

# ENTREPRENEURS - A NEGLECTED

By A. J. Williams, Senior Lecturer in the Department of Accounting and Financial Management, University of New England, Armidale, N.S.W. Second of a two-part series on "Why So Many Small Businesses Fail".

In the first part of this article (April Journal) it was indicated that small firms are involved in a significant proportion of the nation's business activity, but they also represent over 90% of all business failures in this country.

Available studies of the problem of small business failure generally suggest that the real cause is related to the quality of ownership and managerial performance.

Small business ventures are initiated and operated by persons who differ widely in their motivation, aptitude, ability, experience and competence.

Careful study of small business initiation and operation indicates at least two distinct phases, each with its own particular problems, and characteristics.

The initiation phase, the start-up, is a creative act. For large numbers of new firms, the possession of an idea, invention, new product possibility or new production process is the reason behind the new venture.

The development of such idea, invention, or possibility, to the point where it is a feasible and marketable proposition, re-



quires entrepreneurial activity i.e. innovation, organisation, challenge, imagination, responsibility and a degree of risk taking.

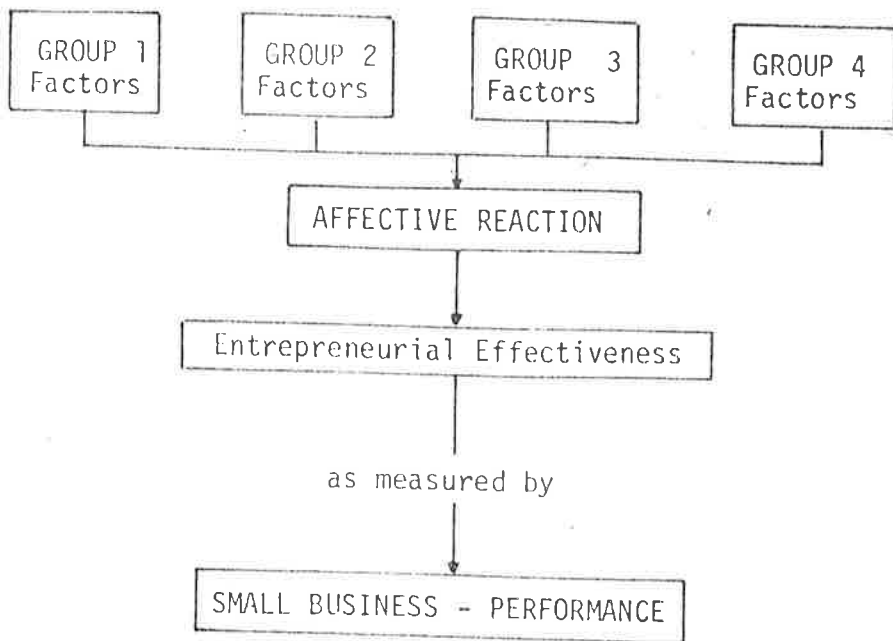
Once the firm is functioning as an on-going enterprise, and through the initial and most difficult phase, there is usually a marked change in the type of activity required of the owner/manager.

There is generally a real need for efficient management of what can become, in part, routine-type operations, e.g. general supervision of increasing numbers of employees, costing, record keeping and sales, and possibly supervision of production processes.

Among the many thousands of individuals who become owner/managers of small business ventures every year, there appear to be several recognisable categories:

1. those who are both good entrepreneurs and efficient managers,
2. those who have ability in neither area,
3. those who are good entrepreneurs, but poor managers, and
4. those who are efficient managers but have little entrepreneurial ability or inclination.

Individuals in category 1 ought to be identified and encouraged — they will be found in the most successful ventures. Un-



## Factors which make for success

fortunately such people are scarce, probably no more than 10% of the total population of small business owners in this country having a desirable combination of both entrepreneurial and managerial capacities and propensities. Such persons are able to recognise profitable opportunities, bring the innovation to fruition and efficiently manage the on-going venture.

Those persons with neither entrepreneurial nor managerial ability (category 2) are probably happier in employment. They should be encouraged not to enter small business ownership since they are seriously unsuited for the effective undertaking of both small business initiation and continuation. For those presently in business it is predicted that failure is practically certain, since it is doubtful if remedial action can offset the serious deficiencies.

Category 3 small business owners have the ability and motivation to start new ventures but lack the necessary managerial expertise to follow through and operate a successful business. Substantial remedial action is necessary to train and develop the required skills and techniques for effective management.

