

# **A RELATIONSHIP BETWEEN OWNER-MANAGER'S CHARACTERISTIC AND BUSINESS PERFORMANCE**

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## **ABSTRACT**

Effective and efficient use of resources ultimately determines the overall performance of the organization. In this way performance of the organization depends on how the management of the organization drafting their strategies and implement practices for all organization to handle the resources in effective and efficient manner. These practices are determined by the entrepreneurial characteristics. Entrepreneur to Entrepreneur, the characteristic vary and their practices also vary. It is therefore important to understand the relationships between the entrepreneurial characteristics and organizational performance. This paper will help to understand to what extent the entrepreneurial characteristic can go to determine the Business performance. Even though there is number of views and ideas broadening the concepts of managing business successfully. Therefore this study will contribute to enrich the knowledge in the field to somewhat extent. Thus the paper is focused to analyze the "Relationship between owner-manger's characteristics and business performance. Cooper (1998) that there is an empirical relationship between the business founding processes of entrepreneurs and the performance of their businesses. The result also support kotey's and Meredith's (1997) broad finding that the personal values of owner /managers, the strategies they adopt in operating their firms, and the performance outcomes of their businesses are empirically related. Based on the empirical research, there is positive relationship between owner manger's characteristics and Business Performance.

## **INTRODUCTION**

All developed and developing countries have recognized the importance of the development of Small and Medium Enterprises (SMEs), because, they play a significant role in economic development. SMEs perform as a useful vehicle for economic growth of countries, because they have the capacity to achieve rapid economic growth, while generating a considerable extent of employment opportunities (Reddy, 1991).

Development of SMEs is significant in the developing countries, which suffered from problems of unemployment, lack of investment , balance of payment , poverty etc because, growth of SME's provides solution for the complex economic problems of a country. Small and Medium Enterprises are assumed to play a key role in social and economic development. Entrepreneurship is a decisive factor for any economy to attain its competitive and dynamic character. It is the driving force for the achievement of economic development and creation of jobs, contributing at the same time to personal development. It is important to encourage entrepreneurship because they are market oriented. Their outlook effectively solves many problems or "voids" in the community and market place, with optimal use of resources. They organize themselves effectively, they thrive at their work and their influence on employees results in productive and efficient working ventures. They build businesses creating wealth and developing themselves and others in their communities. Thus entrepreneurial action result in contributing towards the development of overall environment and society.

Entrepreneurship is a process undertaken by an entrepreneur to argue his business interests. It is an exercise involving innovation and creativity that will go towards establishing his/ her enterprise. Entrepreneurship is a composite skill, the resultant of a mix of many qualities and traits-these include tangible factors as imagination, readiness to take risks, ability to bring together and put to use other factors of production, capital, labor, and land as also intangible factors such as the ability to mobilize scientific and technological advances.

Organization performance today has assumed special significance, since it is a key to economic development. The objectives of industrial development, regional growth and employment generation depend upon Organization performance. Entrepreneurs are thus the seeds of industrial development and the fruits of industrial development are greater employment opportunities to employed youth, increase in per capita income, higher standard of living and increased individual saving, revenue to the government in the income tax, sales tax, export duties, import duties, and balanced regional development. The aim of this study is to evaluate the characteristics of the entrepreneurs and the extent of the success gained in the enterprise through the business performance.

## **REVIEW OF LITERATURE**

Entrepreneurship covers business activities including manufacturing, retailing and also service industries. The word “entrepreneurship” has entered the managerial vocabulary as the 1980s’ equivalent of “Professionalism” the managerial buzzword of the 1970s. Many managers are trying to understand the concept of entrepreneurship, and their own organization can be made more “entrepreneurial”.

The theory of entrepreneurship comes in many guises. Management scholars and economists have made the entrepreneur an innovator, a leader, a creator, discover, an equilibrator, and more. In only a few of these theories, however, is entrepreneurship linked to asset ownership (Knight, 1921; Mises, 1949; Casson, 1982; Foss, 1993; Langlois and Cosgel, 1993; Foss and Klein, 2005).

Entrepreneurship plays an important role in the economic system, which determines the nature and scope of this field. Economic systems grow and take shape under the influence of policy, economic policy, and the socio-political and cultural ideas of the people. Entrepreneurship gives a fillup to new organizational forms and the economy brings about economic reforms which determine other factors affecting the economy.

According to Cole (1942) production of goods and services is possible due to integration of various factors of production such as land, labour, capital, management and entrepreneurship. Entrepreneurship is the purposeful capacity of individual or a group of associated individuals, undertaken to initiate,

maintain or organize of profit -oriented business unit for the production or distribution of economic goods and services.

