



ENTREPRENEURIAL SELF-EFFICACY BASED MODEL OF SME PERFORMANCE IN DEVELOPING COUNTRIES

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Abstract

SME performance has been considered as one of the most important driving force behind economies of both developed and developing countries due to their multiple contributions. In most of the developing countries, the performance of the SMEs is a key issue today. Since the SMEs in developing countries face many obstacles, the human agency is critical for their performance. This study proposes an entrepreneurial self-efficacy based model of SME performance for developing countries. Based on the Social Cognitive theory, the model suggests an interaction among human related factors, entrepreneurial self-efficacy and SME performance. Achievement motivation, personal goal-setting and mastery experience have been incorporated into the model as predictors of performance while it suggests that entrepreneurial self-efficacy plays a significant mediating role between human related factors and SME performance. It contributes for better understanding of complex interactions between human related factors and SME performance in developing countries.

Keywords: Entrepreneurial Self-Efficacy; Human Related Factors; SME Performance

1. Background of the Study

In most of the developing countries, performance of SMEs is one of the key factors in their economic and social development (Davidsson, 2004). Though the SME sector plays a key role in a country's economic development, in many developing countries they are less productive and face many constrains. Policy inertia which leads to non-exploitation of the advantages created by the economy is a major obstacle in these countries (Task Force For SME Sector Development Programme, 2002). Another constrain faced by the SME sector is low level of technology and absence of technical and managerial skills. Low level of technology has directly reduced the operational efficiency of SMEs. Lack of technical and managerial skills reduced the ability to compete against rivals. Still government supportive organizations and other organizations such as universities have not taken the responsibility of improving the technical and professional managerial skills in this sector (Asian Productivity Organization, 2011). Lack of market information and marketing skills is another important obstacle identified. Lack of infrastructure facilities has impeded the success of SME sector. Electricity, water, telephone facilities, rode access are not adequately supplied to the SMEs especially out of the urban areas while the cost of acquiring them remains very high. Regulatory role of the

government such as lengthy and complex procedures and documentations, outdated rules and regulations are also considered as a heavy constrain for the development of the SME sector (Dassanayake, 2011; Task Force For SME Sector Development Programme, 2002).

Dassanayake, (2011) has indicated few constrains faced by Sri Lankan SME sector such as financial, market and technological related constrains, and misplaced national priorities. These constraints may result in unnecessary delays, excessive costs and discourage of entrepreneurs. More than 90% of enterprises in the Asian productivity organization (APO) member countries are SMEs and they account for about 75 percent of the Gross Domestic Product. But in many countries they face the constraints of technological backwardness, low levels of human resource skills, weak management systems and entrepreneurial capabilities, unavailability of appropriate and timely information, insufficient use of information technology, poor product quality, and as a result, there exists a low productivity (Asian Productivity Organization, 2011, 2006).

SME sector is more labour intensive than capital intensive in developing countries. (Task Force For SME Sector Development Programme, 2002) and most of them are owner-managed entities or run by family individuals (Dassanayake, 2011, Priyanath, 2006). It is clearly evident that SME sector faces many obstacles and entrepreneurs have to tolerate everything for achieving their success to overcome these constraints. Under such circumstances, role of the entrepreneur is a critical factor for the success of their entities. Entrepreneur related factors have been identified as critical for the success of SMEs by many researchers and role of the entrepreneur is important to smaller dynamic entrepreneurial ventures (see Kropp, Lindsay, & Shoham, 2008; Lumpkin & Dess, 1996; Covin & Selvin, 1989). Luthans and Ibrayeva, (2006) also argued entrepreneur related variables are especially relevant to the developing countries where most of the SMEs are relatively small and owner- managed. The firms are considered as owner- managed when the responsibility of the management of the entity is in the hand of the owner- entrepreneur and their family relatives. Consequently all the key decisions are centralized to entrepreneur and he is critical to the performance of the firm. Accordingly a research model which incorporates entrepreneur related factors as predictors of firm performance will be helpful identifying the complex relationships among those factors.

