

**Volume 17**

**Print ISSN: 1099-9264**

**Online ISSN: 1939-4675**

# **INTERNATIONAL JOURNAL OF ENTREPRENEURSHIP**

**Nelson O. Ndubisi**

**Editor**

Nottingham University Malaysia Campus

**Charles A. Rarick**

**Co-Editor**

Purdue University Calumet

The *International Journal of Entrepreneurship* is owned and published by Jordan Whitney Enterprises, Inc. Editorial content is under the control of the Allied Academies, Inc., a non-profit association of scholars, whose purpose is to support and encourage research and the sharing and exchange of ideas and insights throughout the world.

Authors execute a publication permission agreement and assume all liabilities. Neither Jordan Whitney Enterprises nor Allied Academies is responsible for the content of the individual manuscripts. Any omissions or errors are the sole responsibility of the authors. The Editorial Board is responsible for the selection of manuscripts for publication from among those submitted for consideration. The Publishers accept final manuscripts in digital form and make adjustments solely for the purposes of pagination and organization.

The *International Journal of Entrepreneurship* is owned and published by Jordan Whitney Enterprises, Inc., 51 Blake Drive, Arden, NC 28704, USA. Those interested in communicating with the *Journal*, should contact the Executive Director of the Allied Academies at [info@alliedacademies.org](mailto:info@alliedacademies.org).

Copyright 2013 by Jordan Whitney Enterprises, Inc., Arden NC, USA

## EDITORIAL REVIEW BOARD

Ismet Anitsal  
Tennessee Tech University  
Cookville, Tennessee

Martin Bressler  
Southeastern Oklahoma State University  
Durant, Oklahoma

R. Ganesan  
Indian Institute of Technology  
Delhi, India

Wilfred Iyiegbuniwe  
University of Lagos  
Lagos, Nigeria

John Lambert  
University of Southern Mississippi  
Hattiesburg, Mississippi

Jonathan Lee  
University of Windsor  
Ontario, Canada

Nelson Oly Ndubisi  
Nottingham University  
Selangor, Malaysia

John Kalu Osir  
Washington State University  
Pullman, Washington

Charles A. Rarick  
Purdue University Calumet  
Hammond, Indiana

Sujata Satapathy  
Indian Institute of Technology  
Delhi, India

Doan Winkel  
Illinois State University  
Normal, Illinois

Rowena Barrett  
Monash University  
Churchill, Victoria, Australia.

Shawn M. Carraher  
Indiana Wesleyan University  
Marion, Indiana

Omprakash K. Gupta  
Prairie View A&M University  
Prairie View, Texas

Hoje Jo  
Santa Clara University  
Santa Clara, California

Doo-Hee Lee  
Korea University  
Seoul, Korea

Jens Mueller  
Waikato Management School  
Hamilton, New Zealand

Gbadebo Olusegun Odularu  
Forum for Agricultural Research in Africa  
Accra, Ghana

Khondaker Mizamur Rahman  
Central Queensland University  
Australia

Felipa Lopes dos Reis  
Open University and Universidade Lusíada de Lisboa  
Portugal

Thomas Straub  
University of Geneva  
Switzerland

Miri Yemini  
Sami Shmoon College of Engineering  
Beer Sheva, Israel



---

## TABLE OF CONTENTS

EDITORIAL REVIEW BOARD.....	III
LETTER FROM THE EDITORS.....	VII
ENTREPRENEURIAL PERFORMANCE AND STAKEHOLDERS' RELATIONSHIPS: A SOCIAL NETWORK ANALYSIS PERSPECTIVE .....	1
José Carlos Pinho, University of Minho Elisabete Sampaio de Sá, University of Minho	
CROSS-CULTURAL DIFFERENCES IN ENTREPRENEURIAL TENDENCIES: AN EXPLORATORY VIEW IN TURKEY AND CANADA.....	21
A.Emre Demirci, Anadolu University	
DOES ENTREPRENEURIAL ORIENTATION PREDICT ENTREPRENEURIAL BEHAVIOUR? .....	41
Robert Kemepade Moruku, Delta State University, Nigeria	
SOCIAL ENTREPRENEURSHIP: REDUCING CRIME AND IMPROVING THE PERCEPTION OF POLICE PERFORMANCE WITHIN DEVELOPING COUNTRIES .....	61
K'adamawe K'nIfe, University of West Indies, Mona Andre Haughton, University of West Indies, Mona	
TWO PEAS IN A POD? EXPLORING THE MARKET ORIENTATION, INNOVATION, AND DYNAMISM OF MEXICO AND TURKEY'S ENTREPRENEURIAL CULTURE .....	77
Laura Serviere-Munoz, University of Dallas Handan Vicdan, Emlyon Business School, France Anshu Saran, University of Texas of the Permian Basin	
PRIVATE EQUITY AND ENTERPRISE GROWTH: AN ITALIAN PERSPECTIVE.....	99
Emanuele Teti, Bocconi University, Italy Gennaro Casillo, Bocconi University, Italy	



## LETTER FROM THE EDITORS

Welcome to the *International Journal of Entrepreneurship*. We are extremely pleased to present a journal which is rapidly becoming a primary vehicle for communication of entrepreneurship research throughout the world.

The Academy of Entrepreneurship® is a non-profit association of scholars and practitioners in entrepreneurship whose purpose is to encourage and support the advancement of knowledge, understanding and teaching of entrepreneurship throughout the world. The *International Journal of Entrepreneurship* is a principal vehicle for achieving the objectives of the organization. The editorial mission of this journal is to publish empirical and theoretical manuscripts which advance the entrepreneurship discipline in international settings. To learn more about the Academy, its affiliates, and upcoming conferences, please check the website of our affiliate: [www.alliedacademies.org](http://www.alliedacademies.org).

The manuscripts in this volume have been double blind, peer referred. The acceptance rate, 25%, corresponds to our editorial policy.

Nelson Ndubisi  
Nottingham University, Malaysia Campus

Charles A. Rarick  
Purdue University Calumet



# **ENTREPRENEURIAL PERFORMANCE AND STAKEHOLDERS' RELATIONSHIPS: A SOCIAL NETWORK ANALYSIS PERSPECTIVE**

**José Carlos Pinho, University of Minho  
Elisabete Sampaio de Sá, University of Minho**

## **ABSTRACT**

*This study aims at examining the overall pattern of networks between low, moderate and high entrepreneurial performance of new ventures. Following a quantitative methodological approach, a survey was administered to a sample of seventy three new ventures to empirically test and analyse their relationships with different stakeholders.*

*The results from this study revealed that the pattern of networks between entrepreneurial ventures and their inter-relationships with different stakeholders varies according to each category of performance. For instance, while high entrepreneurial performers show a high degree of density of relationships and develop in-depth interactions with current major suppliers, customers and close relatives, low entrepreneurial performers reveal the opposite pattern.*

*This paper also shows the relevance of social network analysis as a potential tool for researchers and managers. A key contribution of network analysis is that it allows analyzing the structural patterns of connected systems. Future research opportunities include cross-longitudinal analysis to study different entrepreneurial performance ventures, over time. The network approach enables examination of network power shifts and identification of opportunities.*

## **INTRODUCTION**

Currently, the world is experiencing growing instability and unpredictability, resulting largely from the process of globalization, which major drivers are technological change, liberalization of world trade/commerce, transportation and communication improvements, product development costs and higher demand for total quality orientation (Keegan & Schlegelmilch, 2001). At the same time, we are witnessing the growing importance of small and medium-sized businesses which can be more flexible and adaptable, thus better coping with turbulent contexts. Entrepreneurial small businesses and new ventures also have a key role in seizing new opportunities arising from both niches associated with structural changes in markets and new technological developments. Consequently, there is an overall agreement on the benefits of a more entrepreneurial society and economy (Audretsch, 2009; Audrestsch et al., 2002; Grebel

et al., 2003). Entrepreneurs are central to the functioning of free economies, since they are agents of change and growth and can act to accelerate the generation, dissemination and application of innovative ideas. In doing so, they not only ensure the efficient use of resources, but also expand the boundaries of economic activity.

It is, however, a known fact that new firms face a high risk of failure, which led a part of research on entrepreneurship to focus the interest on the determinants of success of new ventures. Several dimensions, such as management characteristics, business strategy, industry structure, personality and other features of the entrepreneur and founding team were put forward in literature (e.g. Eisenhardt & Schoonhoven, 1990; Keeley & Boure, 1990; Miller & Toulouse, 1986; Sandberg & Hofer, 1987; Zhao et al., 2010). This article stands from the perspective that social networks play an important role in entrepreneurial success (Birley, 1985). Recent studies have shown that “networks” and “networking” are important entrepreneurial tools that contribute to the establishment, development and growth of small firms (Shaw & Conway, 2000). Entrepreneurs are embedded in social networks which allow them, not only to enlarge their knowledge opportunities, range of action, ability to gain access to critical resources and to gain critical knowledge (Floyd & Wooldridge, 1999), but also to avoid or deal with business development obstacles (Aldrich & Elam, 1997). Network configurations can differ, according to the type of stakeholders and the nature of relations they encompass. Consistent with Freeman, who introduced the stakeholder theory, stakeholder is defined as “[...] any group or individual who can affect or who is affected by the achievement of the organization’s objectives” (Freeman, 1984, p. 25).

This study posits that entrepreneurial ventures evidencing high performance are likely to access and mobilize relevant strategic organizational resources with specific stakeholders, whereas low performers are likely to access less strategic organizational resources from other types of stakeholders. Additionally, entrepreneurial networks with stakeholders can be categorized into two types derived from different sources: formal networks and informal networks (Birley, 1985). While formal networks consist of public and sectorial associations, universities and training centers and financial institutions, informal networks include close relationships, family and friends (Das & Teng, 1997). These relationships may rely on stronger or weaker ties, which are not necessarily in conflict with each other, but, instead, play a different role (Burt, 2000). Additionally, in accordance with Zhao and Aram (1995), there is a cost to networking, particularly in terms of the owner’s time and, as a result of that, entrepreneurs need to be strategic in their use by balancing potential costs against benefits.

Applying social network analysis as its main methodology, this paper aims at achieving the following objectives: i) to understand the nature and type of low, medium and high entrepreneurial performance and stakeholders’ relationships; ii) to explore the overall pattern of networks between new ventures and different stakeholders.

This article is organized as follows. Firstly, the literature about formal and informal stakeholders is examined. Secondly, methodology is explained and results of empirical research are discussed. Finally, the limitations of the study and future directions to explore the topic are presented.

## **THEORETICAL UNDERPINNINGS**

### **The role of public and sectorial associations in the network**

Acknowledged by political and economic actors as one of the keys to unlock greater employment, growth and competitiveness, particularly in Europe (European Commission, 2006), entrepreneurship has gained increasing support in recent years. Both national governments and regional public institutions offer a variety of support programs in order to foster entrepreneurial initiatives, not only through financial support, but also technical support and capacitation programs (Robson et al., 2009). This results from the fact that entrepreneurship is often seen as a means of fighting unemployment and poverty, and of fuelling the drive for new economic opportunities, which is particularly important in the context of economic downturn and rise in unemployment. Promoting entrepreneurship is, thus, viewed as part of a formula that reconciles economic performance with social cohesion (OECD, 1998). There is, indeed, evidence of the economic value of entrepreneurship. The revision of recent studies made by Van Praag and Versloot (2007, 2008) concluded that, comparing to their incumbent counterparts, entrepreneurial ventures create relatively much employment and productivity growth and produce and commercialize high quality innovations. Additionally, the authors also found that entrepreneurship is responsible for another important contribution to economy deriving from the production of spillovers that affect overall regional employment growth rates. Also, entrepreneurial firms can, themselves, take advantage from the dispersion of endogenously created knowledge to develop important radical innovations (Acs et al., 2009).

The most relevant of knowledge production sites are universities and research centers; therefore, worldwide several initiatives have also been put in place to strengthen the links between research institutions and industry. According to Etzkowitz and Leydesdorff (1997), the triple helix model (university–industry–government) can be used to interpret recent changes at the level of a knowledge-based society and economy and the new challenges that are imposed upon a modern university. Encouraged by technology transfer agencies and by government regulations for funding research, scientists are, indeed, increasingly looking for the outcome of their research in terms of its commercial applications. In Portugal, this is particularly important since most of the new technology-based firms are more creative adapters of technologies first introduced elsewhere than radical innovators (Laranja & Fontes, 1998). Despite the difficulties to create a synergetic relationship between the academic, governmental and business domains, there

are documented Portuguese examples of the fruitful functioning of the triple helix (Marques et al., 2006).

The general goal is to develop an innovative and adequate legal framework that provides a favourable environment for developing an entrepreneurial attitude. This intention is pursued either by encouraging the creation of academic spin-off companies and setting R&D contracts with public research institutions; or by setting favorable physical spaces such as technology parks and business incubators; or even by building strategic alliances between firms and creating hybrid institutions. These various relationships between university, industry and the public and local governments generate a dynamism that promotes and creates a balance between the different systems (Leydesdorff, 2003). Administrative burdens and bureaucracy represent a high cost for new entrepreneurial ventures, though, and, when associated with corruption costs, constitutes a serious obstacle for their success (Baughn & Neupert, 2003). These obstacles are usually associated with high transaction costs.

In the late nineties of the 20<sup>th</sup> century, most governments were very concerned about economic growth and, as a result, they implemented a range of political measures that evaluated and developed scientific knowledge by increasing cooperation among universities, state laboratories and companies. Although it is difficult to determine how many of the differences in an entrepreneurial attitude should be attributed to such institutional programs, it is believed that relationship with main stakeholders may provide the necessary conditions for new firms to prosper.