According to McClelland (1961) entrepreneurship is a risk –taking, which is responsible for end results in the form of profit or loss according to him, the function of an entrepreneur is to promote economic ventures and take decisions on vital issues concerning production, finance, personnel and marketing and bear the risk arising out of business operations in a company form organization, the entrepreneurs are the common funds of the company.

Higgins (1991) defined entrepreneurship is meant the function of seeing investment and production opportunity, organizing an enterprise to undertake a new production process , raising capital , hiring labor, arranging for the supply of new materials and selecting top managers for the day – to – day operation of the enterprise.

According to Drucker (1970) entrepreneurship is neither a science nor an art, it is a practice, it has a knowledge base; knowledge in entrepreneurship is a means to an end. Indeed, what constitutes knowledge in practice is largely defined by the ends, that is, by the practice.

## **ENTREPRENEUR**

The concept of entrepreneur varies from country to country as well as from period to period and the level of economic development thoughts and perceptions. A review of research done in different disciplines over the year would improve our understanding of the concept of entrepreneur. The English word entrepreneur is a derivative of the French verb *entreprendre* that means literally, to “undertake” the German equivalent, *unternehmer*, closely translates to owner- manager (Drucker, 1985).

In the late 17<sup>th</sup> century, the French economist Cantillon described the entrepreneur as a rational decision – maker who assumed the risk and provided the management of the firm (Kilby, 1971). In the 18<sup>th</sup> century, Drucker (1985) point out from Say’s statement the entrepreneur as one who “shifts economic resources out of an area of lower and into an area of higher productivity and greater yield”.

Collins , Moore , and Unwalla ( 1964) defined the entrepreneur as “--- a risk taker – a man who braves uncertainty , strikes out on his own , and through native wit, devotion to duty , and singleness of purpose , somehow creates business and industrial activity where none existed before”. In a 21<sup>st</sup> Century business context, and largely as lay people understand it, entrepreneur typically refers to “a person who undertakes or control a business or enterprise and bears the risk of profit or loss” (Brown, 1993), while the Macquarie Dictionary offers a definition of “one who organizes and enterprise, one involving considerable risk” (Delbridge, Bernad, Blair, Peters and Bulter, 1991).

## **THE CHARACTERISTICS OF AN ENTREPRENEUR**

The characteristics of an entrepreneur that contribute to success are the result of his achievement motivation the characteristics of achievement motivated persons as identified by McClelland (1961). Successful entrepreneur must be a person with technical competence, initiative, good judgment, intelligence, leadership qualities, self – confidence, energy, attitude, creativeness, fairness, honesty, tactfulness and emotional stability.

Timmons (1994) analysis of more than 50 studies found a consensus around six general characteristics of entrepreneurs :( 1) commitment and determinations; (2) leadership (3) opportunity obsession; (4) tolerance of risk, ambiguity and uncertainty; (5) creativity, self – reliance and ability to adapt; and (6) motivation to excel. A related stream of research examines how individual demographic and cultural backgrounds affect the chances that a person will become an entrepreneur and be successful at the task. Hashim, Wafa, and Suliman (1999) have proven empirically that entrepreneurial characteristics of the owner / manager are closely related to the success of the firm.

## **BUSINESS PERFORMANCE**

Kiyonari, Nakamura, and Hirao (1971) stated Venture business is a new company that intensively invests its energy in research and Development or creative design development. According to this definition, it may be considered that a venture business has at least two distinguishing characteristics. One is that there must be an entrepreneur who positively undertakes a new enterprise in which a risk exists. The other is that this entrepreneur performs some type of innovation activity, Birch (1987) suggest positive link between economic development and entrepreneurship. In another study, the most important psychological factors judged by entrepreneurs to be related to success were the energetic participation in the endeavor, self – confidence, desire for being one's boss, achievement need, linking of work commonsense and tenacity (Hornaday and Bunker, 1970).

The resulting strategies therefore are frequently an extrapolation of the personality of the entrepreneur and an image of his or her vision. In turn, those decisions are guided by many factors, such as the characteristics, values and expectations of the individuals that make theme; factors that may thus influence the performance of the business (Bamberger, 1983). Sandberg and Hofer (1987) put forward a model,  $NVP = f(E, IS, S)$ , suggesting that new venture success is dependent on the characteristics of the entrepreneur (E); the structure of the industry involved (IS); and the strategy (S) of the venture involved. In his subsequent we examine of the role of entrepreneurs in determining new venture performance (NVP).