It is clearly recognised that the owner/manager of a small venture needs some

expertise in, and understanding of most (if not all) management functions which are appropriate to his enterprise. There is a stage when he cannot afford to employ specialised management services, but even when he can and must do so, he still ought to be able to oversee the total scene.

Category 4 encompasses the many thousands of small business firms which are owned and operated by individuals who lack the necessary creativity, motivation, imagination and energy to lift their ventures out of the ranks of the marginals, and give them stimulation, growth and vigour.

These "non-entrepreneurs" can be helped, as overseas programmes have clearly attested. Entrepreneurial management is essential for real success in a small business. **What Factors Are Found in Successful Entrepreneurs?**

The author's research has been aimed at identifying the personal characteristics of both successful and unsuccessful small business owners. The intention is to determine which of these characteristics are valid and reliable as predictors of successful entrepreneurial activity.

Once this is known training and educational programmes to develop the necessary skills (for category 3 owners), attitudes and motivation (for category 4 owners) can be planned and implemented.

It is hypothesized that effective entrepreneurial behaviour will result in rational decision-making, balanced judgment and appropriate interpersonal relationships — in short, management and leadership skills, appropriate to, and effective in, the role of small business owner/manager.

To provide answers to the many questions about which personal characteristics are associated with successful entrepreneurship, the author interviewed 250 small business owners, from all industries.

Included in the sample were 75 ex-owners who had recently failed, to provide

# ATIONAL RESOURCE, SAYS LECTURER

a broader range of performance scores and a close look at the personal characteristics of failures. Data were collected on all possible factors, and then processed by computer.

The findings are illustrated in the diagram, and can be discussed in groups.

## GROUP 1: RELEVANT PATTERNS OF EXPERIENCE AND PREPARATION

(a) **Pre-decision Experience** — all work related experience gained before making the decision to start a small business, including:

- (i) occupational, trade, professional experience,
- (ii) management experience, and
- (iii) ownership (entrepreneurial?) experience.

For each of these possible areas of experience, both the duration and relevance (to the present business) of the experience were investigated.

(b) **Post-decision Preparation** — all specific preparation for the start-up, including finance, location, market appraisal, accounting system, etc. Again both the duration and relevance of such preparation were looked at.

Adequate and (particularly) relevant experience and preparation provides the new owner with the necessary skills, expertise and competence to do his work well, and the essential facilities (e.g. finance, location) to ensure a sound start to the venture.



## GROUP 2: PERSONALITY TRAITS

(a) **Achievement Motivation** — a general and fundamental psychological drive, characterised by

- a strong need to compete, succeed and excel
- moderate risk-taking
- energetic and innovative activity
- preference for tasks where results are due more to ability than chance
- a substantial streak of independence
- organisational skill
- interest in excellence for its own sake, rather than consequential material rewards, prestige or power
- realistic self-confidence
- long-range time perspective
- desire for quick and objective feedback on results of decisions and actions.

A high level of achievement motivation is a most important factor for entrepreneurial success.

(b) **Interpersonal Response Traits** — the individual's method of responding to, and dealing or coping with others. There are three broad types of responses:

- (i) compliant (sensitive to others, unselfish, conformist)
- (ii) aggressive (competitive, self-interested, manipulative strategists)
- (iii) detached (independent, unemotional,

## FACTORS (BY GROUPS)

### GROUP 1: EXPERIENCE AND PREPARATION

	RANKINGS*				
	5	4	3	2	1
(a) Pre-decision Experience					
(i) Occupational—Duration					✓
Relevance		✓			
(ii) Management—Duration			✓		
Relevance	✓				
(iii) Ownership—Duration					✓
Relevance					✓
(b) Post-decision Preparation—Duration		✓			
Relevance	✓				

### GROUP 2: PERSONALITY TRAITS

(a) Achievement Motivation	✓				
(b) Interpersonal Response Traits					
— Compliant					X
— Aggressive			✓		
— Detached					✓
(c) Role Perception					
— Inner-Directed		✓			
— Other-Directed					X
(d) Role Success Motivation		✓			

### GROUP 3: CONCURRENT ROLE OBLIGATIONS

(a) Marital and Family Responsibilities		✓			
(b) Another job		✓			
(c) Club, Association involvement		✓			

### GROUP 4: OTHER FACTORS

(a) Education—duration					✓
—relevance		✓			
(b) Age of Starting Business		✓			
(c) Religious Affiliation		✓			
(d) Family Background					✓
(e) Sex					✓
(f) Physical Health					✓

\* 5 signifies CRITICALLY IMPORTANT, 1 signifies NOT IMPORTANT. Rankings based upon Pearson product-moment correlations.

nonconformist). Most successful entrepreneurs tend to be aggressive, detached, rather than compliant, in their interpersonal responses. This matches some of the features of high achievement motivation.