### **The role of research centers and universities in the network**

During the last two decades, entrepreneurship education has expanded significantly in most industrialized countries (Matlay & Carey, 2007). As Matlay (2008, p. 382) acknowledged, “there is an expectation that more as well as better entrepreneurship education would result in a proportionate increase in both the number and the quality of entrepreneurs entering an economy”. The fostering of an entrepreneurial culture has long been offered as the panacea for low productivity and declining economic output (Matlay, 2008). With this regard, Raposo et al. (2008) argued that the entrepreneurship as a field of study in an academic curriculum seems to contribute to a theory of solid learning and, thus, increases knowledge in certain business fields, while at the same time promoting a favorable psychological attitude towards entrepreneurs. Moreover, gone are the days when the entrepreneur would be seen as a deviant individual on the margins of society.

Although the results are not consensual (e.g. Oosterbeek et al., 2010), there is empirical evidence that entrepreneurship education programs impact on the entrepreneurial intentions (Fayolle et al., 2006), influencing the propensity to business creation (Rodrigues et al., 2010) and to entrepreneurial success (Dickson et al., 2008). Thus, even before high school, there are very

early stimuli of entrepreneurial attitudes that may encourage entrepreneurship as a career option, although this assertion has not been tested empirically (Kourilsky & Walstad, 1998).

In general, results of previous research suggest that the promotion of certain types of education in the area of entrepreneurship is associated with a higher propensity for starting a business. The practical programs that provide real experience seem to be particularly useful in increasing the predisposition and the desire to create a new business (Honig, 2004). Entrepreneurship education can also include behavioral simulations and can focus on areas such as negotiation, leadership, creative thought, technological innovation and development of new products, discovery and exploration of new business opportunities, long-term business planning, among others (McMullan et al., 1986; Stumpf et al., 1991; Vesper & McMullan, 1988).

The role of entrepreneurial education and training for the identification of a potential entrepreneurial attitude at a young age is becoming evident for students, politicians and educators (Rasheed, 2000). Entrepreneurship education is recommended to be integrated in the academic curricula at all levels from elementary school to university (Lundström & Stevenson, 2001). According to Florin et al. (2007), however, it is not sufficient to teach skills but, rather, it is important to develop and foster an “entrepreneurial drive”, which means individual’s perception of the desirability and feasibility to proactively pursue opportunities and creatively respond to challenging tasks, needs and obstacles in an innovative way.

Raposo et al. (2008) also found that, in most countries, it is necessary to foster the creation of start-ups and make the entrepreneurial career more attractive to young people. In the specific case of Portugal, the authors stated that, at the beginning of the 21<sup>st</sup> century, there was a huge effort made by higher education institutions to improve “the entrepreneurial culture”. Entrepreneurship education is seen as a key tool to encourage the development of highly-qualified human resources needed for new business creation. Given the influence that academic education has in the acquisition of competences, attitudes and aspirations of the individuals, the researchers’ findings suggest the need to develop educational programs in the area of entrepreneurship education, so as to improve and intensify the process of development of potential entrepreneurs (Raposo et al., 2008). Special attention should be paid to the systematic integration of entrepreneurship education in the areas of engineering and natural sciences, in order to create an entrepreneurial culture that would facilitate activities of technology transfer, commercialization of new products, as well as the promotion of spin-offs. According to Lynskey (2005), in recent years it has become generally accepted that universities are knowledge factories or engines of regional and national economic development. This being so, it is necessary to implement a national program to foster entrepreneurship education among university students as a way to increase the number of technological start-ups.

However, it seems that much of the impetus to strengthen links between industry and academia is driven not by firms but by universities (Lynskey, 2005). In many respects, this has been prompted and conditioned by shifts in government science and technology policy.

## **The role of financial institutions in the network**

Financial support may be defined as an economic asset based on personal and institutional funds (Shepherd, 1999). Whereas the former includes an entrepreneur's personal savings, financial assistance from the family, friends and business connections, the latter consists of funding from government loans and grants or funds from business angels or venture capital firms. North (1990) argued that the contribution of financial institutions to firm creation (or development of small businesses) has been widely studied and empirically tested (Carree et al., 2002; Van Stel et al., 2005; 2007; Verheul et al., 2006). The issue is of particular relevance for policymakers, who need to understand which formal and informal factors are relevant to the promotion of entrepreneurship, that is, to put entrepreneurial projects into action.

According to Stephen et al. (2005), there is a way by which institutions could influence long-term economic development, that is, to create a favorable climate for entrepreneurship to flourish. Bank loan is by far the most important financial source for entrepreneurs and small business firms (Deakins, 1996). While bank loans are one of the most important sources of European enterprise finance, at least over the last decade, new alternative financial instruments may act as important factors in providing flexibility and choices that better reflect the needs of enterprises throughout their development (European Commission, 2006). Small and entrepreneurial business tends to use different types of financial support compared to large firms, which benefit from established markets where they can raise funds. Although much has been discussed about different types of financial sources employed by small firms, only limited information is available. Several authors still maintain that small and entrepreneurial businesses are more likely to rely upon bank loans as their main source of external finance than on venture capital (Keasey & Watson, 1992).

However, it is expected that economic recovery will lead to an increase in venture capital at least for certain types of entrepreneurial businesses, particularly in certain stages of their existence (Glas & Drnovšek, 2002). Specifically, venture capital is finance provided by unlisted firms by specialist financial institutions. This is a very important way of obtaining funds since venture capital has backed those companies that have really made technological breakthroughs (Himmelstein, 2001). A study of venture capital analyzing European firms showed that it was an important element of their creation, survival and growth. In fact, 60 per cent of these firms stressed that they would not be in business today without the funding and support of venture capitalists. These venture capitalists go beyond financial support because they can also provide strategic advice, networking opportunities, credibility and offer a sounding board for new ideas.

Informal venture capitalists, or "business angels", may also represent a significant alternative to formal venture capital as a source of entrepreneurial finance. Business angels are wealthy individuals, rather than financial institutions, who have considerable business experience and who are willing to invest part of their personal wealth in start-ups or new entrepreneurial ventures (Westhead & Wright, 2000). Business angels normally have prior knowledge of the

industry, which is an essential factor in their investment decision. Freear et al. (1994) identified three distinct groups of high net-worth individuals who invest their wealth in entrepreneurial ventures. First, business angels with experience of investing in entrepreneurial ventures; second, a group of interested potential investors with no venture investment history but who expressed desire to become investors; third, a group of disinterested potential investors was identified. Each type of individuals was noted to have distinct attitudes towards the nature of business angel investment. Potential investors were found to need great assistance in monitoring, pricing and structuring their investments.

Evidence suggests that there are significant differences in investee monitoring between formal and informal venture capitalist, as illustrated by Ehrlich et al. (1994). Formal venture capitalists are found to provide more difficult targets, and greater feedback and involvement in monitoring, especially when problems occur. Informal venture capitalists are usually more patient and are willing to invest smaller amounts of capital in line with the needs of the entrepreneur (Harrison & Mason, 1995). Similarly, Fiet (1995) has also shown that formal and informal venture capitalists have different attitudes towards risk. To sum up, entrepreneurs use different types of finance as compared to large firms. Additionally, the proportion of equity invested in entrepreneurial firms tends to be lower when compared to large firms and there is more reliance on bank loan, although new forms of finance have also been considered.

### **The role of close relatives, friends and colleagues in the network**

Although often regarded as independent and self-confident, entrepreneurs may require additional information and other social ties to develop and expand their business. Most entrepreneurs use their family and close friendships, which are usually considered as strong ties to get support and obtain resources. In most cases, entrepreneurship runs in the family in a sense that it constitutes a source of family income, security, and pride, present and future career opportunities for family members (Arrègle et al., 2007; Rosenblatt et al., 1985). Research found that entrepreneurs are more likely than the average population to have parents that also run a small business (Rosenblatt et al., 1985). Thereby, new entrepreneurs are likely to benefit from this pool of resources when they decide to develop a business of their own. This pool of resources could be called as social capital, which is one of the most powerful assets that an entrepreneur may possess because it can provide access to numerous other resources (e.g. information knowledge power and capital) (Davidsson & Benson, 2003).

Furthermore, establishing a new venture may require different contacts and resources at different stages (Greve & Salaff, 2003). A more developed network, in terms of the number and quality of ties, is likely to be more beneficial to a start-up than a less developed network (Larson & Starr, 1993). As Larson and Starr (1993) acknowledged, in the emergent firm, the entrepreneurial firm shifts from a reliance on dyadic ties with family and friends to a stage where mutuality of business interests becomes clearer. This evolutionary process helps providing

stability for the network and positions the firm to leverage network ties by creating links to other people and organizations which provide access to new resources in the pursuit of growth (Hansen, 1995; Larson & Starr, 1993). Hite and Hesterly (2001) contend that the entrepreneurial network will shift from “identity based” to more “calculative based” over time. In other words, they maintain that economic ties are likely to be more evident at later stages.

Elfring and Hulsink (2003) shed light on the way the different ties benefit emerging new ventures, particularly throughout their evolutionary process. They identified three distinct processes that impact on survival and performance, such as: i) discovering opportunities; ii) securing resources; and iii) gaining legitimacy. As Greve and Salaff (2003) acknowledged, dependence on family members may restrict the network from which the entrepreneur seeks a wide range of resources pools. As they noted, “assuming that one rarely finds a banker, a marketing specialist and a manufacturer engineer all in one family [weak ties are beneficial as they provide] a network of loose coupled acquaintances” (p. 6), offering access to different information, skills, knowledge and insights (Greve & Salaff, 2003). Elfring and Hulsink (2003) concluded that weak ties play a dominant role during the discovery of opportunities stage for entrepreneurial new ventures pursuing radical innovations. Strong ties, however, such as the case of family and friends, turn out to be beneficial for a new venture because of their ability to exchange tacit knowledge and trusted feedback on the nature and viability of opportunities. According to several authors (e.g. Krackhardt, 1992; Rowley et al., 2000), strong ties are usually associated with the exchange of fine-grained information and tacit knowledge, trust-based governance and resource cooptation.

## METHODOLOGY

### Sampling and data collection procedures

The main objective of the present study is to analyze the extent to which new ventures exhibit different levels of relationships with different stakeholders and how these impact differently along different levels of performance. Another objective is to explore the overall pattern of networks between new ventures and different stakeholders.

Despite numerous attempts, it was very difficult to obtain an accurate list of all recent entrepreneurs from governmental agencies, banks and trade associations. Due to limited resources, it was decided to restrict the sample to northern Portugal. For this study, a list of firms was drawn from the National Institute of Statistics (INE) and Dun & Bradstreet databases. Besides consulting these databases, several associations that support new venture firms (TECMAIA, TECMINHO, NET, SA, ANJE) were contacted. It was decided to include not only firms recently created, but also those firms which were set up in the last 4-5 years, assuming that these firms have already risen above the “death valley”. Then, a detailed self-completion questionnaire was mailed to a sample of 350 small businesses randomly chosen in the northern

region of Portugal. Three follow-up phone reminders were made to each non-responding firm approximately three to five weeks after the original mailing, in an attempt to increase the response rate. In order to improve response, nearly 45 per cent of the questionnaires were filled out through face-to-face interviews. Overall, of the 350 new ventures, 73 returned usable questionnaires, representing a response rate of about 20 per cent, not uncommon for these types of studies.

Information was collected concerning the characteristics of the firm's creation process; the level of relationships (measured in a 5-point Likert-scale: 1=no relationship at all; 5=very high relationship) with different stakeholders, particularly with regard to current major customers; current major suppliers; financial institutions; inter-firm partnerships; sectorial associations; administration entities; close relatives, friends and colleagues, research centers and universities.

It is generally accepted that high performance firms are usually associated with great entrepreneurship activity (Zahra, 1993). Consistent with Lumpkin and Dess (1996, p. 154), "a small, privately owned firm may regard its continued existence as a satisfactory indicator of high performance, even though it cannot claim to have a strong return on assets or growth in market share". Moreover, as the authors note, the firm may make a conscious decision not to grow beyond a certain size, in order to keep control of the business. In that respect, perceptual measures of performance may be important. Therefore, those who study the effectiveness and efficiency of an entrepreneurial success measure need to be sensitive to different performance criteria (Lumpkin & Dess, 1996). In the present study, the entrepreneurial performance was measured by using a proxy variable, namely: "How do you classify the economic results (i.e., overall performance) of your firm in the current year?" A Likert-point scale was used (1=very bad results; 5=excellent results). We tested non-response bias by comparing early (n=61) to late (n=12) respondents and, after conducting several t-tests, no significant differences were found between the two waves of respondents (Armstrong & Overton, 1977).

### **Sample profile**

The demographic characteristics of the sample included 68.5 per cent of males and 31.5 per cent of females, with an average age between 26 and 35 years (70 per cent), highly educated (66.7 per cent) and married (65 per cent). Nearly 52 per cent of new ventures were created in the area of services, 25 per cent in the area of industry and 23 per cent in the area of retailing.

When questioned about how they became entrepreneurs, 82.5 per cent of the respondents acknowledged that they created their own business from scratch, nearly 11 per cent received their business from family (inheritance), and 3.5 per cent bought an existing firm. When questioned about their previous activity before they started their own business, nearly 38.6 per cent of the respondents indicated that they worked previously in a small to medium company, while 21.1 per cent worked in a large company and 14 per cent worked as a freelance. Only 14

per cent of the respondents indicated that they had finished their studies just before starting the new business. The type of work performed before starting a new business was mainly related with technical activities (42 per cent), followed by commercial activities (27 per cent).