2. Problem Statement

In early studies, human related factors have been linked to entrepreneurial performance. But few of these studies were able to demonstrate significant association between those factors (Agrawal, 2007; Sandberg & Hofer, 1987). Low and McMillan, (1988) analysing future challenges in entrepreneurship research indicated that the early studies have attempted to document human related factors rather than investigating causal relationships. Shane, Locke and Collins, (2003) argued that recent SME research has ignored the role of human agency by giving more focus to other factors. They further argue that this ignorance based on inadequate empirical findings. Collins, Hanges and Locke, (2004) also stressed the need of further research to clarify the role of individual factors in a multivariate model of venture performance. Agrawal, (2007) argued that few studies have taken into account the effect of entrepreneurial human capital. Baum, (1995); Herron and Robinson, (1993) suggested that this situation may be because of the failure to introduce relevant mediating, and moderating variables rather than testing for direct effects of entrepreneur related variables on performance. Research models using mediating and moderating paths have been more successful than those testing for direct effects of human related factors on performance (Agrawal, 2007; Herron and Robinson, 1993). Stewart and Roth, (2007) claimed the importance of entrepreneurs' characteristic variables as predictors of venture performance and emphasized the need of testing

comprehensive models for better understanding of the firm performance. According to Sirec, and Mocnik, (2010), although human related factors and venture performance has been the focus of different domains such as psychology sociology and economics, none has explained the phenomenon completely. Sirec, and Mocnik, also pointed out that the human related factors are very important since many decisions of SMEs depend on the entrepreneur. Luthans and Ibrayeva, (2006) also argued that individual variables are especially relevant to developing countries.

Based on the literature review, it can be argued that entrepreneur related factors qualify investigating as predictors of SME performance with appropriate mediating and moderating relationships in developing countries.

3. Literature review

3.1 Achievement Motivation and Performance

McClelland, (1965, 1961,) proposed a linear relationship between achievement motivation and performance. Smith and Miner, (1985, 1984); Lachman, (1980); Durand and Shea, (1974); Hines, (1973) found higher level of achievement motivation in entrepreneurs than managers and all the other groups. McClelland and Burnham, (1976) concluded that the need for achievement is the key to successful SMEs. Nandy, (1973) found that achievement motivation positively related to entry into business. Carsrud and Olm, (1986) found that achievement motivation was a major contributor to the success of the businesses of male entrepreneurs.

Begley and Boyd, (1987) found that founders have significantly high need for achievement but no significant relationship between need for achievement and financial success of the firm. Smith, Bracker, and Miner, (1987) found a significant correlation between achievement motivation and company success. Johnson (1990, 1989) found achievement motivation is significantly and positively correlated with sales growth, return on sales and overall performance of the firm. Based on the Johnson's (1990) review, Collins et al. (2004) argued that the magnitude of the relationship between need for achievement and entrepreneurs' performance is unclear and need further investigation.

Lee and Tsang, (2001, 2000) claimed that need for achievement has the greatest effect on venture performance among human related variables. Stewart and Roth, (2007); Collins et al. (2004); Swierczek and Thanh ha, (2003) found a strong support for the positive relationship between achievement motivation and venture performance. Stewart, and Roth, found that entrepreneurs with higher need for achievement attain higher growth. Sidek and Zinol, (2011); Acharya, Rajan and Schoar, (2007) claimed that need for achievement has a significantly higher correlation with performance. Sirec and Mocnik, (2000) proved a moderate support for the relationship between achievement motivation and SME growth. Ryan, Tipu, and Zaffane, (2011) found significant correlation between need for achievement and entrepreneurial potential. Olusola, (2011) concluded that motivation is very essential for optimal productivity. Zhang and Burning, (2011) found that need for achievement have a significant direct and indirect effect on the performance of SMEs.

Ryan, et al. (2011) indicated that the relationship between achievement motivation and entrepreneurs' performance is still unclear in different contexts though there is large number of research contributions. Kirkaldy, Furnham, and Levine, (2001) suggested that need for achievement is particularly important to the

entrepreneurs in developing countries. According to Ryan et al. (2011), most of the studies in need for achievement have been conducted in developed countries and there is a need of testing it in developing countries that faces many challenges in promoting entrepreneurship. Luthans and Ibrayeva, (2006) also suggested that individual variables such as need for achievement, especially relevant to the developing countries where most of the SMEs are relatively small and owner managed.

