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Parallel Session: Founder characteristics and small firm performance in Pakistan

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Founder Characteristics and Small Firm Performance in Pakistan

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***Abstract:** Although there is a large body of research on small firms, there is dearth of studies on small firms in developing countries. Developing countries present new sets of challenges which need new approach. Small firm founders in developing countries often lack marketing and general management knowledge, have low levels of literacy, lack training facilities for various types of skills, and have weak government support and infra-structure. Literature suggests founder characteristics have profound effect on the performance of small firms. This study seeks to investigate role of founder characteristics in performance of small firms in Pakistan. Small firms are defined as firms with 6 to 50 employees. A total of 440 firms from the manufacturing and services sector are selected from metropolitan Karachi and data is collected through a questionnaire. Survey instrument was a questionnaire with two parts. The first part included 17 questions related to information about founders and part two consisted of 5 questions related to performance. The questionnaire was personally administered through personal visits. Questionnaire is based on eighteen questions relating the variables of the study. Stratified random sampling is used. Innovation, proactive-ness and motivation are found to be significantly related to performance.*

***Keywords:** Founder characteristics, small firm, performance, Pakistan.*

1. Introduction

1.1. Small Firm vs. Small and Medium Enterprises (SMEs)

In this study the focus is on the small firm with 6 to 50 employees whereas in reference to literature the terms small firm and SMEs will be used interchangeably as in research these terms are often overlapping. SME Policy of government of Pakistan claims that different approaches are required for supporting small enterprises as opposed to medium-sized enterprises. Thus, wherever required, separate policy measures are proposed for small vs. medium-sized enterprises. This implies small firms need to be studied separately from the medium-sized firm.

1.2. Role of SMEs (Including Small Firms) in Developing Countries

Role of SMEs in the economy of developing countries has long been recognized. (Kazmil and Farooque, 2000). SMEs can enable rapid industrialization and accelerated economic growth. Recent literature from all parts of the world suggests importance of SMEs in the overall performance of economy, including USA (Audretsch, 1998), Japan (Urata and Kawai, 1998), East Asia (Berry and Mazumdar, 1991), and Africa (Morris, 1996). SMEs play an important role in economic structure and performance of a country (Berry, 1997).

In spite of the recognition of their importance, performance of SMEs has always fallen short of expectations (Arinaitwe, 2006). It needs investigation as to why SMEs have not been able to perform or to play their due role in poverty reduction, economic recovery and other developmental goals in the economies of developing countries. Most of these businesses are in the traditional, well established sectors and their customers are usually poor or lower middle class. They cannot compete in technology with medium or large scale business (Romijin, 2001). They cannot use economy of scale. Their financial position is weak and so is their technology. All these combine to make them risk averse. And this further

makes them shy about investment in new technology. A lack of ability to produce efficiently, upgrade product quality, meet deadlines and improve designs can lead to disaster. Due to all these factors institutional support is very important for them.

1.3. SMEs in Pakistan

According to the recent Census of Establishments conducted by the Federal Bureau of Statistics (FBS) there are about 3.2 million economic establishments in Pakistan. Out of these, small and medium sized enterprises constitute about 90% of all private enterprises employing approximately 78% of non-agriculture labor force. SMEs contribute over 30% to GDP, 25% in export earnings besides sharing of 35% in manufacturing value addition. Economic indicators clearly reveal the importance and potential of SMEs.

SMEs (specially small firms) in Pakistan are facing many problems. This includes illiteracy, lack of business know how (specially marketing), weak government support, lack of skilled manpower, over-regulation by government, obsolete technology, difficulty in obtaining loans, and a serious shortage of electricity, roads, transport facilities and other infrastructure. Berry et al. (1993) found that most of the problems faced by small business are related to marketing and its application. Lack of marketing skills and know how is an impediment to the viability of the small firm. In spite of the realization of the problem of small business, there has not been any significant effort to understand the problem and suggest solution.

Berry (1998) found that most SMEs in Pakistan were facing falling revenues. Roomi et al., (1998) found that problems of SMEs in Pakistan include inaccessibility to local and international market, shortage of skilled personnel, technological constraints and lack of innovation, lack of entrepreneurial and management skills, and poor product quality. Rana et al., (2003) studied 650 SMEs in Pakistan to see what characteristics of owner-managers affect SME performance. He found owners' education, media related habits, and use of information technology, number of investors, and number of generations in business had a significant relationship with the health of the firm.