When entrepreneurs were questioned about the degree of importance of certain relationships with specific stakeholders in the early evolutionary stage of their ventures, the following results were obtained. Globally, relationships assumed has highly important were: close relatives (74 per cent); friends and colleagues (66 per cent); current major customers (40 per cent) current major suppliers (40 per cent). Relationships assumed having a moderately importance were: financial institutions (34 per cent). Relationships assumed having a low importance were: sectorial associations (68 per cent); administrative entities (72 per cent) and research centers and universities (86 per cent). Of the sampled firms, nearly 62 per cent (n=45) presented a moderate entrepreneurial performance; nearly 16 per cent (n=12) showed a low entrepreneurial performance and nearly 22 per cent (n=16) evidenced a high entrepreneurial performance.

### **Data analysis**

The data was analyzed through a combination of statistical tests and network measures by using IBM SPSS and UCINET 6.31, respectively. A key contribution of network analysis is that it offers numerous techniques and indicators by measuring nodes' links to demonstrate the structural patterns of inter-connected systems. The properties of each node, which represent entrepreneurial new ventures, can be classified within a structural pattern of interconnection within a larger system (Scott, 2000).

In order to analyze the extent to which new ventures exhibit different levels of relationships with different stakeholders, corresponding to the first objective of the present study, a one-way ANOVA was employed by using SPSS. Results presented in Table 1 indicate significant differences in the mean scores of current major suppliers ( $F=7.55$ ;  $p<0.01$ ), financial institutions ( $F=4.63$ ;  $p<0.05$ ) and research centers and universities ( $F=3.52$ ;  $p<0.05$ ) along the different levels of entrepreneurial performance. Post-hoc comparisons using Tukey HSD test indicated the following: concerning the relationship with current major suppliers, the three categories of entrepreneurial performance are significantly different. With regard to the relationship between financial institutions and the three categories of entrepreneurial performance, only low and high entrepreneurial performance were significantly different. In this case, low and moderate performers do not differ significantly. The same result is found concerning research centers and universities (Table 1).

Additionally, the relationship between different levels of performance and different stakeholders was also examined using the Spearman rho correlation coefficient. Results showed that there is a significant and positive correlation between entrepreneurial performance and the relationship with the following stakeholders: current major suppliers ( $r = 0.34$ ;  $n=73$ ;  $p<0.01$ ),

financial institutions ( $r = 0.33$ ;  $n=73$ ;  $p<0.01$ ), and research and development center ( $r = 0.29$ ;  $n=73$ ;  $p<0.05$ ) (Table 1).

Table 1: Differences in diverse stakeholders relationship's means based on the level of entrepreneurial performance

	Spearman Rho	Low entrepreneurial performance (n = 12)		Moderate entrepreneurial performance (n = 45)		High entrepreneurial performance (n = 16)		F-value	p.
		Mean	SD	Mean	SD	Mean	SD		
1-Current major customers	0.18	2.08	0.90	1.91	0.82	2.50	0.81	2.95	0.059
2-Current major suppliers	0.34**	1.92	0.90	1.89	0.83	2.75	0.44	7.55	0.001**
3-Financial institutions	0.33**	1.50	0.67	1.87	0.78	2.37	0.80	4.63	0.013*
4-Inter-firm partnerships	0.09	1.25	0.62	1.41	0.69	1.50	0.81	0.51	0.599
5-Sectorial associations	0.19	1.17	0.57	1.27	0.53	1.44	0.62	0.86	0.425
6-Administrative entities	-0.02	1.25	0.62	1.38	0.57	1.19	0.40	0.80	0.452
7-Close relatives	-0.11	2.83	0.38	2.67	0.60	2.56	0.72	0.69	0.505
8-Friends and colleagues	-0.13	2.83	0.39	2.42	0.81	2.44	0.81	1.43	0.245
9-R&D center & university	0.29*	1.00	0.02	1.16	0.47	1.50	0.81	3.52	0.035*

Scale: 1= Very Unimportant; 2= Moderately Important; 3= Very Important; \*  $p < 0.01$  (recoded from five to three categories); \*\* $p<0.01$ ; \* $p<0.05$

In order to address the second objective, namely to explore the overall pattern of networks between new ventures and their relationships with different stakeholders, the UCINET 6.31 software was employed (Borgatti et al., 2002).

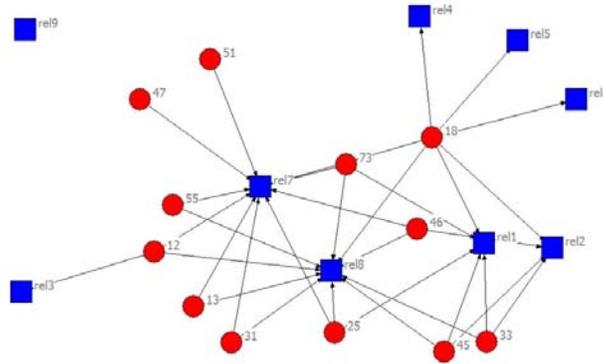
Three two-mode binary matrices were obtained by dividing the sample in three sub-samples, each representing each category of entrepreneurial performance. Thus, sub-sample one (low performance) was comprised by twelve firms, sub-sample two (moderate performance) included forty five firms and sub-sample three (high performance) included sixteen firms. Then, using UCINET 6.31, it was decided to dichotomize the valued matrix by transforming the valued relationships in a binary variable. Although the choice of cut-off value is arbitrary, there was a concern of maintaining the structural patterns of the network system (Shih, 2006). That is, one and two were transformed in zero and three was transformed in one. The networks presented ego-networks with valued and directed ties. The directedness of the tie was symbolized by an arrow which points from the new venture to the type of relationship with a specific stakeholder.

The measure used to characterize the configuration of networks is the degree of centrality, which represents the number of ties to other actors in the network. The most central firm (or new venture) is the one that shows the highest number of ties (links/connections) to different stakeholders, implying that this venture can have access to more rich information (Freeman, 1979, 1980; Scott, 2000).

Additionally, networks may be more “dense” (having many links) or less “dense” (having few links). Density refers to the number of connections between actors within the network. Among the considered networks, network 3 (Figure 3) is the densest one (Density= 0.41)

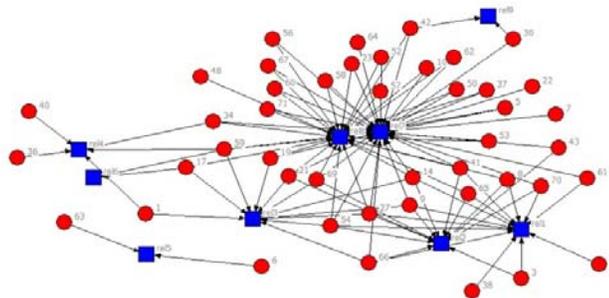
opposed to network 1 (Density= 0.30) (Figure 1). Literature shows that dense networks result in efficient communication and enhanced diffusion of norms (Meyer & Rowan, 1977).

**Figure 1: Network 1, low entrepreneurial performers and relationships among stakeholders**



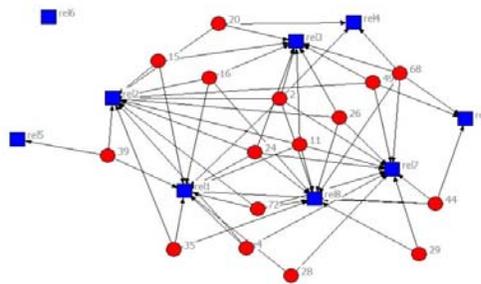
As it may be observed in Figure 1, the most predominant stakeholder relationship is associated to close relatives (rel7=0.83) and friends and colleagues (rel8=0.83). At a second level of importance, particular emphasis goes to the relationship with current major customers (rel1=0.41). Firm 18 is the most central in this network (Degree = 0.778). This firm belongs to the industry sector and was very recently created. Interestingly, network 1 shows that there is one relationship with a specific stakeholder, namely “research centers and universities”, that is completely disconnected from the network (rel9). This might be an interesting finding, since we are considering low entrepreneurial performers. It was decided not to remove isolates to provide a clear idea about the disconnected stakeholder relationships.

**Figure 2: Network 2, moderate entrepreneurial performers and relationships among stakeholders**



In network 2 (Figure 2), the moderate entrepreneurial performers have predominant relationships with the same stakeholders, particularly close relatives ( $rel7=0.73$ ) and friends and colleagues ( $rel8=0.62$ ). At a lower degree, most firms in this category have important relationships with current major customers ( $rel1=0.28$ ) and current major suppliers ( $rel2=0.28$ ). Network 2 shows that there are two firms (firm 6 and firm 63) which are disconnected from the overall network and develop a predominant relationship with sectorial associations. Those firms that evidence a high degree of centrality are: firm 14, firm 27, firm 54 and firm 59.

**Figure 3: Network 3, high entrepreneurial performers and relationships among stakeholders**



Concerning figure 3, the high entrepreneurial performers have predominant relationships with current major suppliers ( $rel2=0.75$ ), followed by current major customers ( $rel1=0.68$ ) and close relatives ( $rel7=0.68$ ). Firm 2 is the most central of the network and comes from the area of retailing. Those firms that evidence a high degree of centrality are: firm 2, firm 24 and firm 68. Network 3 presents the highest degree of density ( $density = 0.41$ ) which may suggest that high entrepreneurial performers show efficient communication and share a high number of interconnections to a vast number of different stakeholders, with particular emphasis to major suppliers, customers and close relatives. Perhaps, exploring the nature of these networks may potentially lower the firm's risk of failure and increase its chances of success.

Ultimately, further analysis of qualitative data would allow for the identification of other network patterns that could be matched to the characteristics of each performance level.

## SUMMARY OF THE FINDINGS AND DISCUSSION OF RESULTS

The ability to identify key stakeholder relationships with performance is of significant interest to policymakers and for practitioners. The findings indicate that when entrepreneurs were questioned about the degree of importance of certain stakeholder relationships in the early evolutionary stage of their ventures, 74 per cent indicated their close relatives; nearly 66 per cent indicated their friends and colleagues; nearly 40 per cent indicated respectively their current

major customers and current major suppliers. Perhaps, the nature of these informal networks at this early stage is associated with firm survival. Formal networks are usually more associated with firm growth.

When considering three different levels of entrepreneurial performance (low, moderate and high), the nature of relationships with different stakeholders varies. This is particularly evident in relation to current major suppliers, financial institutions and research centers and universities along different levels of performance.

The social network analysis performed through UCINET 6.31 enabled identifying an overall pattern of networks between new ventures and their stakeholders' relationships, which addresses the second objective of the present study.

One of the major conclusions that may be drawn from this study is that the pattern of networks between firms and their stakeholders varies according to three levels of entrepreneurial performance. The only common pattern is that, irrespective of the entrepreneurial performance, the role of close relative members and friends and colleagues are similarly important for the three entrepreneurial performance levels. The same was not found for relationships with current major customers, current major suppliers, financial institutions and research centers and universities, which assume a major importance for high entrepreneurial performers.

Concerning the link between high performers and research centers and universities, most government policies have encouraged the creation of both Science and Technology Parks and business incubators as important infrastructures for creating knowledge in centers of excellence. This has encouraged cooperation between potential entrepreneurs and research centers. The Portuguese government is also interested in fostering these types of partnerships between different stakeholders in order to promote innovation as a way of achieving the industrial and social goals set by governments (Rodrigues et al., 2003). In such a context, in the early 21<sup>st</sup> century, the Portuguese government created the 'Integrated Program for the Support of Innovation-PROINOV', which main aim was to improve the relative position of Portugal among European countries. Briefly, the main orientations of this program were: (1) to strengthen the national system of innovation; (2) to reform public services; (3) to qualify human resources in order to sustain innovation; (4) to expand and consolidate integrated R&D and Education at the European Union level; and (5) to contribute to the re-designing, at the European Union level, of an integrated policy relating to business, innovation and the Financial Markets (PROINOV, 2002).

It is also interesting to notice that this particular network (network 3) of high entrepreneurial performers showed the highest degree of density, which indicates that the majority of these firms interacts densely with different stakeholders when compared to low and moderate entrepreneurial performers. It refers to how tightly linked the firms are to each other. This enables entrepreneurs to get crucial information and other resources from knowledgeable others.

---

## Limitations and future directions

This study concludes that the different stakeholder relationships varies according to the level of entrepreneurial performance. Some important distinctive relationships sought by high entrepreneurial performers are the link to current major customers, current major suppliers and research centers and universities. This finding may indicate the relevance of these stakeholders in improving the entrepreneurial performance, even for small business firms. By contrast, low entrepreneurial performers developed their business relationships mainly with close relatives, friends and colleagues and current major customers. More than fifty per cent of these firms were recently created, which may explain the importance and the influence of certain compositional ties during their creation and establishment.

However, the present study has a number of limitations that should be recognized. First, the data set of firms examined in this study is very limited in terms of size and is geographically restricted. The question of generalization inevitably arises from the use of a limited number of participants and one should be cautious in attempting to generalize these findings. Second, the managers were asked to classify the economic results on a Likert-point scale. Although often used, perceptual measures of performance are still subject to cognitive bias leading to some problems of validity.

Further research could attempt at deepening the analysis presented in this study, along two main threads. The first consists of studying the compositional ties of different relationships undertaken with different stakeholders. The second thread of research consists of comparing, in a longitudinal research design, how different relationships evolve along a large period of time. A cross-sectional study poses some limitations in understanding and capturing the dynamics of business relationships with different stakeholders. These dynamic relationships evolve within a specific pattern, which main aim is to get access to more resources and competences. Another research path that could be of interest is the analysis of multiplex ties, which refers to the relationship an entrepreneurial venture maintains with stakeholders, based on the number of types of links (e.g., referrals, shared personnel, research ties, marketing joint programs). Taken together, the results of this study provide a strong rationale for the integration of SNA and stakeholders theory.

