Effects Of Entrepreneur’s Personal Characteristics On Business Performance Of Small Medium Enterprises

Naveed Akhtar Qureshi, Azka Amin, Tahir Hussain

1Department of Business Administration, Sukkur IBA University, Sukkur, Pakistan.

Abstract:

This study investigates the effects of an entrepreneur’s personal characteristics on business performance (profitability) of small medium enterprises (SMEs). To this end, we collected quantitative data from 125 SMEs operating in Pakistan using a survey questionnaire. We take business performance as a dependent variable while education, experience and inner circle of advisors are taken as independent variables. Our findings suggest that education and Inner circle of advisors of entrepreneurs have no significant relationship on business performance. People prefer business experience over business education, and they avoid sharing business ideas with other friends. Experience of entrepreneurs have a significant positive relationship on business performance, prior experience of doing business significantly impacts business performance.

Keywords: SME, Performance, Profitability, Experience, Business education, Firm growth

1. Introduction

It is evident from literature that the majority of firms working in Pakistan are Small and Medium Enterprises (SMEs) having less than 250 employees and operating on a small scale (SBP). Small and Medium-sized Enterprises (SMEs) are a key to economic growth, innovation, and employment generation in the country (Khurrum S. Bhutta, Rana, & Asad, 2008). In Pakistan, SMEs contribute around 30% in the total GDP and around 25% in the export of locally manufactured goods (SBP, 2017). The growth of SMEs is heavily influenced by foreign direct investment (FDI) as every new business requires investment to get establish the business and survive in the market (Modén, Norbäck, & Persson, 2008). Acknowledging the significant contribution of SMEs to the national economy, the government of Pakistan has taken various initiatives like establishment of the Small and Medium Enterprises Development Authority (SMEDA), and establishment of various microfinance banks to provide loans to aspiring entrepreneurs to establish small businesses to strengthen the national economy by developing and flourishing this sector.

Academic research suggests that a number of factors that contribute to performance of SMEs in both developing as well as developed countries. For instance, study conducted by Kraus et al. (2012) suggests entrepreneurial orientation of owner contributes to performance of an SME. Similarly, Al-Ansari et al. (2013) indicated innovation characteristics of the firm predicts
business performance of SMEs. However, there is lack of research on whether personal characteristics of entrepreneur like education, experience, and inner circle of advisors contribute to business performance of an SME. Furthermore, in developing countries like Pakistan, the scientific data related to business trends and related information to SMEs sector are rarely available. This availability of scientific data further causes difficulties for policymakers and researchers to study business performance of firms operating in this sector. Current study aims to address these research gaps by empirically examining the impacts of personal characteristics of entrepreneur on business performance (profitability) of the firm. This research significantly contributes to better understanding of personal characteristics that contributes to performance of SMEs. The contributions of this research are threefold. First, this research empirically explores whether the entrepreneur’s level of education impacts business performance of SME. Second, this research contributes to exploration of whether entrepreneur’s previous experience of doing business impacts business performance of SME. Finally, this research contributes to exploration of whether inner circle of advisors influence business performance of SME.

In preceding sections, we will discuss the literature review and hypothesis development, followed by methodology, results, discussion and conclusions, and limitations and call for future study.

2. Literature Review and Hypothesis Development

The literature identifies different aspects of entrepreneur’s characteristics that impact the health and performance of the business (Kotey & Meredith, 1997) which indicates that the owner manager’s personal values, business strategies, and firm performance are empirically related. Some of the characteristics cited in the literature are; education, owners experience in the business and family history as characteristics (Khurrum S. Bhutta et al., 2008), entrepreneurial behavior and managerial skills (Ibrahim & Goodwin, 1986). In recent decades, several researchers have been working around the critical factors for business growth and success of new SMEs; the major pillars of success of new firms are determined by the entrepreneur’s personality for example, Watson & Newby (2005). Watson & Newby (2005) suggested that the traditional psychological attributes which are generally used in SME’s research should be replaced by gender-neutral attributes to reduce the biasedness of gender in business performance of SMEs. Entrepreneur’s characteristics (business experience, academic education, and motivations toward new ventures) have been identified in business entrepreneurship literature as an important key factor of business stability (Simón-Moya, Revuelto-Taboada, & Ribeiro-Soriano, 2012), but in this research education, experience and inner circle of advisors are taken as owners characteristics.