2. Literature Review

2.1. Founder Characteristics

In this study the terms founder, owner and entrepreneur will be used interchangeably as they are so used in literature with reference to the small firm Founder in this study is taken to be the starter and first owner of business. In small firms the owner personifies the firm. He sets up traditions for the firm. And his style often determines the future of the small firm. It is also argued that small firms are embodiment of the personality of the small firm owner. Thus decisions of the small firm are the decisions of the owner. Based on this premise in this study the characteristics of the founder/owner/entrepreneur will be considered to be the characteristics of the firm.

Characteristics of the business founder greatly impact the performance of SMEs (Chen, 1993; Fu, 1991; Liu, Liu and Wu, 1995). Hill, et al. (2002) studied crisis points in SMEs in UK and USA. To cope with life stage crises in SMEs Hill found founder characteristics to be significant. Lin (2000) studied success factors for 43 SMEs in Taiwan. She found that business founder's attitude (16.4 %), and their skills (14.2 %), are the two most important concerns of the studied firms.

The following sections will discuss the founder characteristics used in this study to predict firm performance.

2.1.1. Age

Age is considered to have a negative effect on performance through diminishing entrepreneurial spirit in older entrepreneurs (Lussier, 1995). General consensus holds that younger business owners are more

innovative, risk-taking and proactive than older ones who are usually more content with the status quo. Older owners do not want to change things which have previously worked for them. They are comfortable with the existing situation and do not want to rock the boat. Ahmed (1995) argued age was one of the factors associated with small firm success through innovation and adaptability. He argues that with age owners are more innovative and adaptable. It would therefore be valuable to investigate what is the effect of age on performance in Pakistan.

2.1.2. Education

Altinay and Wang (2011) in a study on Turkish entrepreneurs found education had positive impact on owners' entrepreneurial orientation and performance. Education gave entrepreneurs the skills and thinking necessary for understanding customers and responding to their needs. Simpson et al., (2004) and Hankinson (2000) argued education was positively related to success. Dickson (2008) argued there was a significant and positive relationship between education and entrepreneurial performance. Verhees et al., (2004) found product innovation and performance were related to education and experience. Better educated owner-managers were more efficient (e.g., Burky & Terell, 1998). In developing countries low levels of education is remarkable when contrasted with developed countries. The poor in developing countries mostly create survival-oriented small firms to overcome lack of employment. This seems to be the case in Pakistan where educated youths are now picking up self-employment in line with developed countries where highly educated were more likely to be self-employed (Woodruff, 1999).

Education is one of the most fundamental characteristics necessary for business performance. This includes college education which is important in providing a logical way to analyze situations. Morris (1996) argues formal education levels achieved and skill-related training were key factors in achievement of entrepreneurial sophistication in business. An educated owner can understand concepts and apply them. Morisette, (2007) argues entrepreneurship needs to be inculcated in education. Luk and Sheriff (1996) studied factors self-reported by successful small business owners in Hong Kong which included education. Education may not directly impact success but indirectly it has significant role to play in enabling entrepreneurs to make better decisions, understand complex situations, be more analytical and command better communication abilities. Due to chronic low levels of literacy in Pakistan, education assumes major importance as a factor to be studied.

2.1.3. Prior Industry Experience

Altinay and Wang (2011) in a study on Turkish entrepreneurs found experience had a positive impact upon their firms' entrepreneurial orientation. In addition, the entrepreneur's previous related work experience prior to opening a new venture influences how the entrepreneur handles the start-up and the growth of the business (Hatch and Dyer, 2004). Such experience creates a 'cognitive framework' which facilitated better future decisions and handling of risk.

Harada (2002) found entrepreneur's previous experience in the industry and related business experience was related to performance. Entrepreneurs who had prior related experience were not only doing better but had a more confident approach and were ready to take reasonable risks. Performance is also affected by whether parents were entrepreneurs. Experience of 'any' business in general is also relevant for success. Hill (2001) suggested experience is the most significant competency and is the foundation level competency without which marketing competency cannot occur.