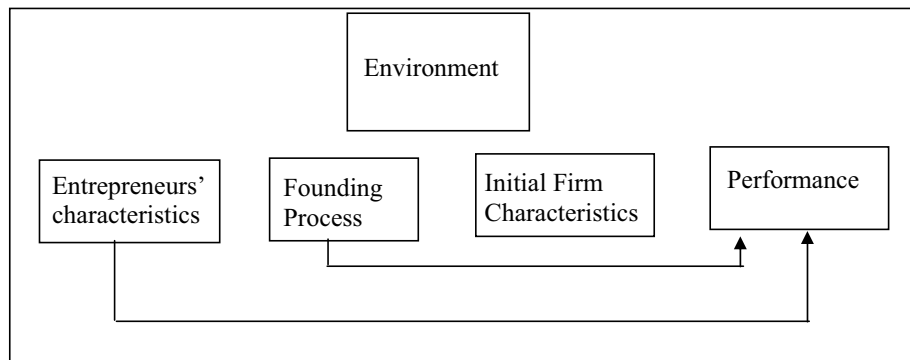
Herron (1990) found that 40% of NVP could be attributed to entrepreneurial skills, skill propensities, and the interactions with strategy and industry structure. Freeman (1996) emphasizes successful entrepreneurs are especially

skilled at using their time to develop relationships with people, who are crucial to the success of their new venture. The characteristics of top management teams are important to the success of a new venture (Eisenhardt and Schoonhoven, 1990).

### **OWNER-MANAGERS CHARACTERISTICS AND BUSINESS PERFORMANCE.**

The most important psychological factors judged by entrepreneurs to be related to success were the energetic participation in the endeavor, self – confidence, desire for being one’s boss, achievement need, linking of work commonsense and tenacity (Hornaday and Bunker, 1970). Whilst several studies have focused upon the personality and traits of entrepreneurs, the performance of entrepreneurs has received limited research attention. Given the heterogeneous nature of entrepreneurship in terms of motivational diversity, different types of entrepreneurs and organizational forms, measuring entrepreneurial performance is inevitably a challenging task Davidsson (1995).

**Figure 1: Framework for Research Linking the Characteristics**



Source: Cooper, A.C. (1998) "Findings on predictors of performance from a Large – Scale Research Program", Small Enterprise Research , *The Journal of SEAANZ* ,247

Figure 1 shows that there is a relationship between the entrepreneur’s characteristics and performance. Cooper (1998) suggested that the degree to which an entrepreneur was satisfied may influence future investment decisions in the business and Watson (2001) argued that, as many of the reasons given for entering a business are non – financial (Stanworth and Curran 1976; Cooper ,1993). Non- financial performance indicators (Such as owner satisfaction) should be included in any assessment of SME performance (Watson ,2001).

Heunks (1998) pointed out that innovation plays an important role in the success of small and medium-sized enterprises, and the individual characteristics of entrepreneurs such as values, posture, and education level etc may influence a company’s innovation and originality. Kiyonari, Nakamura, and Hirao (1971)

conducted research about the relationship between the characteristics of founders and enterprise establishment on the basis of interviews of 80 people who founded venture businesses. Gartner (1985) proposed that the interaction of the entrepreneur's personality the environment, and the Characteristics of the organization, led to the process of entrepreneurship, including the venture creation and growth.

Freeman (1996) emphasizes that, as a result, successful entrepreneurs are especially skilled at using their time to develop relationships with people, who are crucial to the success of their new venture. Management characteristics, operating characteristics, and competitive strategy are the characteristics of the successful small manufacturing firms (Stainer and Soles, 1998). Another study has identified six principal factors (Efficient management, marketing strategy, customer orientation, supportive environment, capital accessibility, and product quality) that are perceived to be major contributors to the success or growth of manufacturing SMEs in Sri Lanka (Wijewardena and Zoysa, 1993). Dess and Robinson (1984) reported strong and statistically significant relationships between the subjective comparative assessments of the 5- year performance of 18 businesses by their top management against other similar businesses in their industries, and the objective measures of return on assets and sales growth.

## CONCLUSION

Cooper (1998) that there is an empirical relationship between the business founding processes of entrepreneurs and the performance of their businesses. The result also support Kotey's and Meredith's (1997) broad finding that the personal values of owner /managers, the strategies they adopt in operating their firms, and the performance outcomes of their businesses are empirically related. Based on the empirical research, there is the positive relationship between owner manger's characteristics and Business Performance.

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