## REFERENCES

- Acs, Z.J., P. Braunerhjelm, D. Audretsch & B. Carlsson (2009). The knowledge spillover theory of entrepreneurship. *Small Business Economics*, 32, 15-30.
- Aldrich, H. & A.B. Elam (1997.). A guide to surfing the social networks In S. Birley & D. F. Muzyka (Eds.), *Mastering Enterprise* (pp. 143-148). London: Pitman Publishing.
- Armstrong, J. & T. Overton (1977). Estimating non-response bias in mail-surveys. *Journal of Marketing Research*, 14, 396-402.

- Arrègle, J.-L., M. Hitt, D.G Sirmon & P. Véry (2007). The development of organizational social capital: Attributes of family firms. *Journal of Management Studies*, 44(1), 73-95.
- Audretsch, D. (2009). The emergence of the entrepreneurial society: The 2008, Geary Lecture. *The Economic and Social Review*, 40(3), 255–268.
- Audretsch, D., R. Verheul & I. Wennekers (2002). *Entrepreneurship: Determinants and policy in a European-US comparison*. Boston: Kluwer Academic.
- Baughn, C. & K. Neupert (2003). Culture and nation conditions facilitating entrepreneurial start-ups. *Journal of International Entrepreneurship*, 1, 313-330.
- Birley, S. (1985). The role of networks in the entrepreneurial process. *Journal of Business Venturing*, 1(1), 107-117.
- Borgatti, S., M. Everett & L. Freeman (2002). *Ucinet for windows: Software for social network analysis*. Harvard, MA: Analytic Technologies.
- Burt, R.S. (2000). The network structure of social capital. In R.I Sutton & B.M. Staw (Eds.), *Research on Organizational Behavior* (pp. 2-92). Greenwich: JAI Press.
- Carree, A., A.J. Van Stel, R. Thurik & S. Wennekers (2002). Economic development and business ownership: An analysis using data of 23 OECD countries in the period 1976–1996. *Small Business Economics*, 19(3), 271-290.
- Das, T. & B. Teng (1997). Time and entrepreneurial risk behavior. *Entrepreneurship Theory and Practice*, 22(2), 69-88.
- Davidsson, P. & H. Benson (2003). The role of social and human capital among nascent entrepreneurs. *Journal of Business Venturing*, 18, 301-331.
- Deakins, D. (1996). *Entrepreneurship and Small Firms*. London: McGraw-Hill.
- Dickson, P.H., G.T. Solomon & K.M. Weaver (2008). Entrepreneurial selection and success: Does education matter? *Journal of Small Business and Enterprise Development*, 15, 239-258.
- Ehrlich, S.B., A.F. De Noble, T. Moor & R.R. Weaver (1994). After the cash arrives: A comparative study of venture capital and private investor involvement in entrepreneurial firms. *Journal of Business Venturing*, 9(1), 67-82.
- Eisenhardt, K.M. & C.B. Schoonhoven (1990). Organizational growth: Linking founding team, strategy, environment, and growth among U.S. semiconductor ventures, 1978-1988. *Administrative Science Quarterly*, 35(3), 504-529.
- Elfring, T. & W. Hulsink (2003). Networks in entrepreneurship: The case of high technology firms. *Small Business Economics*, 21(4), 409-422.
- Etzkowitz, H. & L. Leydesdorff (1997). *Universities and the global knowledge economy a triple helix of university–industry–government*. London: Pinter.
- European Commission (2006). *Report on the implementation of the Entrepreneurship Action Plan*. Brussels: Directorate-General for Enterprise and Industry.
- Fayolle, A., B. Gailly & N. Lassas-Clerc (2006). Assessing the impact of entrepreneurship education programs: A new methodology. *Journal of European Industrial Training*, 30, 701-720.
- Fiet, J. (1995). Risk avoidance strategies in venture capital markets. *Journal of Management Studies*, 32(4), 551-574.
- Florin, J, R. Karri & N. Rossiter (2007). Fostering entrepreneurial drive in business education: An attitudinal approach. *Journal of Management Education*, 31(1), 17-42.
- Floyd, S.W. & B. Wooldridge (1999). Knowledge creation and social networks in corporate entrepreneurship: The renewal of organization capability. *Entrepreneurship Theory and Practice*, 23(3), 123-143.
- Freear, J., J.E. Sohl & W.E. Wetzel Jr. (1994). Angels and non-angels: Are there differences? *Journal of Business Venturing*, 9, 109-123.
- Freeman, L.C. (1979). Centrality in social network: I. Conceptual clarification. *Social Networks*, 1, 215-239.

- Freeman, L.C. (1980). The gatekeeper, pair-dependency, and structural centrality. *Quality and Quantity*, 14, 585-592.
- Freeman, R. (1984). *Strategic management: A stakeholder approach*. Boston: Pitman.
- Glas, M. & M. Drnovšek (2002). *Is private equity capital really the solution? Research in entrepreneurship and government policy: Making the connection*. Leuven, Belgium Vlerick: Leuven Gent Management School.
- Grebel, T., A. Pyka & H. Hanusch (2003). An evolutionary approach to the theory of entrepreneurship. *Industry and Innovation*, 10(4), 493-514.
- Greve, A. & J.W. Salaff (2003). Social networks and entrepreneurship. *Entrepreneurship Theory and Practice*, 28(1), 1-22.
- Hansen, E. (1995). Entrepreneurial network and new organization growth. *Entrepreneurship Theory and Practice* 19(4), 7-19.
- Harrison, R. & C. Mason (1995). The role of informal venture capital in financing the growing firm. In R. Buckland & E.W. Davis (Eds.), *Finance for growing enterprises* (pp. 77-101). London: Routledge.
- Himmelstein, L. (2001). Crunch time for VCS. *Business Week*, 19, 27-33.
- Hite, J.M. & W. Hesterly (2001). The evolution of firm networks: From emergence to early growth of the firm. *Strategic Management Journal*, 22(3), 275-286.
- Honig, B. (2004). Entrepreneurship education: Toward a model of contingency based business planning. *Academy of Management Learning and Education*, 3(3), 258-273.
- Keasey, K. & R. Watson (1992). *Investment and financing decisions and the performance of small firms*. London: National Westminster Bank.
- Keegan, W. & B. Schlegelmilch (2001). *Global marketing management: A European perspective*. London: Prentice-Hall.
- Keeley, R.H. & J.B. Boure (1990). Management, strategy, and industry structure as influences on the success of new firms: A structural model. *Management Science*, 36(10), 1256-1267.
- Kourilsky, M.L. & W.B. Walstad (1998). Entrepreneurship and female youth: Knowledge attitudes gender differences and educational practices. *Journal of Business Venturing*, 13(1), 77-88.
- Krackhardt, D. (1992). *The strength of strong ties: The importance of philos in organizations*. In N. Nohria & R.G. Eccles (Eds.), *Networks and organizations: Structure form and action* (pp. 216-239). Cambridge, MA: HBS Press.
- Laranja, M. & M. Fontes (1998). Creative adaptation: The role of new technology based firms in Portugal. *Research Policy*, 26, 1023-1036.
- Larson, A. & J.A. Starr (1993). A Network model of organization formation. *Entrepreneurship Theory and Practice*, 17(2), 5-15.
- Leydesdorff, L. (2003). *The knowledge base of an economy: What is it? Can it be measured? Can it be modeled?* Amsterdam, Netherlands: Amsterdam School of Communications.
- Lumpkin, G. & G. Dess (1996). Clarifying the entrepreneurial orientation construct and linking it to performance. *Academy of Management Review*, 21(1), 135-172.
- Lundström, A. & L. Stevenson (2001). *Patterns and trends in entrepreneurship SME policy and practice in ten economies*. Sweden: The Swedish Foundation for Small Business Research Örebro University.
- Lynskey, J.M (2005). Editorial: Moving beyond metaphors: University industry collaboration in biotechnology. *Journal of Commercial Biotechnology*. 11(4), 301-304.
- Marques, J.P.C., J.M.G. Caraça & H. Diz (2006). How can university–industry–government interactions change the innovation scenario in Portugal?—the case of the University of Coimbra, *Technovation*, 26, 534–542.
- Matlay, H. (2008). The impact of entrepreneurship education on entrepreneurial outcomes. *Journal of Small Business and Enterprise Development*, 15, 382-396.
- Matlay, H. & C. Carey (2007). Entrepreneurship education in the UK: A longitudinal perspective. *Journal of Small Business and Enterprise Development*, 14(2), 252-263.

- McMullan, W.E, W.A. Long & J.B. Graham (1986). Entrepreneurship education in the nineties. *Journal of Business Venturing*, 2(3), 261-275.
- Meyer, J. & B. Rowan (1977). Institutional organizations: Formal structures and myth and ceremony. *American Journal of Sociology*, 80, 340-363.
- Miller, D. & J-M. Toulouse (1986). Chief executive personality and corporate strategy and structure in small firms. *Management Science*, 32(11), 1389-1409.
- North, D.C. (1990). *Institutions institutional change and economic performance*. Cambridge: Cambridge University Press.
- OECD (1998). *Fostering entrepreneurship*. Paris: OCDE, Organization for Economic Co-operation and Development.
- Oosterbeek, H., M. Van Praag & A. Ijsselstein (2010). The impact of entrepreneurship education on entrepreneurship skills and motivation. *European Economic Review*, 54, 442–454.
- PROINOV (2002). *Competitividade e inovação na coesão um salto qualitativo para vencer o atraso estrutural*. Report on the grounds for the Integrated Program for the Support of Innovation—PROINOV Chairmanship of the Council of Ministers Lisbon.
- Raposo, M., J. Ferreira A. Paço & G. Rodrigues (2008). Propensity to firm creation: Empirical research using structural equations. *International Entrepreneurship and Management Journal*, 4(4), 485-504.
- Rasheed, H.S. (2000). *Developing entrepreneurial potential in youth: The effects of entrepreneurial education and venture creation*. Florida: University of South Florida.
- Robson, P.J., F. Wijbenga & S.C. Parker (2009). Entrepreneurship and policy. *International Small Business Journal*, 27(5), 531-535.
- Rodrigues M.J., A. Neves & M.M Godinho (Cords) (2003). Para uma política de inovação em Portugal. Lisbon: Dom Quixote.
- Rodrigues, R., M. Raposo, J. Ferreira & A. Paço (2010). Entrepreneurship education and the propensity for business creation: Testing a structural model. *International Journal of Entrepreneurship and Small Business*, 9(1), 58-73.
- Rosenblatt, P., L. de Mik, R. Anderson & P. Johnson, (1985). *The family in business*, San Francisco: Jossey-Bass.
- Rowley, T., D. Behrens & D. Krackhardt (2000). Redundant governance structures: An analysis of structure and relational embeddedness in the steel and semiconductor industries. *Strategic and Management Journal*, 21, 369-386.
- Sandberg, W.R. & C.W. Hofer (1987). Improving new venture performance: The role of strategy, industry structure, and the entrepreneur. *Journal of Business Venturing*, 2(1), 5-28.
- Scott, J. (2000). *Social network analysis: A handbook*. London: Sage Publications.
- Shaw, E. & S. Conway (2000). Networking and the small firm. In S. Carter & D. Jones-Evans (Eds.), *Enterprise and small business*. Harlow: Prentice-Hall.
- Shepherd, D.A. (1999). Venture capitalists' assessment of new venture survival. *Management Science*, 45(5), 621-632.
- Shih, H.-Y. (2006). Network characteristics of drive tourism destinations: An application of network analysis in tourism. *Tourism Management*, 27, 1029-1039.
- Stephen, F., D. Urbano & S. Hemmen (2005). The impact of institutions on entrepreneurial activity. *Managerial and Decision Economics*, 26, 413-419.
- Stumpf, S.S, R.L. Dunbar & T.P. Mullen (1991). Simulations in entrepreneurship education: Oxymoron or untapped opportunity. *Frontiers in Entrepreneurship Research*, 11, 681-694.
- Van Praag, M. & P. H. Versloot (2007). What is the value of entrepreneurship? A review of recent research. *Small Business Economy*, 29, 351-382.
- Van Praag, M. & P.H. Versloot (2008). The economic benefits and costs of entrepreneurship: A review of the research. *Foundations and Trends in Entrepreneurship*, 4(2), 65-154.

- Van Stel, A.J., M.A. Carree & A.R. Thurik (2005). The effect of entrepreneurship on national economic growth: an analysis using the GEM data base. In A. Zahra (Ed.), *Frontiers of entrepreneurship research 2004* (pp. 573-574). Babson Park: Babson College.
- Van Stel, A.J., D.J. Storey & A.R. Thurik (2007). The effect of business regulations on nascent and young business entrepreneurship. *Small Business Economics*, 28(2-3), 171-186.
- Verheul, I.A., A.J. Van Stel & A.R. Thurik (2006). Explaining female and male entrepreneurship at the country level. *Entrepreneurship and Regional Development*, 18(2), 151-183.
- Vesper, K.H. & W.E. McMullan (1988). Entrepreneurship: Today courses tomorrow degrees? *Entrepreneurship Theory and Practice*, 13(1), 7-13.
- Westhead, P. & M. Wright (2000). *Advances in entrepreneurship*. United Kingdom, UK: Edward Elgar Publishing Limited.
- Zahra, S. (1993). Environment corporate entrepreneurship and financial performance: A taxonomic approach. *Journal of Business Venturing*, 8(4), 319-340.
- Zhao, H., S.E. Seibert & G.T. Lumpkin (2010). The relationship of personality to entrepreneurial intentions and performance: A meta-Analytic review. *Journal of management*, 36(2), 381-404.
- Zhao, L. & J. Aram (1995). Networking and growth of young technology-intensive ventures in China. *Journal of Business Venturing*, 10(5), 349-370.