In this study aggregate experience will be used to represent four dimensions of experience including number of years of current business ownership, number of years of similar business owned before the present one, number of years of some other type of business owned before this one, and number of years of managerial experience before starting present business.

2.1.4. Parents Experience

Parents' experience is significant in its effect on business performance (Harada, 2002; Hausman, 2005). Businesses running in families tend to perform better than those which are not. Role models exert a powerful influence over subsequent innovativeness (Perry-Smith and Shalley, 2003). Entrepreneurship cannot ignite and grow without the mobilization of family forces (Editorial, J. of BV, 2003). Thus family comes to play a strong part in business performance.

2.1.5. Entrepreneurial Personality

Entrepreneurial personality as a factor in firm performance has strong support in literature. Among the large number of variables found related to entrepreneurial behavior the most widely quoted are innovation, risk taking and proactive-ness (Morrison, 2000; Curran et al., 1986; Nandram, 2002; O'Gorman, 2001; and Watson et al., 1998). A founder possessing characteristics of innovation, risk-taking and proactive-ness (among many other factors) is said to have an entrepreneurial personality. But having an entrepreneurial personality is not enough. Entrepreneurial actions must actually be taken on the ground. In this study entrepreneurial personality as a factor in performance is investigated.

For small firms _owner-manager' personifies the firm. It is the personality of the owner-manager that dictates direction for the small firm. Also entrepreneurial orientation of the owner-manager as a factor in firm performance is well supported in literature. Keh et al., (2007) found entrepreneurial orientation (EO) was significantly related to firm performance directly as well as through information utilization as an intervening variable. He found firms with high levels of EO were more likely to identify opportunities and to make their position stronger with time. High EO helps in acquisition and utilization of information.

Among the large number of characteristics found related to entrepreneurial orientation, some of the most widely quoted are innovation, risk taking and adaptability (Morrison, 2000; Curran et al., 1986; Nandram, 2002; O'Gorman, 2001; and Watson et al., 1998). A founder possessing these characteristics is said to have an entrepreneurial orientation which serves as driver for small firm success. Most discussions of entrepreneurship start with innovation.

2.1.6. Innovation

In order to survive and grow in the highly competitive world of today, where globalization, deregulation, e-commerce and great competitive intensity with new technologies is the order of the day firms must innovate continually (Higgins, 1996; Kay, 1993; Patel, 1999; Cook, 1998; Davis and Moe, 1997; Doyle, 1999). In an empirical study of 100 UK firms, Cottom et. al. 2001, found that a significant number of these firms were serious about innovation. To the extent that some had directors of innovation, managers of innovation and cross functional teams doing innovation. However Hausman (2005) found that knowledge applicable to innovativeness in large firms cannot be applied to innovation in small firms. Industry competitiveness appears to work the opposite in case of small vs. large firm.

Most discussions on entrepreneurship have focused on innovation. Activities of the firm are changed through innovation leading them away from routine and repetitive activities. New environment is created and this is done by the entrepreneur. Entrepreneur plays the innovative role (Yamada, 2004). The definition of entrepreneur is derived from the Austrian view suggested by Schumpeter (1971). According to this view entrepreneurship is carrying out of new combinations to connect resources and people. Schumpeter (1954) suggested innovativeness is the tendency to support new ideas, novelty, experimentation, and creative processes resulting in new products, services, or technological processes. Innovativeness includes fostering a spirit of creativity, supporting R&D and experimentation, developing new processes, introducing new products/services, and technological leadership (Lumpkin, 2001; Lumpkin and Dess, 2001). Usually entrepreneurs and their firms who are innovative are the first to bring a product to market (Colvin and Slevin, 2001). Creativity and innovation are related. Innovation is applied creativity.

Drucker (1994) argues there are 7 basic sources of opportunities to innovate and only one of them is to do with inventing something new. Innovation is more than invention and does not have to be technical. It can be social and economic. Thus innovation can be in any activity including selling, pricing, or even delivery. It has to have value for the end customer. Innovation can be radical vs. incremental, product vs. process, and administrative vs. technological (Cooper, 1998). Cooper defined innovation to include new products, new processes, new services (including new uses of established products, processes and services), new forms of organization, new markets, and the development of new skills and human capital. Thus entrepreneurs can do any of these innovations to gain edge over competitors.