(c) **Role Perception** — how realistically a person sees the requirements of his work role. This can be classified as:

- (i) inner-directed (forceful, imaginative, independent, self-confident, decisive)
- (ii) other-directed (co-operative, adaptable, cautious, agreeable, tactful).

The more successful owner (i.e. the more "entrepreneurial") sees his role as requiring inner-directed activity.

(d) **Role Success Motivation**—a measure of how strongly motivated the owner is to succeed in the specific role of small business entrepreneur. It should be realised that entrepreneurs do not have to start new firms—they are also found in big business.

The more successful owner wants nothing more than to be a success in his small business.

### GROUP 3: CONCURRENT ROLE OBLIGATIONS

Successful performance as a business owner depends very much on how many other concurrent obligations he has. Three such areas of commitment for many business owners are

- (a) marital and family responsibilities
- (b) another job
- (c) active involvement in club or association membership.

Pressure of demands from any or all these other roles may decrease the busy entrepreneur's ability to cope with his work.

### GROUP 4: OTHER FACTORS

Certain other factors were investigated for their possible relation to the quality of entrepreneurial performance.

- (a) education — both duration and relevance
- (b) age of starting business
- (c) religious affiliation
- (d) family background
  - socio-economic status
  - geographical/occupational mobility
  - parental expectations and encouragement.
- (e) sex
- (f) physical health.

### THE KEY FACTOR

It is evident that starting and managing a small business venture is generally very stressful, having frustration, disappointments and severe physical and mental rigours.

It is hypothesized that the quality of entrepreneurial performance depends very much on the individual's ability and inclination to effectively cope with such role stress. A stressed person suffers impairment of emotional and cognitive functions, and in a business situation this will almost certainly result in faulty judgments, poor decisions, bad timing, inability to make necessary decisions, inadequate reasoning

Continued on page 16

*Machiavellian? Vlaschansky reports that they are low!*

# Small business failures

Continued from page 15

impatience, bad temper and many more symptoms.

Such behaviour will show up in a whole range of business problems which, if not corrected, will result in failure. This stress coping capacity/propensity is labelled **Affective Reaction**. All the factors listed above, in Groups 1 to 4 are capable of influencing the quality of entrepreneurial performance, through the individual's Affective Reaction, as shown in the diagram (columns 2, 3).

## THE FINDINGS

Scores on Affective-Reaction are significantly correlated with Small Business Performance scores (correlation co-efficient is .8992), indicating that individuals who can adapt to and cope with the stress of managing a small firm are the best performers, as measured in this study. The table indicates the author's assessment of the importance of each factor in the four groups as an influence on Affective-Reaction, and thereby, on performance as a small business owner.

The following conclusions may be drawn:

### 1. Experience and preparation

- Management competence is vital, particularly in a relevant area
- relevant occupational experience is very important
- previous experience as an owner does little to improve affective reaction
- relevance of experience to the needs of the present business is much more important than the length of that experience
- a sound foundation is a pre-requisite for any new business venture and relevant specific preparation for this is a critical factor.

### 2. Personality Traits

- A high level of achievement motivation is essential
- aggressive/detached interpersonal response traits are appropriate and a compliant mode is inappropriate

# Expert gives reasons

(shown with X to indicate level of importance)

- inner-directed role perception is appropriate whereas other-directed perception is inappropriate (again, shown with X to signify its importance).

### 3. Concurrent — Role Obligations

- Family and other work commitments are very important
- club activity has little impact on affective reaction.

### 4. Other Factors

- The extent of one's education is unimportant but its relevance to the present work is significant
- the most appropriate age to start business is between 30 and 39 years
- Protestant owners perform better than those from other religious groups
- successful entrepreneurs tend to come from middle socio-economic status families
- males and females are equally successful
- good health is vital for the job.

By knowing about the background and personality of any existing or aspiring small business owner, it is possible to predict with reasonable confidence, whether he has the potential for success in that role. Weaknesses can be identified and remedied before failure occurs. The major problem to be faced is to encourage such people to undergo the necessary testing and consequential remedial training and education where necessary.

What's SEP?

Ethical Implications?

\* Protestant Ethic?

were the non-Protestants also immigrants &/or "ethnics"?