3.2 Goal-setting and Performance

Locke and Latham's (1990) Goal Setting Theory (GST) defines goal as something consciously want to be attained and assumed a linear goal setting-performance relationship. Locke, Shaw, Saari, & Latham, (1981) showed that, from 1969 to 1980, twenty five experimental studies had confirmed positive relationship, four studies had found partial support and six experimental studies had found no relationship between goal and performance. Dossett, Latham, and Mitchell, (1979); Latham and Marshall, (1981) found that performance was same despite the goal is assigned or personal. Bandura, (1988); Hornaday and Wheatley, (1986) found that managers who set goals for their small businesses obtained higher financial performance. Goal setting performance relationship has been considered as the most supported relationship in research (Seijts, Latham, Tasa, & Latham, 2004). Kanfer and Ackerman, (1989); Seijts and Latham, (2001) found that specific goals reduce the performance when people have less knowledge or skills to perform the relevant task effectively. According to Locke and Latham, (2002), goal setting performance relationship has been verified in Asia, Australia, Europe and North America.

Knight, Durham, and Locke, (2001) found that the team with highest goal had the highest performance. Vancouver, Thompson and Williams, (2001) to their surprise found that personal goals have negative effects on performance. Seijts et al. (2004) tested the relationship between specific challenging learning goals on performance and results supported the hypothesis. Fu, Richards, and Jones, (2009); Segal, and Rimler, (2011) concluded that personal goals has a direct effect on firm performance. Kleingeld, Mierlo, and Arends, (2011) indicated that effect on group performance of specific difficult group goals compared with nonspecific goals was significant.

3.3 Experience and Performance

According to Minniti and Bygrave, (2001), entrepreneurs are more likely to learn from both negative and positive past experiences. Hashi and Krasniqi, (2011); Papastathopoulos and Beniki (2010); Inmyxai and Takahashi, (2009); Segal, Borgia, and Schoenfeld, (2007); Schindehutte, Morris, and Allen, (2006); Reuber and Fischer, (1994); Dyke, Fischer, and Reuber, (1992); Duchesneau and Gartner, (1990); Cooper, Woo, and Dunkleberg, (1980) found that previous experience of entrepreneurs positively related to firm performance. Bird, (1988) found that previous entrepreneurial experience is positively related to entrepreneurial actions. Bates, (1990) claimed that previous industry experience do not prove positive relationship. Bann, (2009) concluded that the experience is a complex phenomenon and its importance for the success.

According to Bandura, (1986) Social Cognitive Theory (SCT), mastery experience influence performance. Experience of previous Positive outcomes can influence the future performance. (Bandura, 1977^a); Bandura, (1988) posited that success experiences will increase the self-efficacy and performance, while past failure experience creates self doubt in organizational context. According to Zhao, Seibert and Hills, (2005), previous entrepreneurial experience can be considered as the form of mastery experience in entrepreneurship.

3.4 Self efficacy and Performance

Bandura, (1988, 1986) defined self efficacy as individuals' judgement of their abilities to execute some courses of action that required attaining an outcome and has very strongly proven the positive relationship between self efficacy and performance. Chen and He, (2011); Lebusa, (2011); Acharya et al. (2007); Seijts et al. (2004); Stajkovic and Luthans, (1998); Phillips and Gully, (1997) have proven positive relationship between self efficacy, intentions and firm performance. Brice and Spencer, (2007) found that only those individuals with high entrepreneurial self-efficacy perform better. Zhao et al. (2005); Forbes, (2005) found self efficacy measured in entrepreneurial domain is positively related to entrepreneurial intention and performance. Hmieleski, and Baron, (2008^a) found entrepreneurial self efficacy is a positive predictor of firm performance. Drnovesk et al. (2010) also indicated the relevancy of self efficacy in entrepreneurs' performance as they face uncertainty and obstacles in making their goals a reality. They justify it further emphasizing the Ozer and Bandura's (1990) idea that people with stronger self efficacy have higher control over negative thinking. Olusola, (2011) concluded that self efficacy is very essential for optimal productivity.