2.1.7. Risk-Taking

Risk-taking is an important characteristic of entrepreneurs. Entrepreneurs are likely to take great risks in their pursuit of business opportunities and to promote innovation (Knight, 1921). Knight places great emphasis on this aspect of entrepreneurship. There is no guarantee that new products would succeed. Entrepreneurs have to face this uncertainty. It is entrepreneurs that can deal with this type of uncertainty. Folani and Mullins (2000, pp. 304) suggest entrepreneurs' perception of risk is the —uncertainty and potential losses associated with the outcomes which may follow from a given set of behaviors. It may include venturing into a new and unknown territory, committing a relatively large share of assets and significant borrowing (Baird and Thomas, 1985). Entrepreneurs usually accept that entrepreneurship involves risk-taking and they are willing to take these risks in return for the rewards. They would however, prefer to lower the risks when possible.

Risk-taking may be more profitable in the long term rather than the short term —because some projects fail while others succeed—(March, 1991; McGrath, 2001). In order to excel competition and gain edge in the market, firms have to take actions which may result in considerable loss to them. Risk-taking was related to performance (Covin and Slevin, 1991; Wiklund, 1999; Zahra and Covin, 1995). Among the dimensions of entrepreneurial orientation characteristics risk-taking was next to innovation in terms of significance and effect on performance. Risk-taking is a very important issue for the small firms due to their high failure rates (Stokes, 2000).

2.1.8. Proactiveness

Proactiveness is the opportunity seeking, forward looking perspective that involves introducing new products/services and acting in anticipation of future demand. Lumpkin and Dess (2001) describe proactiveness as a response to opportunities and competitive aggressiveness as response to threats. It includes many activities including identifying opportunities, and market trends, assessing strengths and weaknesses of opportunities, and forming teams capable of exploiting them (Kropp, Lindsay, and Shoham, 2004). Entrepreneurs need to develop a vision and determine ways to combat previously unidentified components to capitalize on the perceived business opportunities (Bird, 1989; Schumpeter, 1954).

2.1.9. Motivation for Business (Push vs. Pull Factors)

Gilad and Levine (1986) introduced the 'push' and 'pull' theory of motivation for entrepreneurship. According to the 'push' theory individuals are pushed into entrepreneurship by negative factors including unemployment, low incomes, bad experience from work and other such factors. The 'pull' theory suggests individuals are attracted to entrepreneurship due to what it offers including self-fulfillment, independence, wealth, and other desirable outcomes. Keeble et al. (1992) and Orhan and Scott (2001) argue people become entrepreneurs primarily due to pull factors.

Pull factors were more likely to lead to success than push factors (Watson, et al., 1998). It is generally argued that individuals who are pulled into entrepreneurship will have more profitable and higher growth firms (Storey, 1994). This push-pull dichotomy can provide a useful classification for entrepreneurial motivations.

Moreover, those owners who entered business due to pull factors had an entirely different attitude. They were enjoying doing business and were more motivated. Push factor motivated owners were just surviving and looking for financial returns. They did not have emotional involvement in business in the same way as the pull motivated owners.

2.1.10. Adaptability

Entrepreneurial success requires both a real opportunity in the market and a well conceptualized business concept and a good fit between the two. This fit is not necessarily present from the beginning. The successful entrepreneur realizes this and thus recognizes the need for continuous adaptation of elements (Shindehutte et al. 2001).

Shindehutte et al. (2001) found adaptability in small firms, based on turbulence in the external environment, related to success. They also found prior ventures lead to more adaptation. And opportunist entrepreneur is more likely to adapt than craftsmen or inventors. Also non family ventures were more adaptive than family ones. Dynamic markets led to more adaptation and to innovation. Firms with more adaptive capacity adapt more. And adaptation leads to higher sales revenues and higher profits.

The extent to which a given marketing strategy will work is a function of its adaptation. This may include positioning a company around a flexible product line. Adaptation may well be associated with the marketing concept (Pitt, 2000). A critical finding is that adaptation has performance implications in small firms. The tendency to adapt over time is positively associated with profit performance. The most important adaptive strategy seems to be product/service development. It is important for an entrepreneur to have a concept that loosely fits the opportunity and then proactively adapt as things evolve, than to lock the firm into specific commitments that limit the venture's future actions.