2.1. Education

Researchers suggest that knowledge improves the abilities of a person in the business development approach, and it helps the owners to identify and evaluate the business opportunities in a better way and it also supports to utilize the available resources more efficiently. Many studies and literature show a positive relationship between education and
business performance (Islam, Khan, Obaidullah, & Alam, 2011; Khurram S. Bhutta et al., 2008; Soriano & Castrogiovanni, 2012). Lee & Tsang (2001) found that the impact of education on venture growth is negative for small business and positive for large enterprises. Wijewardena, Nanayakkara, & De Zoysa (2008) suggest that CEOs-owners must know long term business-oriented strategies, decisions, policies, and good industrial practices to improve SMEs growth, productivity, and performance.

Most of the SMEs, in the beginning, face shortage of finances to run their day-to-day business activities and operations, it is up to the owner of SME’s that how they will get the finance from different entities. Moreover, if the owners have some knowledge about how to get finance and they know about the processes, procedures and policies are better off to get finance from different financial institutes. Pronouncedly, they can borrow better finance for the development of their businesses. One of the research shows the policies for getting finance is to provide information about the creditworthiness of SME owners (Beck, Demirgüç-Kunt, & Pería, 2011). Literature shows that the information like creditworthiness of SME’s owner will give bargaining power to owner for negotiating with banks in defined terms and conditions of the institutes as explained by Grunert & Norden (2012).

According to the research by Choi, Park, & Hong (2012) innovation, in technology and advance industrial practices, are necessary for the firm performance and they both require the support of ownership structure and as there is rapid change in environment. This leads to the opinion that the owner should support it and go towards the adaptability of advance practices that will increase the growth and the profitability of the firm in long run and that also benefits the society. Therefore, in line with the cited literature we propose:

**H1:** The owners education is positively related to SME performance (Profitability).

### 2.2. Experience

Related to the prior industrial experience of owner, according to Soriano & Castrogiovanni (2012), experience helps to identify the productive and non-productive practices and effectiveness of the resource utilization. Furthermore, a similar experience is more useful for business survival and they also showed that the entrepreneur’s experience as the business manager does not have any significant impact on business health (Simón-Moya et al., 2012). On the contrary, the owners related same industrial experience has a positive relationship with business performance (Barbieri & Mshenga, 2008; Lee & Tsang, 2001). Founder’s management experience significantly influences the performance of the firm. (Barbieri & Mshenga, 2008; Lee & Tsang, 2001) indicates that an entrepreneur’s professional experience is one of the dominating factors which affects the venture growth.

The experience is one of the things which tell the owner to take those actions which can enhance the firm performance, as the firm performance depends upon the financial stability of the firm so, to improve firm performance, owner must take those decisions which cannot only give benefit to its lender but also positively affect the firm financials, performance, and growth. In an article of Bannò, Piscitello, & Amorim Varum (2014) Public financial incentive enhances firm performance and if the firm would get a higher chunk of finances from the lender for its
growth resulting the firm performance will increase. Some studies show that the EO (Entrepreneurial orientation) refers to the decision-making styles, business approach, operational practices and behaviors affect the firm growth, sustainability, and competitive advantage (Rauch, Wiklund, Lumpkin, & Frese, 2009; Wiklund & Shepherd, 2005). A Study of De Zoysa & Kanthi Herath (2007) highlights that stronger entrepreneurial characteristics of owners will have an impact on business performance and one more study further describe that reactivity, innovativeness and risk-taking behavior of experienced entrepreneurs have significant impact on the firm performance (Kraus, Rügter, Hughes, & Hosman, 2012).