Hmieleski and Baron, (2008^b); found that self efficacy reduce firm performance rather than increase under some moderating conditions. Wilson, Kickul, and Marlino, (2007); Cervone and Wood, (1995); Stone, (1994); Bandura and Jourden, (1991) also found that self efficacy do not increase the performance. Vancouver, Thompson and Williams, (2001) demonstrated reverse causality between self efficacy and performance. Vancouver and Kendall, (2006); Vancouver, Thompson, Tischner, and Putka, (2002) proved negative relationship between self efficacy and performance.

3.5 Achievement Motivation and Self efficacy

Bandura's (1986) SCT assumes a relationship between motivation and self efficacy. Bandura and Cervone, (1986) indicated that effects of internal standards on motivation are mediated through self efficacy mechanism. Prat-Sala & Redford, (2010); Roberts and James, (2005) found a positive correlation between the motivation and self-efficacy. Matsui, Okada, and Kakuyama, (1982) indicated that achievement motivation influence performance indirectly through self efficacy. Luthans, and Ibrayeva, (2006) proved a significant higher positive correlation between need for achievement and entrepreneurial self efficacy and Li, (2008); Luthans, and Ibrayeva, (2006) especially emphasized that this is applicable to Asian region because they need much dedication in the face of instable political economical and market conditions compared to developed countries. Phillips and Gully, (1997) found insignificant positive correlation between achievement motivation and self efficacy.

3.6 Personal Goal-setting and Self efficacy

Bandura (1986); Bandura and Cervone, (1983) demonstrated that goals play a prominent role in developing self efficacy and effects of goals outcomes are mediated through self efficacy mechanism. Phillips, and Gully, (1997) argue that personality factors can be assumed to have significant effect on self efficacy. Knight, Durham and Locke (2001) found significant positive correlation between goal and team efficacy. Anyster, Goodman and Wallis, (2006) found that performance goals built self efficacy belief. Seijts et al. (2004) indicated that self efficacy fully mediate the effect of setting a specific, challenging learning goal on performance of a complex task. The study further found that specific goals significantly affect both self efficacy and performance.

Locke and Latham (2002, 1990), in a performance model, stated that goals affect performance through self efficacy. Eaden, (1988) in another model stated that the relationship between self efficacy and personal goals are reciprocal. Garland (1985) discussed the relationship among personal goals self-efficacy and performance in a cognitive mediation model and indicated that personal goals influence self efficacy and performance. These three models have interpreted goals-efficacy relationship in slightly different. In Locke and Latham's (1990) model self efficacy is considered as an antecedent to personal goals. Eden's (1988) model stated that self efficacy and performance has reciprocal relationship. In Garland's (1985) model, personal goals are antecedents to self efficacy. Early and Lituchy, (1991) conducted a validation of these three models and found different levels of validity in each model. Locke and Latham's (1990) model proved parsimonious while Eden's (1988) and Garland's (1985) models also provided a good fit. Applebaum and Hare, (1996) found that goals helps to develop strong self-efficacy beliefs which in turn leads to performance. Latham and Locke, (2007) stated that self efficacy mediates the relationship between feedback and future goals.

3.7 Experience and Self efficacy

SCT indicates that self efficacy is strengthened by acquiring knowledge through direct experiences (Bandura, 1997; Wood & Bandura 1989; Bandura, 1986; Bandura, 1977). Direct experience also known as the mastery experience is considered to be the most powerful and most influential source of self efficacy. Previous experiences help developing the perceptions of people's capabilities. If they interpret their past experiences as successful, it raises the efficacy while those interpreted as unsuccessful lower the efficacy (Bandura, 1986; Bandura et al. 1977); Smith, (2002); Joet, usher, and Bressoux, (2011). Mueller and Goic, (2003) pointed out that self efficacy in entrepreneurial domain will be improved through experience and role modelling. Wilson et al. (2007) has shown that targeted experience through education can develop the individual's self efficacy. According to Chowdhury, Endres, and Lanis, (2002); Debowski, Wood, and Bandura, (2001); Dawes, Horan, and Hackett, (2000), stronger the experience create stronger self efficacy, and weaker the sources of experience weaker the self efficacy. Anyster et al. (2006) found that employees derive efficacy information primarily through direct experiences. Zhao et al. (2005) found entrepreneurial experience is a good source of entrepreneurial self efficacy.