2.2. Performance Measurement

In this study performance is measured both objectively and subjectively. Objective measures of performance include growth in profit, sales and employees with respect to competition in the last three years as judged by the owner manager. Subjective measures of performance include overall satisfaction from business and decision to invest in business next year (Rana et al, 2003). Objective measures of success may not be enough. Small business owner may have personal objectives that need not always be objective. He may be lifestyle oriented businessman. Or he may just like to carry out an activity to 'pass time'. Thus he may not measure his success in objective terms. Such business owner may be happy with moderate success as long as he is achieving his other subjective goals. Thus to fully understand performance from the small business owners' point of view it is important that both measures of success be included in performance measurement. This study asks small business owner questions related to profit and growth in sales and employees to assess objective performance. He is asked his overall satisfaction from business and his willingness to invest in same in next period as a proxy for subjective success measurement.

3. Factor Analysis and Adjustment of Research Framework

Based on the factor analysis some variables were deleted and the final revised framework and hypotheses were formulated as in the sections below.

3.1. Research Framework

Framework for the study is given in Figure 1.

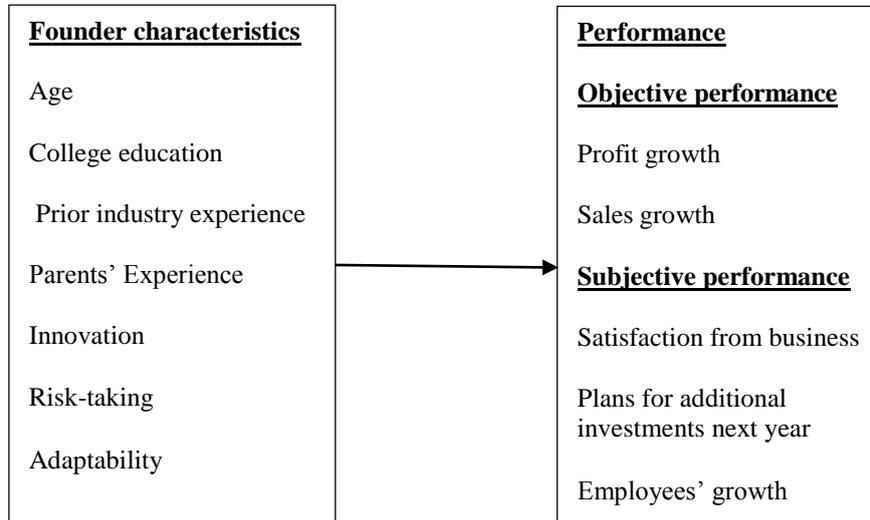


Figure 1. Research Framework

3.2. Research Hypotheses

3.2.1. Objective Business Performance

H1: Founder characteristics of small firms in Pakistan influence objective business performance.

H1A: The higher the age of the founder the lower the business performance of the firm.

H1B: The higher the education of the founder the higher the business performance of the firm.

H1C: The higher the prior industry experience of the founder the higher the business performance of the firm.

H1D: The higher the parents' industry experience the higher the business performance of the firm.

H1E: The more innovative the founder the higher the business performance of the firm.

H1F: The more risk-taking the founder the higher the business performance of the firm.

H1G: The more adaptable the founder the higher the business performance of the firm.

3.2.2. Subjective Business Performance

H2: Founder characteristics of small firms in Pakistan influence subjective business performance.

H2A: The higher the age of the founder the lower the business performance of the firm.

H2B: The higher the education of the founder the higher the business performance of the firm.

H2C: The higher the prior industry experience of the founder the higher the business performance of the firm.

H2D: The higher the parents' industry experience the higher the business performance of the firm.

H2E: The more innovative the founder the higher the business performance of the firm.

H2F: The more risk-taking the founder the higher the business performance of the firm.

H2G: The more adaptable the founder the higher the business performance of the firm.