# **CROSS-CULTURAL DIFFERENCES IN ENTREPRENEURIAL TENDENCIES: AN EXPLORATORY VIEW IN TURKEY AND CANADA**

**A.Emre Demirci, Anadolu University**

## **ABSTRACT**

*Even though entrepreneurship is not new, its popularity is still growing rapidly as a result of a wide range of factors. Removal of the trade barriers, global economic recessions, advancements in information and telecommunication technologies, corporate restructurings, downsizing, mergers and acquisitions are among the major factors that led the topic to keep its critical importance. As a result of the above mentioned conditions, entrepreneurship is increasingly catching the attention of the academia as well as the governments, policy makers, NGOs and other profit or non-profit institutions. Whilst many governments are working on new policies to support entrepreneurship, higher education institutions (HEI) are constantly launching new and innovative programs, courses and seminars on entrepreneurship. All these efforts have one common ultimate goal which is fostering and encouraging entrepreneurial activities and innovation.*

*The aim of this study is to assess and compare the entrepreneurial tendencies of Turkish and Canadian students enrolled in Business Administration programs at undergraduate level. A sample of 429 third and fourth year students from Turkey and Canada were chosen for the study. 217 students out of 429 were Canadians and the remaining 212 were Turkish students.*

*Field : Management, Entrepreneurship, Cross-Cultural Management*

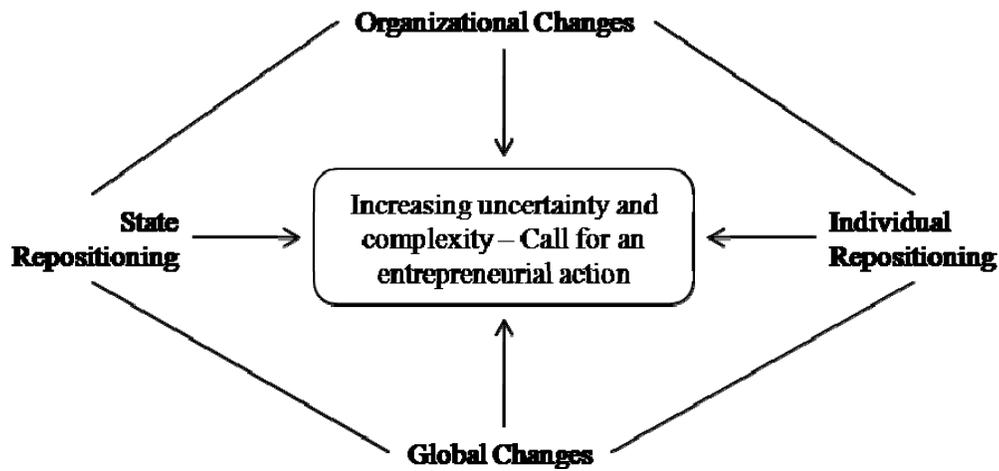
## **INTRODUCTION**

The field of entrepreneurship has a recognized scientific community that expresses itself through large numbers of conferences and scientific journals (Bruyat and Julien, 2000) as a result of its significant effects on both economic and corporate performance. Entrepreneurship is now considered as one of the most powerful tools to survive economic recessions and bottlenecks through creating new businesses and new jobs, fostering creative thinking and nurturing the economy itself. Entrepreneurship is even more crucial for developing countries since its vital role in economic growth, wealth creation and distribution grows as we speak.

Triggered by the global and organizational changes, entrepreneurship has been receiving a growing interest both by the universities and other institutions. While globalization, removal of trade barriers and the emergence of Internet and telecom technologies are offering opportunities

and risks globally, massive changes at organizational level like lay-offs, corporate restructurings, mergers & acquisitions, corporate alliances are also occurring constantly. These intense changes at macro and micro level call for an entrepreneurial action for increasing number of people day after day. Figure 1 shows the major factors fostering individual to consider entrepreneurship as an option.

**Figure 1: Major Factors Fostering Entrepreneurial Initiative**



Source: Adapted from Henry et al., 2005, p.101

Parallel to the growing interest in entrepreneurship, increasing number of programs and courses offered by universities, private consultants and trade associations. The number of entrepreneurship research centers and degrees offered by those institutions are also growing rapidly.

However, there is also a strong debate among academics about whether the entrepreneurship can actually be taught (Fiet, 2001). Albeit these strong discussions, entrepreneurship is relatively well established in most academic areas. Entrepreneurship scholars and teachers seem winning the battle for academic respectability that they fought over two decades (Johnson et al., 2006) and proved that entrepreneurship can be taught. In a survey of American professors, Vesper found that 93 percent of respondents indicated that entrepreneurship can be taught (Hynes, 2005). Supporting this view, Kantor (1988), studied 408 entrepreneurship students in Ontario and concluded that the most generally believed that the majority of entrepreneurial traits and skills can be taught, with skills perceived as being more teachable compared to traits (Henry et al., 2005).

Entrepreneurial qualities and tendencies have long been closely linked with some personality characteristics such as need for achievement, need for autonomy, creative tendency, calculated risk taking and internal locus of control.

### **Need for achievement**

Need for achievement is probably one of the most studied personality characteristics in the field of entrepreneurship. Need for achievement has a great potential to trigger the entrepreneurial initiatives. Because the need for achievement is an unconscious motive that drives individuals to perform better and improve their current performance that in return creates some personal standards of excellence (Loon and Casimir, 2008). According to McClelland, need for achievement is amongst the primary motives behind the entrepreneurial success as the individuals score high on need for achievement tend to have personal control over their lives and outcomes (McClelland, 1961). They tend to prefer challenging tasks with moderate difficulty, seek feedback on their performance and take responsibility for their actions (Ong and Ismail, 2008). McClelland also suggests that high-need-for-achievement individuals may have higher entrepreneurial tendencies because entrepreneurship offers more control over their outputs than other traditional forms of employment (Zhao et al., 2010). Numerous comparisons, in regards to need for achievement, between entrepreneurs and managers/non-entrepreneurs revealed that the correlation between need for achievement and entrepreneurship is much stronger (Gurol and Atsan, 2006).

### **Need for autonomy**

Need for autonomy is another attitude that is embedded in entrepreneurial personality. In addition, autonomy ranks top in the list of desired outcomes of the entrepreneurial activities (Engle et al., 2010). The need for autonomy represents individuals' inherent desire to feel volitional and to have psychological freedom when pursuing their goals and doing their tasks (Van den Broeck et al., 2010). Individuals with high need for autonomy tend to become entrepreneurs as they are less likely to be satisfied within the constraints, boundaries and preset rules of an established business. Research reveals that there are some underlying factors that lead to higher need for autonomy. Raposo et al. (2008) suggest that high evaluation of independence, low need of support, authoritarian leadership style, desire to do what one likes are among the major factors that may lead to need for autonomy.

### **Creative tendency**

Creativity is one of the major driving forces behind innovation and entrepreneurship. Thus, creativity is central to entrepreneurial success. Entrepreneurship is often characterized by risk-taking, proactiveness and innovation (Miller and Friesen, 1983; Covin and Slevin, 1991; Davis et al., 1991). Innovation as one of these pillars of entrepreneurial activities is closely related with creative processes both at individual and organizational levels. Individual level creativity, as the first step in the innovation process, is a function of entrepreneurial potential in

individuals (Athayde, 2009). Successful entrepreneurs are those who can develop new ideas, seize the gaps in the market and create value through bringing ideas and resources together in a different way. This profile requires experimentation, trial and error, non-conventional thinking and creativity (Cromie, 2000).

### **Risk-taking propensity**

Risk-taking is an inherent part of entrepreneurial processes as entrepreneurship is about pioneering in spotting untapped market opportunities and responding them to create additional value. Entrepreneurs tend to have higher risk-taking propensity as, in many cases, their decisions are made under uncertainty driven by the lack of knowledge and information. At this point it is important to differentiate between gambling and taking calculated risks. Because, it is argued by many authors that successful entrepreneurs carefully calculate and assess the risk involved in the initiative. Thus, they are more likely to be moderate risk takers than high risk takers (Cromie, 2000). Ibrahim and Ellis (1993) also argues that successful entrepreneurs attribute their outcomes to their ability to confront ambiguity and take profoundly calculated and assessed risks. Efforts to reduce the ambiguity before making decisions are important for the entrepreneurs as they may encounter financial losses in case of a failure. On the other hand, recent empirical studies examining the risk-taking propensities of entrepreneurs and managers have produced conflicting findings. Competing theoretical studies suggest that entrepreneurs' and managers' attitudes towards risk taking do not differ, since both are high in achievement motivation (Xu ve Ruef, 2004). Although majority of the relevant studies argue that entrepreneurs have higher risk-taking propensity, recent research about the topic shifted the discussions to an unresolved ground.

### **Internal locus of control**

Similar to the previous entrepreneurial attitudes, locus of control is also considered to be one of the most dominant characteristic of entrepreneurs. Internal locus of control is about knowing that the entrepreneur himself/herself is responsible for the outcomes of the decisions made. People with high internal focus of control think that they are able to control the outcomes. Thus, they tend to put their best efforts and show persistence towards their goals that in return facilitates the start-up process and later steps (Rauch and Frese, 2007). People with external locus of control tend to be more passive in controlling their environments and mostly feel that luck and fate determine the outcomes of their actions. Beugelsdijk (2007) argues that entrepreneurs feel that success is not a matter of luck and having connections, but of hard work.

---

## CULTURE AND ENTREPRENEURSHIP

Many scholars from different fields defined “culture” in many different ways depending on their backgrounds. Kroeber and Parsons (1958) define culture as “patterns of values , ideas and other symbolic-meaningful systems that shape human behavior”. In their research about linking traits and dimensions of culture, Hofstede and McCrae (2004) define culture as “the collective programming of the mind that distinguishes one group or category of people from another”. This operational definition suggests that the culture not directly visible but manifested in behaviors (Hofstede and McCrae, 2004). Individuals with different cultural backgrounds may respond to given situations in different ways and they may have different motives for self-representation (Allik and McCrae, 2004).

Personality characteristics attributed to entrepreneurship are also affected by the cultural factors. Maysami and Ziemnowicz (2007) claim that demographic factors such as age, gender, perceptual experience and the level of educations have influence on the entrepreneurial tendencies of the individual. They also suggest that certain ethnic groups from different cultural backgrounds exhibit different levels of entrepreneurial spirit. Research by Lee and Peterson (2000) supports the idea that the intensity of entrepreneurial activities and entrepreneurial tendencies are much compatible with some cultures than others. Supporting this point of view, Herbig and Miller (1992) argues that some cultures value and reward innovative behaviors and competition, while some others favor group interest and confirmity. The latter form of cultures tend avoid risk-taking and entrepreneurial behaviors. Thus, we can argue that some cultures motivate individuals in terms of engaging in entrepreneurial activities than other cultures.

### Cultural dimensions and entrepreneurship

Most of the behavioral research about the relationships between culture and entrepreneurial attitudes stem from the outcomes of Hofstede’s research on cultural dimensions. Individualism-collectivism, uncertainty avoidance, power distance and masculinity-femininity dimensions are the most studied cultural aspects of the entrepreneurship research (Hayton et al., 2002). Many researchers found that high individualism, low uncertainty avoidance, relatively higher power distance and high masculinity are the qualities of cultures that support entrepreneurship and entrepreneurial behaviors (McGrath et al., 1992; Shane, 1993; Mueller and Thomas, 2001).

*Individualism* refers to the social connectedness among individuals (Earley and Gibson, 1998) and tendency to be more concerned with one’s own needs, goals, and interests than with group-oriented concerns (Trubisky et al., 1991). Many studies about the relations between individualism and entrepreneurship suggest that entrepreneurial process is a highly individualistic process and higher levels of individualism explains the relatively higher numbers of entrepreneurial activities within a society (Peterson, 1980; Morris et al., 1994). However,

there are recent research outcomes that support the argument that individualist cultures do not necessarily have higher levels of entrepreneurial activities and the level of entrepreneurship activities rather modified by the level of economic development (Pinillos and Reyes, 2009; Tiessen, 1997).

*Uncertainty avoidance* refers to the extent to which the members of a culture feel threatened by uncertain or unknown situations (Stremersch and Tellis, 2004). Cultures avoiding uncertain and unknown situations tend to take risks where the outcomes are known. On the other hand, Hofstede's studies reveal that cultures with lower uncertainty avoidance are less conservative in terms of taking risks. Hofstede also found that these cultures have higher need for achievement. Consequently, these characteristics can be associated with the density of entrepreneurial initiatives (Thomas and Mueller, 2000). Wennekers et al. (2007) also mention that one of the most dominant characteristics of entrepreneurs is that when they encounter uncertain and ambiguous conditions, they try to make judgmental decisions to cope with the uncertainty instead of avoiding it.

*Power distance* refers to the degree of inequality among the people that the population of a country consider normal (Morrison, 2000). According to Hofstede (1980), countries that have a lower score on power distance often have higher economic growth and show higher performance in innovation. Hofstede's (1980) research also suggests that cultures and countries scored high on power distance have more centralized and hierarchical structures that in return hinder innovation performance. On the other hand, countries scored low in power distance have decentralized and less hierarchical structure that facilitate innovation. Puffer et al.'s (2001) research in Russia also revealed similar findings that suggest low power distance is a major characteristic of entrepreneurial mindset.

