to which individuals differ in their willingness to take risk is contentious (Lumpkin and Dess, 1996).

Proactive ness: is concerned with first mover and other actions aimed at seeking to secure and protect market share and with the forward looking

perspective reflected in action taken anticipation of future demand (Lumpkin and Dess, 1996, Ferreira et al, 2007).

In this paper the focus of the study is on the owners characteristics like innovativeness, risk taking behavior and proactiveness (Naldi, et al. , 2007), an important role as firms which grow better , have the tendency to develop an EO supported by proactiveness, innovativeness and risk taking .(Ferreira and Azevedo, 2007, p. 15) (Yusuf A., 2002).

Firm's Performance and Performance Measures:

It is a Dependent variable in the study by the firms performance it means that the performance and success of the firm. O Regan et al. (2005) argued that obtaining measures of performance for SMEs was notoriously difficult. He cited, " Laitinen in 2002 suggested that performance can be defined as the ability of an object to produce results in a dimension determined a priori, in relation to a target". He also suggested that the previous studies proved the use of " subjective self reporting measures of performance" as most of the entrepreneurs avoid/hesitate providing factual or objective figures of their firm's performance can be examined both objectively and subjectively (Lumpkin & Dess, 1996).

Objective examination usually includes comparing firm performance with hard financial measures, whereas subjective examination can be related to more personal issues. In this study, the term " subjective measures" refers to self-reported measures

(Yusuf , 2002). Furthermore, he utilized six items to measure the

performance construct , three of these items were profitability indicators , <https://assignbuster.com/the-impact-of-entrepreneurial-characteristics-in-pakistan-business-essay/>

(return of sales, return on investment, return on assets), the other three items were growth indicators (growth in sales, growth in profit and growth in employment).

Respondents were asked to indicate how satisfied they are with the performance of their firm and vice a versa. Competitors along each of the six performance measures at a five point Likert scale from much unsatisfied one to very much satisfy were used for that purpose (Yusuf, 2002).

Despite the large area of amount of research in the area of performance, no consensus has emerged on appropriate measure (Yusuf, 2002) he further cited the previous work that Performance is multifaceted in nature. This is thought to be necessary because entrepreneurial activity at times leads to different outcomes on different performance indicators so it is suggested that performance measure should include both growth and performance (Wiklund, 1991) regarding the factuality of the objective measures. Bhutta et al, (2008) & Yusuf, (2002) argued that objective measures are accurate but the problem is that the respondents are not willing to provide i. e. they hesitate to provide actual figures.

On the basis of the above literature review, in this study the performance is operationalised and adopted from Naldi's (2007) work, which is based on the approach advocated by (Wiklund, 1991) and also suggested by Yusuf, (2002) in above literature review. They operationalized the performance into four dimensions Net profit (i. e. sales - operational cost), Growth of the companies value, cash flow, development of sales. They asked the questions to the respondent's in self perceived and subjective manner. For instance,

the researcher asked, “ I want to know if you think that your outcome during the past three years has been better, worse or equal to that of other companies in your industry (5 point Likert scale ranging from “ much worse” to “ much better” was used).

Theoretical Framework

Firm’s Performance

Entrepreneur Characteristics

Innovativeness

Risk taking

Pro activeness

Adoptability

Net profit

(i. e. sales – operational cost)

Growth of the company’s value,

Cash flow

Development of sales

Hypothesis Development

Owner Characteristics and SME Performance

According to Keh, et al. (2007, p. 596), the factual evidences prove that there is positive correlation between EO (Entrepreneurial Orientation) and FP (Firm Performance). On the basis of above finding a hypothesis is generated that Owner characteristics have positive impact on the firm's performance.

H1: Owner characteristics have positive impact on the firm's performance.

Innovativeness and performance

According to Susan, et al, (2005), innovativeness, competitiveness effect economic & financial results and statistically significant and moderate in strength, Innovativeness is also an important factor in entrepreneurial orientation (Salvou & Lioukas, 2003).

H2: Innovativeness has a positive impact on the Firm's performance.

Risk taking and performance

Naldi et al (2007), argued that family firms take risks but to lesser extent than do non family firms. Naldi cited, " Rauch et al, 2004 found that the risk taking dimension is positively related to performance, even if significantly smaller than other aspects of Entrepreneur Orientation".

H3: Risk taking is positively related to the firm's performance.

Proactiveness and Performance

Proactiveness, an emphasis in the persistence and creativity to overcome obstacles (Ferreira, et al, 2007)

H4: Proactiveness of the entrepreneur is positively related with Firm's Performance.

Research Methodology

a) Research design

Variables:

Dependent Variables: In this study Firm Performance was a dependent variable.

Independent Variable: Entrepreneur's Characteristics was independent variable.

Type of investigation

The type of investigation was co relational in nature, with minimal interference in the normal course of work or routine tasks. The study was conducted in the natural environment of the organization. Self administered questionnaires were distributed among the owners / partners of the manufacturing units.

Unit of Analysis

The data was collected from individual Entrepreneur or partner of surgical equipment manufacturing firm. So unit of analysis in this investigation was Entrepreneur or partner (individual).

Sample

The sample for data collection consisted of 115 entrepreneurs / partners, contacted randomly from the surgical equipment manufacturing units situated in the vicinity of Sialkot.

b) Hypothesis development:

This research was a hypothetical testing by type. Seven hypothesis were developed through extensive literature review in the literature review section of this report.

H1: Owner Characteristics are positively related to firm performance.

H2: Innovativeness has a positive impact on the Firm's performance.

H3: Risk taking is positively related to the firm's performance.

H4: Proactiveness of the entrepreneur is positively related with Firm's Performance.

Data collection tool

Self administered questionnaire was used to collect first hand data from the respondents (owner / partner). Questionnaire was developed after extensive literature review. The different sections of the questionnaire were derived from Keh et al.(2007) , Bhutta et al.(2008) & Naldi et al.(2007)(See Appendix I)

Questionnaire consisted of a cover letter, and five sections ranging from A to E. Section A was about Personal Information , Generation in business, education levels & Technology adoptability, while the sections B consisted of

questions regarding Innovativeness , Proactiveness & Risk taking where as Section C consisted of four questions regarding firm's performance.

Measurement

The entrepreneurial characteristics Innovativeness, risk taking, proactiveness & firm's performance were measured on 5 point Likert scale. Where ranking started from " 1= strongly disagree" to " 5= strongly agree ", Innovativeness, Proactiveness, & Risk Taking, while responses to the Firm Performance questions ranged from " 1= Much Worse" to " 5= Much better".

Surgical Instruments manufacturing Industry in the sialkot area is selected in this study. According to Board of Investment Govt. of Pakistan report on Pakistan Light Engineering Sector, among these units about 230 surgical units are located in Sialkot District. In this study 50% of the respondents i. e owners or partners were selected randomly of these 230 firms as a sample. Questionnaire was adapted from Yusuf (2002), Naldi, et al. (2007), Bhutta et al. (2008) & Ferreira, et al. (2007). Questionnaire was distributed personally to the Owner/ Active Partners.