4. Results

4.1. Inter-Correlation of Variables of Study

4.1.1. Services

Results showed two dimensions of entrepreneurial orientation were significantly correlated with objective performance, namely innovation ($r = .19, p < .01$), and risk-taking ($r = .16, p < .01$) and all three dimensions of entrepreneurial orientation were correlated with subjective performance, namely, innovation ($r = .28, p < .01$), risk-taking ($r = .25, p < .01$) and adaptability ($r = .15, p < .01$). See table 1.

Table 1: Inter-correlation of variables of Study for Service Firms

	AGE	ED	EXP	PAR	INN	RISK	ADA	OBJP	SUBP
AGE	1								
ED	0	1							
EXP	0.25**	0.04	1						
PAR	-0.14**	0.09	-0.06	1					
INN	-0.03	0.16**	0.12*	0.01	1				
RISK	-0.03	0.10*	0.08	0.08	0.43**	1			
ADA	-0.01	0.07	0.13*	0.02	0.50**	0.34**	1		
OBJP	-0.11*	0.03	-0.03	0.04	0.18**	0.15**	0	1	
SUBP	-0.15**	-0.02	-0.05	0.06	0.28**	0.24**	0.15**	0.49**	1

4.1.2. Manufacturing

Results showed two dimensions of entrepreneurial orientation were significantly correlated with objective performance, namely innovation ($r = .18, p < .01$), and risk-taking ($r = .15, p < .01$) and all three dimensions of entrepreneurial orientation were correlated with subjective performance, namely, innovation ($r = .28, p < .01$), risk-taking ($r = .24, p < .01$) and adaptability ($r = .15, p < .01$). See table 2.

Table 2: Inter-Correlation of Variables of Study for Manufacturing Firms

	AGE	ED	EXP	PAR	INN	RISK	ADA	OBJP	SUBP
AGE	1								
ED	0	1							
EXP	0.25**	0.04	1						
PAR	-0.14**	0.09	-0.06	1					
INN	-0.03	0.16**	0.12*	0.01	1				
RISK	-0.03	0.10*	0.08	0.08	0.43**	1			
ADA	-0.01	0.07	0.13*	0.02	0.50**	0.34**	1		
OBJP	-0.11*	0.03	-0.03	0.04	0.18**	0.15**	0	1	
SUBP	-0.15**	-0.02	-0.05	0.06	0.28**	0.24**	0.15**	0.49**	1

4.2. Hypotheses Testing through Multiple Regression Analysis

4.2.1. Service

4.2.1.1. Relationship between Founder’s Entrepreneurial Orientation Characteristics and Objective Business Performance H1

Hypothesis H1 (H1E to H1G) postulated a positive significant relationship between owner-managers’ entrepreneurial orientation characteristics and objective business performance of the firm. This hypothesis was tested through regression analysis. Results indicated innovation ($\beta = .21, p < .01$) positively and significantly influenced objective business performance. Risk-taking ($\beta = .18, p < .01$) also positively and significantly influenced objective business performance. Adaptability however was not significant with objective performance. R^2 was found to be 8 % which meant the three dimensions of owner-managers’ entrepreneurial orientation characteristics together explained 8 % variation in objective business performance of small firms in Pakistan. Therefore the hypothesis H1E (innovation and objective business performance) and hypothesis H1F (risk-taking and objective business performance) were supported, while hypothesis H1G (adaptability and objective business performance) was not supported. See table 3.

Table 3. Multiple Regression: Founder’s Entrepreneurial Orientation Characteristics and Business Performance Services

Independent Variables	Dependent Variables (β)	
	Objective business performance	Subjective business performance
Innovation	.21***	.26***
Risk-taking	.18***	.21***
Adaptability	-.12	-.01
R^2	.08	.15
R^2 Change	.08	.15
F Change	7.29***	14.37***

Significance levels *** $p < .01$; ** $p < .05$; * $p < .10$

4.2.1.2 Relationship between Founder's Entrepreneurial Orientation Characteristics and Subjective Business Performance H2

Hypothesis 2 (H2E to H2G) postulated a positive significant relationship between owner-managers' entrepreneurial orientation characteristics and subjective business performance of the firm. This hypothesis was tested through regression analysis.