*Masculinity* refers to the extent that the masculine values such as assertiveness, success, and competition whereas *feminine values* refers to a different set of values such as solidarity, mercifulness and service (Gerstner and Day, 1994). As entrepreneurial attitudes are mostly associated with risk taking, need for achievement and accomplishment, there are certain ties between masculinity/femininity and entrepreneurship. Many studies indicate that entrepreneurial attitudes are mostly associated with masculine values such as accomplishment, risk taking and competitiveness. According to the findings of McGrath et al. (1992), entrepreneurs scored higher in masculine values compared to non-entrepreneurs. Due to the closely tied relations between entrepreneurship and masculine values, 'entrepreneurship' and 'masculinity' or 'entrepreneur' and 'male' are the words commonly used interchangeably in the relevant literature (Lewis, 2006).

Considering the above mentioned cultural dimensions, we can suggest that there are major cultural differences between Turkey and Canada. According to Hofstede's research (1983), Canada scores significantly higher in individualism and slightly higher in masculinity. On the other hand Turkey scores higher on power distance and uncertainty avoidance.

---

## REVIEW OF ENTREPRENEURIAL ACTIVITIES IN SELECTED COUNTRIES

### Entrepreneurship in Turkey

Identical to the growing worldwide interest in entrepreneurship, Turkey is facing a paradigm shift towards the understanding of the importance of entrepreneurship. Entrepreneurship is rapidly becoming a phenomenon among Turkish academics, businesses, NGOs and public authorities. From the historical perspective, evolution of entrepreneurial thought in Turkey can be studied in three periods.

*Prior to Turkish Republic.* In the Ottoman Empire, non-muslim population was playing the major role in commercial activities. Nevertheless, Muslim population's ignorance for commerce could never be explained as Islamic rules do not forbid the commercial activities. Besides there is no evidence that the governmental regulations were restraining the muslim population from doing business with non-muslims. Also the Empire in decline missed the commercial opportunities sourced by the industrial revolution (Müftüoğlu, 1999).

*1923-1980 Period.* After the Turkish Republic was formed in 1923, republicans constantly stressed the importance of entrepreneurial activities. Despite the regulations towards supporting entrepreneurial initiatives, protectionist and state-led economic policies were in place. In late 1930s, companies owned by the state were the major players in Turkish economic system. Dominance of the state-owned companies remained until the beginning of the 1980s.

*After the 1980s.* In the beginning of 1980s, as a result of a shift from protectionist economic policies to free market economy, private sector started to get stronger whilst the state-owned companies losing ground especially in industrial sector. Another shift was in the perceptions of Turkish people. People started to get familiar with the concepts like the markets, competition and quality. In this period, many structural reforms had been introduced in the general framework of Turkish economy. Some of these reforms are the liberalization of foreign trade, currency and investments, free floating exchange rates, elimination of price controls, new interest rate policy to enhance savings, strictly controlled public expenditures and finally an open and flexible foreign investment policy.

In accordance with the evolution of entrepreneurship in Turkey, governments and the policy makers perceived the importance of SMEs and entrepreneurship. As a major step in developing the entrepreneurial mindset in the country, KOSGEB (Small and Medium Industry Development Organization), a governmental agency to support the operations of small and medium-sized enterprises, was founded in April 12, 1990. Helping Turkish SMEs to improve their competitive skills was vital for the overall economic structure of Turkey.

According to a report by KOSGEB, enterprises employing up to 250 workers are comprising the 99.6% of all companies, 63.8% of all employment and 36% of Turkish economy's value added (KOSGEB, 2003). These percentages are similar to the ones of OECD countries where the SMEs comprise more than 95% of all companies and 60-70% of all

employment (İraz, 2005). Even if the role and the proportion of SMEs in the total economic structure of Turkey remain identical to the global statistics, intensity and the quality of the entrepreneurial activities in Turkey still far from reaching the desired levels.

GEM Global Report 2010 classifies Turkey among efficiency-driven economies. Table 1.1 shows the entrepreneurship activities in selected efficiency driven economies (GEM Report, 2010).

<b>Country</b>	<b>Total Early-Stage Entrepreneurship Activity</b>	<b>Established Business Ownership Rate</b>	<b>Discontinuation of Businesses</b>
Peru	27.2	7.2	9.2
Brazil	17.5	15.3	5.3
China	14.4	13.8	5.6
Argentina	14.2	12.4	3.8
Latvia	9.7	7.6	4.2
Turkey	8.6	10.7	4.6
Hungary	7.1	5.4	2.9
Romania	4.3	2.1	2.6
Russia	3.9	2.8	0.8
<b>Average (unweighted)</b>	<b>11.7</b>	<b>7.6</b>	<b>4.4</b>

In the category of efficiency-driven economies, Latin American and Caribbean countries tend to have the highest entrepreneurship rates while Eastern European countries tend to have lower scores. Turkey has a lower entrepreneurship rate compared to the average TEA rates for efficiency-driven economies. In terms of the start-up survival rates, Turkish new ventures perform close to average among efficiency-driven economies.

In Turkey as elsewhere, there is a strong correlation between the new venture creation processes, chances of survival and the entrepreneurial profile. When it comes to the entrepreneurial profile, there are still discussions about if the successful entrepreneurs could be developed. Some biographies of successful entrepreneurs often read as if such people entered the world with an extraordinary genetic endowment. But there are almost as many counter stories of those who became successful entrepreneurs without having the genetic advantages (Garavan and Cinneide, 1994).

### **Entrepreneurship in Canada**

Entrepreneurs and entrepreneurship have always existed in Canada. In the past, Aboriginal people traded among themselves, and when Europeans came, global fur trade was launched. According to a report compiled by Fisher and Reuber (2010), the birth rate of new enterprises is consistently higher than the death rate and the birth rate improved from 9 percent in

2001 to 12 percent in 2006. On the other hand, Fisher and Reuber also mentions about the issues about entrepreneurship in Canada that needs to be improved.

According to their report, Canada generates a relatively lower portion of fast growing businesses in the service sector, the percentage of exports accounted for by Canadian SMEs is relatively lower than reviewed European countries and finally there is a lack of succession planning in Canadian SMEs. Table 1.2 shows key indicators of entrepreneurial performance in Canada between 2001 and 2006.

<b>Entrepreneurial Performance Indicator</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Birth Rate	9%	10%	9%	10%	10%	12%
Death Rate		8%	9%	8%	9%	
1-Year Survival Rate		87%	85%	86%	85%	85%
2-Year Survival Rate			74%	73%	73%	70%
3-Year Survival Rate				65%	63%	62%
4-Year Survival Rate					58%	53%
5-Year Survival Rate						51%
Proportion of High-Growth Firms (Employment)				4%	4%	4%
Proportion of High-Growth Firms (Sales)				7%	7%	8%
Proportion of Gazelles (Employment)						0.5%
Proportion of Gazelles (Sales)						1.1%

*\*Includes only firms with paid employees*

According to GEM 2009 Global Report, Canada is categorized among the innovation-driven economies. Canada was ranked fifth in the report in terms of the percentage of early-stage entrepreneurial activity with new products or new markets among the innovation-driven economies.

Roberts (2010) reveals that, as of June 2010, there were more than 2.3 million business establishments in Canada of which 98 percent are small businesses employing fewer than 100 employees. According to Roberts (2010), recent survival rates for Canadian start-ups are relatively lower compared to the results obtained by Fisher and Reuber. Roberts (2010) claims that, of the roughly 140,000 businesses started in any given year in Canada, one third will cease operations within the first year and approximately 29 percent will survive five years later due to market-related and entrepreneur-related factors.

Considering the percentage of small businesses among all business establishments and high death rates of the nascent entrepreneurial initiatives, we can argue that entrepreneurial tendencies that have a potential to create value-adding businesses are of paramount importance for economic development. Governments are giving high priority to encouraging entrepreneurial activities and nurturing entrepreneurship among the young population so that these individuals would become successful entrepreneurs in the near future.

Although support from the government for entrepreneurial initiatives is important, literature suggests that there is a balance on the aspects that develop a successful entrepreneur. Whilst the cultural profile, gender, age and previous working experiences have impact on entrepreneurial profile, the level of education has a major role in entrepreneurial success or failure. Also some studies examining entrepreneurs who have had trainings and/or education in entrepreneurial skills consistently show a much higher success rate. So, we might suggest that many factors, apart from the genetics, support the idea that the successful entrepreneurs are often made, not born. Again, entrepreneurship education has a leading role in this scenario.

## RESEARCH DESIGN AND METHODOLOGY

### Research hypotheses

This research primarily aims to compare the entrepreneurial tendencies of two groups differing from each other in terms of their social, cultural and economic background. Many relevant studies have revealed that culture and entrepreneurship are strongly correlated with each other. Both at individual and organizational levels, entrepreneurial initiatives are effected by the cultural variables. Mueller and Thomas (2001) suggest that values and norms are strong forces for controlling and directing human behavior. Due to the fact that culture is about the patterns of values that shape human behavior, individuals in different societies develop different personalities and traits.

Traits school of entrepreneurship views entrepreneurs as individuals with unique values and attitudes that clearly differentiate them from non-entrepreneurs. Individual needs, attitudes, beliefs and values can be considered as the primary determinants of the human behavior (Koh, 1996). We can argue that culture is an underlying factor that shapes human behavior and personality traits.

Studies on entrepreneurship have revealed some traits attributed to entrepreneurial personality. Although there are many personality traits associated with entrepreneurship, this study focuses on five major traits including need for achievement, need for autonomy, creative tendency, calculated risk taking and internal locus of control.

Hypotheses mentioned below were tested in order to determine whether there are differences between different cultures in terms of entrepreneurial tendencies.

- H1      Need for achievement, as an entrepreneurial trait, differs among different cultures.*
- H2      Need for autonomy, as an entrepreneurial trait, differs among different cultures.*
- H3      Creative tendency, as an entrepreneurial trait, differs among different cultures.*
- H4      Calculated risk taking, as an entrepreneurial trait, differs among different cultures.*
- H5      Internal locus of control, as an entrepreneurial trait, differs among different cultures.*

## **Research sample**

As this research focuses on measuring entrepreneurial tendencies instead of actual entrepreneurial activities, subjects were drawn from a younger population with a possible tendency and background to become entrepreneurs. Second, it was preferred to collect data from two cultures differing considerably from each other in terms of social, cultural and economic dimensions.

Considering the fact that relevant studies have heavily focused on the distinctive characteristics of different cultures, Turkey and Canada were selected in order to contribute to the relevant literature by collecting data from countries representing eastern and western cultural profiles.

Due to their academic background, research subjects were drawn among the students enrolled in Business Administration programs at University of Lethbridge (Canada) and Anadolu University (Turkey). The subjects were considered to be exposed more to the entrepreneurship trainings and curriculum in order to develop relevant skills.

As secondary criteria, subjects were drawn among the third and fourth year undergraduate students due to the assumption that senior undergraduate students have a better understanding of the concepts related with entrepreneurship. Curricula of both institutions were reviewed in order to support this assumption and it was found that both institutions offer considerable number of formal courses related with entrepreneurship. It was also found that both institutions engage in extracurricular activities in order to develop their students' entrepreneurial tendencies.

Total number of 429 usable surveys collected from the students of University of Lethbridge, Faculty of Management (Canada) and Anadolu University, Faculty of Economics and Administrative Sciences (Turkey). As the research aims to reveal the differences between Turkish and Canadian subjects, 33 surveys filled out by international students at University of Lethbridge were excluded from the analysis to have a homogenous sample. Homogeneity is also supported by the relatively equal sample size from both institutions. Usable number of Canadian surveys were 217, whereas the usable number of Turkish surveys were 212.

## **Research instrument**

The measures identified as antecedents of entrepreneurial tendencies were based on the trait approach in entrepreneurship research. General Entrepreneurial Tendency (GET2) test was adopted for this research to determine the differences and similarities between the Turkish and Canadian samples. While there are many other questionnaires to test the entrepreneurial tendencies of individuals, GET2 is generally considered as one of the most comprehensive and easy to administer test built for measuring entrepreneurial tendencies (Kirby and Ibrahim, 2011; Cromie, 2000). Caird (2006) found that people with high entrepreneurial tendency scored high in GET2 test.

General Enterprise Tendency (GET) test was first developed by Caird (1991). An updated version of GET, known as GET2 was developed by Caird in 2006. In this study, GET2 was used to compare the entrepreneurial tendencies of Turkish and Canadian students. General Enterprise Tendency Test is a 54-item psychometric instrument designed to measure five key entrepreneurial traits (Caird, 1991):

*Need for achievement (12 items)*

*Need for autonomy (6 items)*

*Creative tendency (12 items)*

*Calculated risk taking (12 items)*

*Internal locus of control (12 items)*

Validity of General Enterprise Tendency was tested in further studies by other scholars and their studies revealed that GET2 test is a valid, reliable and internally consistent tool for measuring entrepreneurial tendencies of individuals and for differentiating between the entrepreneurial traits of entrepreneurs and non-entrepreneurs (Kirby and Nagwa, 2011; Cromie and Callaghan, 1997; Cromie and O'Donoghue, 1992; Russo and Sbragia, 2010; Henry et al., 2004). We also found that the test was reliable, valid and internally consistent. Our Cronbach's alpha value for Canadian sample was 0.811 where as the Cronbach's alpha value was 0.785 for Turkish sample.

Survey was originally designed in English. Original survey was used for the Canadian sample. Although the majority of the subjects at Anadolu University are enrolled in the BA program where the language of instruction is English, translated version of the survey was distributed to the subjects. Translation into Turkish was considered in order to maintain a better understanding of the context of the survey by the students as they were not native in English. In order to increase the reliability of the translation, a translator native in English and fluent in Turkish has back-translated the survey into English to confirm the reliability of the first translation. An expert in the relevant field reviewed the back-translated version with the researcher.

## **RESULTS AND DISCUSSIONS**

Descriptive statistics and correlations among the variables used in the study are presented in Table 1.3. The table shows that variables used for this study are consistent and need for achievement (ACH), need for autonomy (AUT), creative tendency (CRE), calculated risk taking (CRT) and locus of control (LCO) are strongly correlated with each other. Table 1.3 shows the correlations among the variables for both samples.