Study Vixathep & Matsunaga (2012) shows that if a firm is high in productivity and competitiveness its performance will be high that means there is a significant impact of firm productivity and competitiveness on the firm’s performance. Similarly, the profitability of a firm depends on how productive the labor is; because when labor is productive and efficient in the firm then it improves the productivity and reduces the conversion cost that resulted in high profitability of the firm (Vixathep & Matsunaga, 2012). There is another study which works on the relationship between strategic choice and the business performance in which determinants are used that are legacy, market positioning, resource (motivation and attitude), and business target and operating environment (Roper, 1998). The results tell us that growth and profitability determine by the operating environment the overall result of this study is that small firm performance depends to large extent on the strategic choices. To make these strategic choices owners need to have some prior experience (Roper, 1998).

The expectancy theory of attitudes states that there is a relationship between the belief and attitude of managers of SMEs towards the growth of the business. There are eight areas of work which affect the owner’s growth: owner-manager job needs and pressures, owner-manager routine tasks, employee well-being atmosphere, financial outcomes, controls, independence crisis survival ability, quality of products, service (Salvato, Lassini, & Wiklund, 2007). These areas affect the motivation level for the growth of the business like if owner workload is reduced because of growth so it increases the motivation towards the growth, in this theory results shows that the belief about the consequence of growth is the insight thinking of the entrepreneur that, either to expand the business is good or bad because of their attitudes and experience.

The study by Salvato et al. (2007) tells us that growth can be associated with new challenges and development opportunities that if the relevant information is about the positive consequence of growth it leads towards the positive attitude towards growth. Furthermore, research shows that working environment has strong influence on the entrepreneurial orientation and the performance of the SMEs (Salvato et al., 2007). The empirical study shows that there is a positive relationship between the entrepreneurial orientation and performance. The business firms must know the opportunities and threats in the environment so for that they must require the proactive behavior. Therefore, based on these assertions, we propose:

**H2:** The Prior industrial experience of owner is positively related to SMEs performance (profitability)
2.3. **Inner Circle (Advisors)**

Family, relatives, friends and business partners are only inner circle advisors who can share their own business-related experience, knowledge, and ideas with the owner (Soriano & Castrogiovanni, 2012). Literature shows that the family business owner’s knowledge and innovation give the superior performance to the business (Price, Stoica, & Boncella, 2013). Innovation and knowledge are more critical for the family business (Price, Stoica, & Boncella, 2013). Lansberg and Astrachan (1994) described, there are some factors that affect the family successor succession plan; those are reward from the business, confidence in the successor ability, succession plan, personal need alignment and family harmony. Academic literature suggests that the successor experience in succession process is strongly influenced mutual understanding and corresponding factor between parent owner and next generation child (Lansberg & Astrachan, 1994). The willingness of the success factor has an influence on the performance of the business if all the factors favor the owner in a positive way so growth will increase, and business becomes more successful (Venter, Boshoff, & Maas, 2005). Therefore, based on cited literature and theoretical assertions, we propose:

**H3:** Role of the inner circle of SME’s owner is positively related to the focal SME’s performance (profitability).

3. **Data & Methodology**

3.1. **Research Design**

Figure 1 depicts the conceptual model of our study where the dependent variable is Business performance, and independent variables are education, experience and inner circle of advisors. In all of the proposed hypotheses, the independent variables have a significant relationship with the dependent variable.

![Figure 01: Research Model](http://www.webology.org)
3.2. Sample and Data collection

The data were collected between January 2019 to June 2019 from the SMEs registered with Sukkur chamber of commerce Pakistan using a convenient sampling technique. Data were collected using a survey questionnaire from 125 SMEs. Initially 165 SMEs were contacted for data collection, however, only 125 showed their consent for collection of data. This resulted in an overall response rate of 76%.

3.3. Measurement of variables

**Dependent Variable:** The dependent variable of the study is business performance (profitability). This variable is measured through profit margin of the firm. The profit margin of the firm is asked by the respondent and range of profit margin has been mentioned in the questionnaire for the ease of the respondent as an average profit margin of the firm.