Results indicated innovation ($\beta = .26, p < .01$) positively influenced subjective business performance. Risk-taking ($\beta = .21, p < .01$) also positively influenced subjective business performance. Adaptability ($\beta = -.18, p < .01$) however did not significantly influence subjective business performance.

R² was found to be 14.3 % which meant the three dimensions of owner-managers' entrepreneurial orientation characteristics together explained 14.3 % variation in subjective business performance. Therefore the hypothesis H2E (innovation and subjective business performance) and hypothesis H2F (risk-taking and subjective business performance) were supported, while hypothesis H2G (adaptability and subjective business performance) was not supported.

4.2.2. Manufacturing

4.2.2.1 Relationship between Founder's Entrepreneurial Orientation Characteristics and Objective Business Performance H1

Hypothesis H1 (H1E to H1G) postulated a positive significant relationship between owner-managers' entrepreneurial orientation characteristics and business performance of the firm. This hypothesis was tested through regression analysis. Results are given in Table 4.

Results indicated innovation ($\beta = .20, p < .05$) positively and significantly influenced objective business performance. Adaptability ($\beta = -.20, p < .05$) negatively and significantly influenced objective business performance. Risk-taking however did not significantly influence objective performance.

R² was found to be 4 % which meant the three dimensions of owner-managers' entrepreneurial orientation characteristics together explained 4 % variation in objective business performance. Therefore hypothesis H1E (innovation and objective business performance) was supported. However hypotheses H1F (risk-taking and objective business performance) and H1G (adaptability and objective business performance) were not supported.

4.2.2.2. Relationship between Founder's Entrepreneurial Orientation Characteristics and Objective Business Performance H1

Hypothesis H2 (H2E to H2G) postulated a positive significant relationship between owner-managers' entrepreneurial orientation characteristics and subjective business performance of the firm. This hypothesis was tested through regression analysis.

Results indicated none of the entrepreneurial orientation dimensions, namely, innovation, risk-taking, and adaptability were significant with subjective performance. Thus hypothesis H2E (innovation and subjective business performance), H2F (risk-taking and subjective business performance) and H2G (adaptability and subjective business performance) were not supported.

Table 4: Multiple Regression: Owner-managers' Entrepreneurial Orientation Characteristics and Business Performance

Independent Variables	Dependent Variables (β)	
	Objective business performance	Subjective business performance
	Method A/B	Method A/B
Innovation	.20**	.08
Risk-taking	-.04	.08
Adaptability	-.20**	.08
R ²	.08	.15
R ² Change	.08	.15
F Change	2.25*	.8
Significance levels ***p < .01; **p < .05; *p < .10		

5. Discussion

Age is negatively correlated with objective and subjective performance for services firms. This shows that younger founders are more successful than older ones. This might be due to the fact that services are usually found in retail setups where the business model tends to be simple in Pakistan, e.g. shops and grocery stores. Education is not significant with objective or subjective performance. Reasons for this appear to be similar to those given for age. Incidentally experience, parents experience is also not significant. Innovation, risk-taking is significant with both objective and subjective performance and adaptability with subjective performance. This shows founders who are adaptable perceive themselves to be more successful in a subjective manner.

For manufacturing results are quite similar.

Regression analysis results indicated that for services innovation and risk -taking are significant with both objective and subjective business performance but adaptability has not found to be significant. This means those who innovate and take risks are rewarded but those who adapt may not be.

For manufacturing however only innovation is significant with objective business performance. One explanation can be that manufacturing often needs substantially more investment and thus founders are reluctant to take risks. Adaptability requires more knowledge and technology in manufacturing.

6. Conclusion

There are lessons in this study for the small business firms in Pakistan. In the present global economic crisis small firm survival will depend on its ability to innovate ahead of competition. Doing business the conventional way is not likely to lead the small firm to profitability, sales growth and growth in employment. The small firm has to innovate within its limited resources. Innovation is not invention. It is new ways of doing business which adds value to the business or quality of life of its customers.

Small business owners must try to get into the kind of business they enjoy doing and this is likely with type of business in which they feel confident.

For the policy makers the implications are that small firm must be helped to survive its first few years in which it is vulnerable. Training programs and consultancy can help the small firm but the small firm needs assurance that consultants are good for them and for this consultants need to talk in the language of the small firm owners.

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