Variables	ACH	AUT	CRE	CRT	LCO
<b>ACH</b>	1				
<b>AUT</b>	.280**	1			
<b>CRE</b>	.260**	.367**	1		
<b>CRT</b>	.333**	.259**	.520**	1	
<b>LCO</b>	.259**	.142**	.137**	.306**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 1.4 shows the group statistics and Table 1.5 illustrates the results of the independent samples t-test analysis.

	Country	N	Mean	Std. Deviation	Std. Error Mean
<b>ACH</b>	Canada	216	2.6319	.43277	.02945
	Turkey	207	2.4634	.44038	.03061
<b>AUT</b>	Canada	217	2.9462	.43203	.02933
	Turkey	208	3.0361	.49055	.03401
<b>CRE</b>	Canada	214	2.6452	.43044	.02942
	Turkey	196	2.6033	.43444	.03103
<b>CRT</b>	Canada	215	2.6163	.42244	.02881
	Turkey	208	2.6034	.44932	.03115
<b>LCO</b>	Canada	214	2.4007	.33766	.02308
	Turkey	207	2.6244	.36369	.02528

t-test for Equality of Means							
						95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
<b>ACH</b>	3.971	421	.000	.16858	.04246	.08512	.25203
	3.969	419.485	.000	.16858	.04247	.08509	.25207
<b>AUT</b>	-2.005	423	.046	-.08982	.04479	-.17786	-.00178
	-2.000	411.329	.046	-.08982	.04491	-.17811	-.00154
<b>CRE</b>	.981	408	.327	.04193	.04275	-.04210	.12596
	.981	404.170	.327	.04193	.04276	-.04213	.12600
<b>CRT</b>	.305	421	.761	.01291	.04239	-.07041	.09624
	.304	417.257	.761	.01291	.04243	-.07050	.09633
<b>LCO</b>	-6.543	419	.000	-.22370	.03419	-.29090	-.15649
	-6.535	414.226	.000	-.22370	.03423	-.29098	-.15641

Overall, the results show that there are no significant differences between the Turkish and Canadian sample in terms of creative tendency (CRE) ( $p > 0.05$ ) and calculated risk taking (CRT) ( $p > 0.05$ ). But on the other hand, we have found that there are significant differences between the samples in terms of need for achievement (ACH) ( $p < 0.01$ ), need for autonomy

(AUT) ( $p < 0.05$ ) and internal locus of control (LCO) ( $p < 0.01$ ). While Turkish students scored higher than Canadian students in the need for autonomy and internal locus of control, Canadian students scored significantly higher in the need for achievement. The correlations among the research variables reveal insights about the potential similarities and differences between Turkish and Canadian students in regard to their possession of entrepreneurial traits.

### **The need for achievement**

Hofstede (1984) claims that cultures score higher in individualism tend have a higher need for achievement. According to Hofstede's research Canada scores significantly higher than Turkey in individualism. Need for achievement along with self-actualization and self-respect is one of the major qualities of individualistic societies. However, more collectivist societies like Turkey quality of life is mostly related with family and group where the children learn to think of themselves as "we" rather than "I" (Hofstede, 1984). Thus, Canadian students were expected to score higher in the need for achievement than their Turkish counterparts. Research findings has supported this hypothesis and indicated that the Canadian students scored significantly higher than the Turkish students in the need for achievement dimension of entrepreneurial traits.

In their research about cultural variations in achievement motivation, Tripathi and Cervone (2008) also found that members of more collectivist societies are more likely to include concerns for the well-being of the family, co-workers and community members in their motivation for achievement than the members of the individualistic societies. Need for achievement, as one of the most studied entrepreneurial traits, was proved to be affected by cultural differences. And many of these studies suggest that motivation for personal achievement vary radically among cultures and it is tend to be higher in western cultures (Sorrentino&Shepphard, 1978; Doi, 1982; Hofer et al., 2010). Similarly, Sagie et al. (1998) suggest that, unlike a collectivist, an individualist conceives achievement as personal success and excellence. Thus, the need for personal achievement should be stronger among members of societies with individualistic orientations. In their cross-cultural research, Carraher et al. (2010) found that the facets of need for achievement trait differ one culture to another. Consequently, differences in the relevant facets create the cross-cultural differences in the need for achievement trait.

### **The need for autonomy**

According to our study Turkish students scored higher than Canadian students. Majority of existing studies regarding how cultural differences affect the need for autonomy suggest that, individuals in western cultures have higher need for autonomy (Hofstede, 1983; Smith et. al, 1996; Markus&Kitayama, 1992). In their research, Darwish and Huber (2003) compared Egyptian and German students according to individualism/collectivism perspective. They found

that there are differences between the cultures and societies with collectivist values and individual values. They suggest that individualist societies possess dominant characteristics including a need for personal autonomy.

However, there are other studies that suggest different perspectives other than the conventional approach. According to their research in Korea, Russia, Turkey and United States, Chirkov et al. (2003) found that individuals from these different cultures rated their countries different than the predictions in terms of individualism and collectivism. They also suggest that how these individuals perceive their societies considerably affected by the degree to which they internalised these ambient conditions.

In their research, Rudy et al. (2007) suggest that individualism is not a necessary precondition for autonomy. Supporting this perspective, Kagitcibasi (2005) argues that conventional theories suggesting that the individualism fosters the need for autonomy should be questioned for certain conditions. According to her findings, some collectivist cultures and societies with a better economic performance show values similar to those of individualist cultures. In such collectivist cultures, families will promote autonomy and relatedness.

Recent studies in regards to the Turkey's cultural profile indicate that individualistic trends and values are becoming more visible in Turkish society (Goregenli, 1997; Chirkov et al., 2003; Green et al., 2005. Yetim (2003) also suggests that young, urban and educated people in Turkey have individualistic profile. Thus, unlike it was stated in the past relevant research, it is relatively harder to place Turkey on either ends of individualism-collectivism spectrum. We strongly believe that cultural dynamics of Turkey has been evolving into a more individualistic profile. New generations are seeking more autonomy and independence as a result of the changing cultural profile of Turkey.

### **Locus of control**

According to our study Turkish students scored higher than Canadian students in terms of internal locus of control. Unlike the above mentioned results, we were not expecting Turkish students to score higher than the Canadian students in this dimension as locus of control is highly correlated with the need for achievement where Canadian students scored higher.

There are many studies about the relationship between individualism/collectivism and locus of control that reveal different results. Triandis (1984) has noted that the degree of locus of control is closely related with how human-nature interactions are perceived by individuals and societies. Triandis (1984) suggests that a cultural group believes that it is superior to nature or lives harmony with nature shows more signs of internal locus of control than the cultural group which is surrendered to nature.

On the other hand, different societies with different background may have different interpretations of control. Weisz et al. (1984) have compared the feeling of control in the US and Japan and found that there are at least two general paths to a feeling of control. According to

their findings, US culture stresses primary control that drives individuals to enhance their rewards by influencing existing realities. Japanese culture turned out to stress secondary control where individuals enhance their rewards by accommodating to existing realities and maximizing satisfaction or goodness of fit with things as they are. Although they have noted a perceptual difference among different cultures, their findings are still consistent with other studies that suggest individualist societies possess more internal locus of control as they try to influence the given conditions.

However, there are other studies suggesting different research findings. For example, Arslan (2000) found that Turkish managers scored significantly higher than their British counterparts in terms of internal locus of control which expresses self-responsibility and independence. Also, Yetim (2003) found that high self-esteem plays a major role in individuals' achievements in cultures like Turkey where "emotional relatedness" of "related autonomous self" is highly pervasive. Supporting our results, Turan and Kara (2007) found that Turkish entrepreneurs have identical internal locus of control scores with Irish entrepreneurs.

### **LIMITATIONS AND FUTURE RESEARCH**

Although this research contributes relevant literature through comparing two different cultures from the entrepreneurial tendencies perspective, several limitations exist. First of all, the research subjects were chosen from certain cities in both countries. Results may vary in different regions of both countries. Future research should examine a wider variety of subjects residing in different regions of Turkey and Canada.

Second limitation is the conceptualization of the scale adopted in this research. Developed originally in a western cultural context, conceptualization of the scale by Turkish subjects should be re-tested in the future research. In addition to quantitative techniques, qualitative data can be collected in order to fine-tune the scale for eastern cultures.

Third limitation is that we have drawn our sample among third and fourth year undergraduate students pursuing their degrees in business administration due to the fact that entrepreneurship and relevant topics are further embedded in their curriculums than other fields. Future research can focus on the entrepreneurial tendencies among other students from different disciplines. Thus, potential research might contribute to the literature through providing a perspective on how individuals with no relevant formation perceive entrepreneurship and if these individuals differ in terms of having and/or showing entrepreneurial traits.

Finally, this research, along with some others, indicates a shift in the Turkish culture in regard to the cultural dimensions suggested by Hofstede (1980). It has been more than three decades since Hofstede has created cultural profiles for countries. Many countries in Hofstede's research have gone through major social and cultural changes. Thus, future research should focus on verifying if Turkey still has the cultural profile suggested by Hofstede or it has been evolving

into a different profile which represent a more individualistic, masculine and risk taking cultural profile.

### AUTHOR'S NOTE

Asst.Prof.Dr. A.Emre Demirci, Anadolu University, Faculty Of Economics & Administrative Sciences,  
Management & Organization Department, E-Mail : Aedemirci@Anadolu.Edu.Tr

### REFERENCES

- Allik, J. & McCrae, R.R. (2004). Toward A Geography of Personality Traits: Patterns of Profiles Across 36 Cultures. *Journal of Cross-Cultural Psychology*, 35(1), 13-28
- Arslan, M. (2000). A Cross-Cultural Comparison of British and Turkish Managers In Terms of Protestant Work Ethic Characteristics. *Business Ethics: A European Review*, 9(1), 13-19
- Athayde, R. (2009). Measuring Enterprise Potential in Young People. *Entrepreneurship Theory and Practice*, 33(2), 481-500
- Beugelsdijk, S. (2007). Entrepreneurial Culture, Regional Innovativeness and Economic Growth. *Journal of Evolutionary Economics*, 17(2), 187-210
- Bruyat, C. & Julien, P. (2000). Defining The Field Of Research In Entrepreneurship. *Journal of Business Venturing*, 16(2), 165-180
- Caird, S.(1991). The Enterprising Tendency of Occupational Groups. *International Small Business Journal*, 9, 75-81
- Caird, S.P. (2006). General Measure of Enterprising Tendency Version 2 (GET2). In *Entrepreneurship and Innovation*, Mazzarol, T. (Ed.), Tilde University Press
- Carraher, S.M., Buchanan, J.K. & Puia, G. (2010). Entrepreneurial Need for Achievement in China, Latvia, and the USA. *Baltic Journal of Management*, 5(3), 378-396
- Chirkov, V., Ryan, R. M., Kim, Y. & Kaplan, U. (2003). Differentiating Autonomy from Individualism and Independence: A Self-Determination Theory Perspective on Internalization of Cultural Orientations and Well-Being. *Journal of Personality and Social Psychology*, 84 (1), 97-110
- Covin, J.G. & Slevin, D.P. (1991). A Conceptual Model of Entrepreneurship as Firm Behavior. *Entrepreneurship: Theory and Practice*, 16(1), 7-25
- Cromie, S. & O'Donoghue, J. (1992). Assessing Entrepreneurial Inclinations. *International Small Business Journal*. 10, 66-73
- Cromie, S. & Callaghan, I. (1997). Assessing Enterprising Attributes – The Usefulness of Caird's General Enterprising Tendency (GET) Test. *Small Business and Enterprise Development*, 4, 65-71
- Cromie, S. (2000). Assessing Entrepreneurial Inclinations: Some Approaches and Empirical Evidence. *European Journal of Work and Organizational Psychology*, 9(1), 7-30
- Darwish, A.E. & Huber, G.L. (2003). Individualism vs Collectivism in Different Cultures: A Cross-Cultural Study. *Intercultural Education*, 14(1), 47-56
- Davis, D., Morris, M. & Allen, Jeff (1991). Perceived Environmental Turbulence and Its Effect on Selected Entrepreneurship, Marketing, and Organizational Characteristics in Industrial Firms. *Journal of the Academy of Marketing Science*, 19(1), 43-51
- Doi, K. (1982). A Two Dimensional Theory of Achievement Motivation: Affiliative and Nonaffiliative. *Japanese Journal of Psychology*, 52, 344-350.
- Earley, P.C. & Gibson, C.B. (1998). Taking Stock In Our Progress on Individualism and Collectivism: 100 Years of Solidarity and Community. *Journal of Management*, 24(3), 265-304