**Independent variables:** the independent variables are education, experience and inner circle of the advisers. For analysis of data, education is taken as dummy variable there educated (1) are those respondents who are graduated or masters, below graduation degree holders are considered as uneducated (0), the level of education was also mentioned in questionnaire as (1) below matriculation, (2) matriculation, (3) intermediate, (4) bachelor’s degree, (5) master’s Degree. another dummy variable is taken that is experience either owner had prior experience (1) or not (0) the measurement unit of experience was only having experience and not before starting the business, but inner circle of advisors is measured in range from 1 to 5 where 1 is representing strongly disagree and 5 strongly agree. In education, we analyzed whether owner has business (graduation or above) education to run their businesses. Whereas in experience, we asked whether owner has previous experience of doing a business or they have any previous industry experience. Similarly, we asked from respondents whether they get advice from partners, employees and family members to analyze the influence of inner circle on business performance.

3.4. Analysis

To identify the relationship between dependent and independent variable the equation of the model is developed as under:

PRF = \( \alpha + \beta_1 EDU_i + \beta_2 EXP_i + \beta_3 ICA_i + \beta_4 INV_i + \mu_i \)

Where:

\( \mu_i \) is an error term.

\( \beta_4 \) is a constant variable of Investment.

\( \alpha \) is an intercept that presents the mean of all SME’s profit indifference of all other factors.
\( \beta_1 \) is coefficient of Education which is a dummy variable and that is for educated owners who have bachelor’s and above degree, similarly experience is also taken as dummy variable where, \( \beta_2 \) is coefficient of Experience is for an experienced person who has prior experience. \( \beta_3 \) is coefficient of Inner Circle of Advisors that is in the range between 1 and 5 from strongly disagree to strongly agree.

An ANOVA analysis is used to analyze the results because of the model as dummy variables.

4. Results

The author used the regression analysis to test the hypothesis. We analyzed the performance of the firm by using the independent variables, the inner circle of advisor, experience, and education. First, we examined the descriptive statistics to assess mean, median, and standard deviation of the variables. Table 1 shows the descriptive statistics of data for better understanding of data. In Table 1, the mean profit of the firm is 15.04% and the median is 15% that is nearly the same as mean. The maximum and the minimum range of profit is 18% and 11% respectively. Profitability has maximum std. deviation of 2.525 while education shows that the dummy variable has 78.4% (educated) with lowest std. deviation of 0.413 same as experience the mean is 76% (experienced) and std. the deviation is 0.29. In data sampling, the inner circle of advisor is taken in the range between 1 and 5 and the mean is 3.104 near to neutral and std. the deviation is 1.396. The total observations are 125.

Table No 01: Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>PFT</th>
<th>EDU</th>
<th>EXP01</th>
<th>IDEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>15.04</td>
<td>0.784</td>
<td>0.76</td>
<td>3.104</td>
</tr>
<tr>
<td>Median</td>
<td>15</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Maximum</td>
<td>18</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Minimum</td>
<td>11</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>2.525</td>
<td>0.413</td>
<td>0.429</td>
<td>1.396</td>
</tr>
<tr>
<td>Observations</td>
<td>125</td>
<td>125</td>
<td>125</td>
<td>125</td>
</tr>
</tbody>
</table>

Second, we assessed the correlation between the variables. As Table 2 shows, the correlation between education and profit is negative and significant and the correlation between profit and experience is positive significant but the idea and profit are insignificant in a relationship. The relationship between education and experience is negative and slightly significant and the correlation between idea and education is non-significant similarly experience and idea has no significant relationship.

In Table 3, the Dependent Variable is Performance and independent variables are the inner circle of advisors, education, and experience. The results of ANOVA revealed that education is not significantly associated with performance (profitability). Therefore, H1 is not supported. Similarly, the relationship between experience and business performance was assessed and we
found statistically significant results. Thus, H2 is supported, and we conclude that entrepreneurs previous experience significantly contributes to business performance.

