

Impact of Entrepreneurial Characteristics on Organizational Performance: A Literature Review

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ABSTRACT

Organizations are formed to achieve goal by efficient and effective use of resources. Effective and efficient use of resources ultimately determines the overall performance of the organization. In this way, performance of the organization depends on strategies and practices adopted by the organization in handling its resources. These practices are determined by the entrepreneurial characteristics. The characteristic & practices vary from entrepreneur to entrepreneur. It is therefore important to understand the relationships between the entrepreneurial characteristics and organizational performance. This paper aims to discuss and analyze the research studies which have been conducted to study association of entrepreneurial characteristics and organizational performance. This paper helps to understand, to what extent the entrepreneurial characteristic determine the organizational performance.

Keywords: Entrepreneur, Entrepreneurial Characteristic, Organizational Performance.

Introduction

All developed and developing countries have been recognizing the importance of the development of Small and Medium Enterprises (SMEs), as 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, as it provides solution for the complex economic problems of unemployment, lack of investment, balance of payment, poverty etc. 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, as 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 results in contributing towards the development of overall economy and society.

Entrepreneurship is a process undertaken by an entrepreneur to augment 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, which include factors such as imagination, readiness to take risks, ability to mobilize scientific and technological advances, and ability to bring together and put to use other factors of production, capital, labour, and land.

Organization performance has attained a special significance, since it is a key to economic development of the nation. The objectives of industrial development, regional growth and employment generation depend upon organization performance. Entrepreneurs are thus the seeds of

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industrial development. The result of industrial development are employment opportunities to unemployed, better employment opportunities to already employed youth, increase in per capita income and saving, higher standard of living, increase in revenue to the government through income tax, sales tax, export duties, import duties, and balanced regional development.

Objective of the Study

The aim of this study is to analyze the opinion of various scholars on the entrepreneurship and organizational performance, and to evaluate the characteristics of the entrepreneurs and the extent to which these effect organizational performance.

Entrepreneurship

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

The theory of entrepreneurship comes in many guise. Management scholars and economists have made the entrepreneur an innovator, a leader, a creator, a discoverer, an equilibrator, and more. However, only in few of these theories, entrepreneurship is 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 political policy, economic policy, and socio-cultural ideas of the people.

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 an individual or a group of associated individuals, undertaken to initiate, maintain or organize profit-oriented business unit for

the production or distribution of economic goods and services.

According to McClelland (1961), entrepreneurship is a risk taking activity, 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 of organization, the entrepreneurs are the common funds of the company.

Higgins (1991) defined entrepreneurship as the function of seeing investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labour, 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 years would improve our understanding of the concept of entrepreneur.

The English word entrepreneur is a derivative of the French verb *entreprendre* that literally means "to undertake", and the German equivalent, "unternehmer", that closely translates it to owner-manager (Drucker, 1985).

In the late 17th century, the French economist Cantillon described the entrepreneur as a rational decision maker who assumes risk and provides management of the firm (Kilby, 1971). In the 18th century, Drucker (1985) pointed out from Say's statement that the entrepreneur is one who "shifts economic resources out of an area of lower

productivity to 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 21st Century business context, and largely as lay people understand it, entrepreneur typically refers to “a person who undertakes or controls a business or enterprise and bears the risk of profit or loss” (Brown, 1993), while the Macquarie Dictionary offers a definition of entrepreneur as “one who organizes an enterprise that is involved with considerable risk” (Delbridge, Bernad, Blair, Peters and Bulter, 1991).

Characteristics of an Entrepreneur

The characteristics of an entrepreneur that contribute to success are the result of his achievement oriented motivation. The characteristics of achievement motivated persons were 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), in his analysis of more than 50 studies, found a consensus around six general characteristics of entrepreneurs : (1) commitment and determination (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's demographic and cultural backgrounds determine 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.

Organizational Performance

Birch (1987) suggested the positive link

between economic development and entrepreneurship. In another study, the most important psychological factors for success were the energetic participation in the endeavor, self confidence, desire for being one's boss, achievement need, linking of work common sense and tenacity (Hornaday and Bunker, 1970). These factors were judged by the entrepreneurs themselves.

The resulting strategies therefore are 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 is, factors that may influence the performance of the business (Bamberger, 1983).

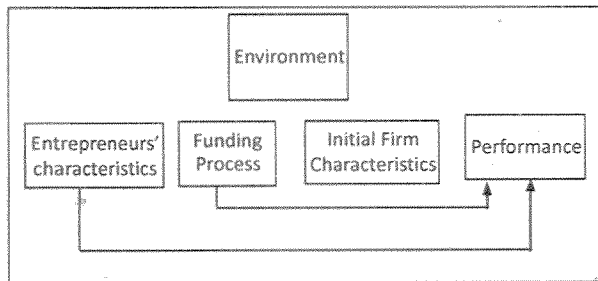
Sandberg and Hofer (1987) put forward a model, $NVP = f(E, IS, S)$, suggesting that new venture success is dependent on the characteristics of the entrepreneur (E); the structure of the industry involved (IS); and the strategy (S) of the venture involved. They have subsequently determined the role of entrepreneurs in new venture performance (NVP). It can be concluded that NVP is directly dependent on characteristics of an entrepreneur.

Herron (1990) found that 40% of NVP could be attributed to entrepreneurial skills, skill propensities, 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). Thus, we can say that the entrepreneurial characteristics of an intrapreneur are significant for the success of the business.

Characteristics of Entrepreneurs and Organizational Performance

Whilst several studies have focused upon the personality and traits of entrepreneurs, the performance of entrepreneurs has received limited attention. Given the heterogeneous nature of entrepreneurship in terms of motivational diversity, different types of entrepreneurs and organizational

Figure 1: Framework for Research: Linking the Characteristics



Cooper, A.C. (1998).

forms, measuring entrepreneurial performance is inevitably a challenging task (Davidson, 1995).

Cooper (1998) suggested that the degree to which an entrepreneur may influence future investment decisions in the business is effected by the business funding process. However, 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.

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 funders and enterprise establishment on the basis of interviews of 80 people who funded 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) emphasized that successful entrepreneurs are especially skilled at using their time to develop relationships with people, who may play crucial role for 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 India (Wijewardena and Zoysa, 1993).

Kotey and Meredith (1997) found 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, the study found positive relationship between entrepreneur characteristics and organizational performance

Conclusion

To conclude, the key of the organizational performance is the efficiency of an entrepreneur, who can increase the profitability of the organization through appropriate initiatives and effective decisions. The potentialities of an entrepreneur determine the fate of the enterprise. There is a direct relationship between the skill, traits and vision of an entrepreneur, and the overall performance of the organization. A small and medium size enterprise can give better operational and financial performance if it is managed by an entrepreneur who is a competent and proficient manager and a visionary leader.

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