3.8 Mediatory Role of Self efficacy

Bandura's (1986) SCT strongly proved the role of self-efficacy as a mediating mechanism. Applebaum and Hare, (1996) studied the mediating role of self efficacy in the relationship between goal setting and performance and found significant positive relationship. Locke, (2001); Baum, Locke and Smith, (2001) found that the relationship between personality traits and performance is mediated by self efficacy. Noel and Latham, (2006) found that self efficacy had a reciprocal mediating effect on performance.

Vancouver and Kendall, (2006) rejected the common notion of the strength of self efficacy as a mediator to performance. Zhao et al. (2005); Luthans and Ibayewa, (1998) tested the mediating role of entrepreneurial self-efficacy in the relationship between need for achievement and firm performance and found significant results.

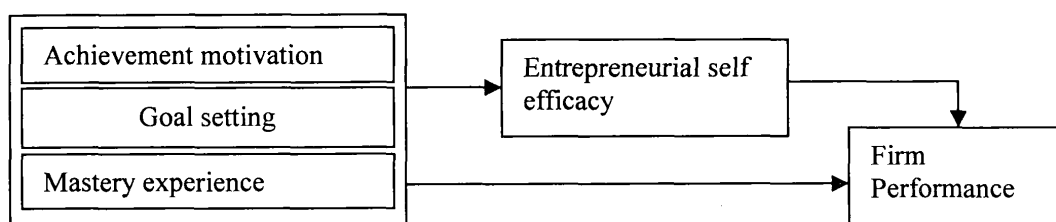
4. ESE Based Model of Performance

Achievement motivation, goal-setting and mastery experience have been proven positively related to self efficacy. Also achievement motivation, goal setting and mastery experience have been widely researched as

predictors of performance and yielded inconsistent results. Moreover, a strong relationship between entrepreneurial self efficacy and performance has been proven by many studies. It provides ample justification for assuming mediatory role of entrepreneurial self efficacy in the relationship among human related variables and SME performance (see Barron & Kenny, 1986).

Bandura's (1986) SCT has also emphasized the importance of self efficacy as a mediatory mechanism of performance. Zhao et al. (2005) suggests further investigation of mediatory role of entrepreneurial self efficacy in the relationship between previously identified antecedents and performance. Li, (2008); Luthans and Ibrayeva, (2006) emphasized the importance of studying self efficacy as a mediator between antecedent variables and performance in developing countries. They further pointed out that the mediating role of entrepreneurial self efficacy in firm performance has been badly neglected in those countries though the importance of the construct is widely accepted. Therefore, entrepreneurial self efficacy can be assumed to be a possible mediator to the relationship between entrepreneur related factors and firm performance. Accordingly self efficacy based model of performance shown in figure 1 is proposed for developing countries. The model proposes that achievement motivation, goal setting and Mastery experience positively and directly related to performance while indirect relationship through entrepreneurial self efficacy is hypothesized.

Figure 1: Research Model



5. Conclusion

With the importance of SMEs to the economies of developing countries, it is very clear the importance of understanding the complex relationship among entrepreneur related variables and firm performance. The proposed research model incorporates three entrepreneur related variables as predictors of performance and entrepreneurial self efficacy as a mediating mechanism. Understanding of this direct and indirect relationship would be immense importance for SME owners and managers, policy makers of developing countries and planners in entrepreneurial education. The proposed model is especially relevant to developing countries since the entrepreneurs of these countries compared to developed countries faces many obstacles such as lack of infrastructure, market information, appropriate technological know-how, political and economic instability and policy inertia. These obstacles may be creating excessive costs, unnecessary delays and discouraging entrepreneurs. To overcome such obstacles, strong entrepreneurs with higher entrepreneurial self efficacy may be critical and such studies are lacking in the context of developing countries.

The unique features embedded in the proposed model are the entrepreneurial self efficacy as a mediating mechanism and three predictor variables which strongly supported by three well established theories. SCT, GST and Theory of Achievement Motivation strongly support the relationships among predictor variables, mediating mechanism and criterion variable. No previous studies have been conducted with all these variables in a single research model.

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