Table No 02: Correlations

<table>
<thead>
<tr>
<th>Probability</th>
<th>PFT</th>
<th>EDU</th>
<th>EXP01</th>
<th>IDEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>PFT</td>
<td>1</td>
<td>-----</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EDU</td>
<td>-0.231***</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXP01</td>
<td>0.419***</td>
<td>-0.158*</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>IDEA</td>
<td>0.042</td>
<td>-0.031</td>
<td>0.069</td>
<td>1</td>
</tr>
</tbody>
</table>

*, **, *** indicates significance level @ 10%, 5% and 1% respectively

Table No 03: ANOVA Analysis (Dep: Profit)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>16.667</td>
<td>0.881</td>
<td>18.926</td>
<td>0.000</td>
</tr>
<tr>
<td>EDU</td>
<td>-0.702</td>
<td>0.466</td>
<td>-1.505</td>
<td>0.135</td>
</tr>
<tr>
<td>EXP01</td>
<td>1.786</td>
<td>0.458</td>
<td>3.899</td>
<td>0.000</td>
</tr>
<tr>
<td>IDEA</td>
<td>-0.048</td>
<td>0.136</td>
<td>-0.351</td>
<td>0.726</td>
</tr>
<tr>
<td>INV</td>
<td>0.000</td>
<td>0.000</td>
<td>-4.849</td>
<td>0.000</td>
</tr>
</tbody>
</table>

R-squared: 0.334, Mean dependent var: 15.040
Adjusted R-squared: 0.312, S.D. dependent var: 2.525
F-statistic: 15.026, Durbin-Watson stat: 2.078
Prob (F-statistic): 0.000

Likewise, we examined the impact of the inner circle of advisor on the business performance of the firm. The analysis shows that the inner circle of advisors is not significantly associated with performance. Therefore, we conclude that H3 is also not supported by our results. Overall, the results presented in Table 3 demonstrate that only experience of CEO-owner is significantly associated with the performance of the business (b=1.786, P=0.000). While education of owners and inner circle of advisor is not significantly related to the business performance of SME’s (b=-0.702, p=0.135) and (b=-0.048, p=.726) respectively.

6. Discussions

The objective of this research is to identify the relationship between personal characteristics of entrepreneur on business performance of SMEs by taking education, experience and inner circle of advisors as independent and performance as a dependent variable. To this end, we
utilized survey data collected from 125 SMEs from Sukkur district of Pakistan. Our findings revealed that education does not create too much impact on SMEs performance, and the relationship between education and business performance was found statistically insignificant. This finding is not in line with the study of Soriano and Castrogiovanni (2012), who reported that education is significantly associated with the performance of the firm. One of the reasons behind this contradiction is the difference of different behaviors and characteristics of participants of the study.

Second, we assessed the impacts of entrepreneur’s previous experience on business performance of the SME. Our results show statistically significant effects of experience on business performance of SMEs. This finding suggests when owner has prior experience it contributes to the growth and productivity of the business and ultimately it results in improvements in business performance and profitability. This finding is in line with the results of previous studies suggested the statistically significant effects of previous experience on business performance (Stuart et al., 1990).

Third, our research examined whether inner circle of advisers affects the business performance of SMEs. Our analysis revealed statistically insignificant results on the relationship between inner circle of advisers and the business performance of SMEs. This finding contradicts the findings of Soriano and Castrogiovanni (2012), who reports statistically significant effects of inner circle of advisers on the business performance. One of the reasons behind this insignificant result is the fact that in Pakistan, business owners do not prefer to discuss their business issues with other people to maintain secrecy and confidentiality of their business strategies.

7. Limitations and future research
SMEs in Pakistan are not less developed, and the information scarcely available in detail, for research, the samples was taken of SMEs that were run by owners as business managers, which, many of them were not professionals and were reserved in sharing their profit margin and personal information. Perhaps most the entrepreneurs were business managers, but all the managers were not entrepreneurs which matches Schumpeter (1934)’s argument as well. In this study all respondents were the owners who were active in their business as business managers as well as directly involved in the day-to-day operational activities in performing entrepreneurial activities. The other limitation was that some of the owners were founders and others were non-founders. The non-founders were either those who inherited the businesses from their forefathers or those who continued a running business after buying. Which suggest the different entrepreneurial orientation between founders and non-founders. Very interestingly there is a big research gap to be covered on entrepreneurial orientation in the context of Pakistan.

References