- Engle, R.L. et al. (2010). Entrepreneurial Intent: A Twelve-Country Evaluation of Ajzen's Model of Planned Behavior. *International Journal of Entrepreneurial Behaviour & Research*, 16(1), 35-57
- Fiet, J.O. (2001). The Theoretical Side Of Teaching Entrepreneurship. *Journal of Business Venturing*, 16(1), 1-24
- Fisher, E. & Reuber, R. (2010). *The State of Entrepreneurship in Canada, Small Business and Tourism Branch*, Industry Canada
- Garavan, T.N. & O'Conneide, B. (1994). Entrepreneurship Education and Training Programmes: A Review and Evaluation – Part 1. *Journal of European Industrial Training*, 18(8), 3-12
- Gerstner, C.R. & Day, D.V. (1994). Cross-Cultural Comparison of Leadership Prototypes. *Leadership Quarterly*, 5(2), 121-134
- Goregenli, M. (1997). Individualist-Collectivist Tendencies in a Turkish Sample. *Journal of Cross-Cultural Psychology*, 28(6), 787-794
- Green, E.G.T., Deschamps, J.C. & Paez, D. (2005). Variation of Individualism and Collectivism Within and between 20 Countries: A Typological Analysis. *Journal of Cross-Cultural Psychology*, 36(3), 321-339
- Gurool, Y. & Atsan, N. (2006). Entrepreneurial Characteristics Amongst University Students. *Education & Training*, 48(1), 25-38
- Hannon, P.D. (2006). Teaching Pigeons To Dance: Sense And Meaning In Entrepreneurship Education. *Education and Training*, 48(5), 296-308
- Hartshorn, C. & Hannon, P.D. (2005). Paradoxes In Entrepreneurship Education: Chalk and Talk or Chalk and Cheese? A Case Approach, *Education and Training*, 47(8/9), 616-627
- Hayton, J.C., George, G. & Zahra, S.A. (2002). National Culture and Entrepreneurship: A Review of Behavioral Research. *Entrepreneurship: Theory and Practice*, 26(4), 33-52
- Henry, C., Hill, F.M. & Leitch, C.M. (2004). The Effectiveness of Training for New Business Creation. *International Small Business Journal*, 22(3), 249-271
- Henry, C., Leitch, C. & Hill, F. (2005). Entrepreneurship Education and Training: Can Entrepreneurship Be Taught? Part 2. *Education and Training*, 47(2/3), 158-170
- Herbig, P.A., & Miller, J. C. (1992). Culture and Technology: Does the Traffic Move In Both Directions?. *Journal of Global Marketing*, 6, 75-104
- Hofer, J., Busch, H., Bond, M. H., Li, M., & Law, R. (2010). Is Motive-Goal Congruence in the Power Domain Beneficial for Individual Well-Being? An Investigation in a German and Two Chinese Samples. *Journal of Research in Personality*, 44, 610-620.
- Hofstede, G. (1980). *Culture's Consequences*. Sage Publications, London, UK
- Hofstede, G. (1983). National Cultures in Four Dimensions. *International Studies of Management & Organization*, 13(1), 46-74
- Hofstede, G. (1984). The Cultural Relativity of the Quality of Life Concept. *The Academy of Management Review*, 9(3), 389-398
- Hofstede, G. & McCrae, R.R. (2004). Personality and Culture Revisited: Linking Traits and Dimensions of Culture. *Cross-Cultural Research*, 38(1), 52-88
- Hynes, B. (1996). Entrepreneurship Education and Training – Introducing Entrepreneurship Into Non-Business Disciplines. *Journal of European Industrial Training*, 20(8), 10-17
- Ibrahim, A. B., & Ellis, W. H. (1993). *Entrepreneurship and Small Business Management: Text, Readings, and Cases* (2nd ed.). Dubuque, IA: Kendall/Hunt.
- İraz, R. (2005). *Yaratıcılık ve Yenilik Bağlamında Girişimcilik ve KOBİ'ler*. Çizgi Kitabevi
- Jesselyn Co, M. & Mitchell, B. (2006). Entrepreneurship Education In South Africa: A Nationwide Survey. *Education and Training*, 48(5), 348-359
- Johnson, D., Craig, J.B.L. & Hildebrand, R. (2006). Entrepreneurship Education: Towards A Discipline-Based Framework. *The Journal of Management Development*, 25(1), 40-54
- Kagitcibasi, C. (2005). Autonomy and Relatedness in Cultural Context: Implications for Self and Family. *Journal of Cross-Cultural Psychology*, 36(4), 403-422

- Kirby, D.A. & Ibrahim, N. (2011). Entrepreneurship Education and the Creation of An Enterprise Culture: Provisional Results from An Experiment in Egypt. *International Entrepreneurship and Management*, 7(2), 181-193
- Knaup, A.E. (2005). Survival And Longevity In The Business Employment Dynamics Data. *Monthly Labor Review*, May, p.51
- Koh, Hian C. (1996). Testing Hypotheses of Entrepreneurial Characteristics: A Study of Hong Kong MBA Students. *Journal of Managerial Psychology*, 11(3), 12-25
- KOSGEB Report (2003). *KOBİ Ekonomisi – Tarihi Gelişimi – (Economics of SMEs – Historical Perspective)*. Ekonomik ve Stratejik Araştırmalar Merkez Müdürlüğü, Ankara
- Kroeber, A. L. & Parsons, T. (1958). The Concepts of Culture and Social System. *American Sociological Review*, 23, 582-583
- Lee, S.M. & Peterson, S.J. (2000). Culture, Entrepreneurial Orientation, and Global Competitiveness. *Journal of World Business*, 35(4), 401-416
- Lewis, P. (2006). The Quest for Invisibility: Female Entrepreneurs and the Masculine Norm of Entrepreneurship. *Gender, Work & Organization*, 13(5), 453-469
- Loon, M. & Casimir, G. (2008). Job-emand for Learning and Job-related Learning The Moderating Effect of Need for Achievement. *Journal of Managerial Psychology*, 23(1), 89-102
- Markus, H. R., & Kitayama, S. K. (1991). Culture and the Self: Implications For Cognition, Emotion, and Motivation. *Psychological Review*, 98, 224–253.
- Maysami, R.C. & Ziemnowicz, C. (2007). Ethnicity, Gender and Entrepreneurial Tendencies: The Singapore Perspective. *The Copenhagen Journal of Asian Studies*, 25, 74-98
- McClelland, D.C. (1961). *The Achieving Society*. Van Nostrand, Princeton, NJ
- McGrath, R.G., MacMillan, I. & Scheinberg, S. (1992). Elitists, Risk-Takers, and Rugged Individualists ? An Exploratory Analysis of Cultural Differences Between Entrepreneurs and Non-Entrepreneurs. *Journal of Business Venturing*, 7(2), 115-135
- Miller, D. & Friesen, P.H. (1983). Strategy Making and Environment: The Third Link. *Strategic Management Journal*, 4(3), 221-235
- Morris, M.H., Davis, D.L. & Allen, J.W. (1994). Fostering Corporate Entrepreneurship: Cross-Cultural Comparisons of the Importance of Individualism versus Collectivism. *Journal of International Business Studies*, 25(1), 65-89
- Morrison, A. (2000). Entrepreneurship: What Triggers It?. *International Journal of Entrepreneurial Behavior and Research*, 6(2), 59-71
- Mueller, S. & Thomas, A. (2001). Culture and Entrepreneurial Potential: A Nine-Country Study of Locus of Control and Innovativeness. *Journal of Business Venturing*, 16(1), 51-75
- Müftüoğlu, T. (1999). *Girişimcilik*. Anadolu Üniversitesi İşletme Fakültesi Ders Kitapları, Yayın No.18
- Ong, J.W. & Hishamuddin Bin I. (2008). Revisiting Personality Traits in Entrepreneurship Study from Resource-Based Perspective. *Business Renaissance Quarterly*, 3(1), 97-114
- Peterson, R.A. (1980). Entrepreneurship and Organization. in Handbook of Organizational Design (ed. P.C. Nystrom & W.H. Starbuck). Vol. 1. Oxford, UK: Oxford University Press
- Pinillos, M.J. & Reyes, L. (2009). Relationship Between Individualist–Collectivist Culture and Entrepreneurial Activity: Evidence From Global Entrepreneurship Monitor Data. *Small Business Economics*, 37(1), 23-37
- Puffer, S.M. et al. (2001). Navigating the Hostile Maze: A Framework for Russian Entrepreneurship [and Executive Commentary]. *The Academy of Management Executive*, 15(4), 24-38
- Raposo, M., Paco do A. & Ferreira, J. (2008). Entrepreneur’s Profile: A Taxonomy of Attributes and Motivations of University Students. *Journal of Small Business and Enterprise Development*, 15(2), 405-418
- Rauch, A. & Frese, M. (2007). Let’s Put the Person Back Into Entrepreneurship Research: A Meta-analysis on the Relationship Between Business Owners’ Personality Traits, Business Creation, and Success. *European Journal of Work and Organizational Psychology*, 16(4), 353-385
- Roberts, L.P. (2010). *GoForth Institute National Entrepreneurship Sentiment Survey*. GoForth Education Inc., Canada

- Rudy, D., Sheldon, K.M., Awong, T. & Tan, H. (2007). Autonomy, Culture, and Well-Being: The Benefits of Inclusive Autonomy. *Journal of Research in Personality*, 41(5), 983-1007
- Russo, Rosaria de F.S.M. & Sbragia, R. (2010). The Enterprising Manager and Project Performance. *Journal of Project, Program & Portfolio Management*, 1(1), 28-40
- Sagie, A., Elizur, D. & Yamauchi, H. (1998). The Structure and Strength of Achievement Motivation: A Cross-Cultural Comparison. *Journal of Organizational Behavior*, 17(5), 431-444
- Shane, S. (1993). Cultural Influences on National Rates of Innovation. *Journal of Business Venturing*, 8(1), 59-73
- Smith, P. B., Peterson, M. F., & Wang, Z. M. (1996). The Manager As Mediator of Alternative Meanings: A Pilot Study From China, The USA and UK. *Journal of International Business Studies*, 27(1), 115-137.
- Sorrentino, R. & Shepphard, B. H. (1978). Effects of Affiliation-Related Motives on Swimmers in Individual Versus Group Competition: A Field Experiment. *Journal of Personality and Social Psychology*, 36, 704-714
- Stremersch, S. & Tellis, G.J. (2004). Understanding and Managing International Growth of New Products. *International Journal of Research in Marketing*, 21(4), 421-438
- Thomas, A.S. & Mueller, S.L. (2000). A Case for Comparative Entrepreneurship: Assessing the Relevance of Culture. *Journal of International Business Studies*, 31(2), 287-301
- Tiessen, J. H. (1997). Individualism, Collectivism, and Entrepreneurship: A Framework for International Comparative Research. *Journal of Business Venturing*, 12(5), 367-384
- Triandis, H.C. (1984). A Theoretical Framework for the More Efficient Construction of Cultural Assimilators. *International Journal of Intercultural Relations*, 8(3), 301-330
- Tripathi, R. & Cervone, D. (2008). Cultural Variations In Achievement Motivation Despite Equivalent Motivational Strength: Motivational Concerns Among Indian and American Corporate Professionals. *Journal of Research in Personality*, 42(2), 456-464
- Trubisky, P., Ting-Toomey, S. & Lin, S. (1991). The Influence of Individualism-Collectivism and Self-Monitoring on Conflict Styles. *International Journal of Intercultural Relations*, 15(1), 65-84
- Turan, M. & Kara, A. (2007). An Exploratory Study of Characteristics and Attributes of Turkish Entrepreneurs: A Cross Country Comparison to Irish Entrepreneurs. *Journal of International Entrepreneurship*, 5(1-2), 25-46
- Van den Broeck, A. et al. (2010). Capturing Autonomy, Competence and Relatedness At Work: Construction and Initial Validation of the Work-related Basic Need Satisfaction Scale. *Journal of Occupational and Organizational Psychology*, 83(4), 981-1002
- Weisz, J.R., Rothbaum, F.M. & Blackburn, T.C. (1984). Standing Out and Standing In: The Psychology of Control in America and Japan. *American Psychologist*, 39(9), 955-969
- Wennekers, S. et al. (2007). Uncertainty Avoidance and the Rate of Business Ownership Across 21 OECD Countries, 1976-2004. *Journal of Evolutionary Economics*, 17(2), 133-160
- Xu, H. & Ruef, M. (2004). The Myth of the Risk-Tolerant Entrepreneur. *Strategic Organization*, 2(4), 331-355
- Yetim, U. (2003). The Impacts of Individualism/Collectivism, Self-Esteem, and Feeling of Mastery on Life Satisfaction Among the Turkish University Students and Academicians. *Social Indicator Research*, 61(3), 297-317
- Zhao, H., Seibert, S.E. & Lumpkin, G.T. (2010). The Relationship of Personality to Entrepreneurial Intentions and Performance: A Meta-Analytic Review. *Journal of Management*, 36(2), 381-404

# DOES ENTREPRENEURIAL ORIENTATION PREDICT ENTREPRENEURIAL BEHAVIOUR?

Robert Kemepade Moruku, Delta State University, Nigeria

## ABSTRACT

*The objective of this study was to find an answer to the key research question raised for the study, "Does entrepreneurial orientation explain actual entrepreneurial behaviour?" Recent interest in entrepreneurial orientation (EO) arose from the failure of personality variables of entrepreneurs to consistently explain entrepreneurial performance. Yet, research suggests that EO itself suffers from conceptual ambiguity that is problematic because it is part thinking-oriented and part action-oriented. As such, its link to performance is dilute. The present study, therefore, positioned the EO construct as an explanatory antecedent to entrepreneurial behaviour within an entrepreneurial performance framework with a view to determining its actual entrepreneurial content. It was found that EO did not play a statistically significant mediating role in performance. Surprisingly, however, EO had a statistically significant explanation for entrepreneurial behaviour. It was suggested that entrepreneurship development policy should aim to develop entrepreneurial capacity, self-efficacy, and moderate self confidence. It was also suggested that future research should avoid or reduce same source and mono-method biases.*

KEYWORDS: Entrepreneurial orientation; entrepreneurial behaviour; small-to-medium sized enterprises; entrepreneurial strategy; social embeddedness theory; entrepreneurial performance.

## INTRODUCTION

As the 1980s got underway, numerous signs suggested that, in the years ahead, company prospects for prosperity and growth would become tougher (Kotler and Singh, 1980/1995:65-83). It turned out to be so. Thus, business became increasingly competitive, which made marketing scholars (for example, Kotler and Singh, (1995/1980:65-83) to suggest that a decisive factor for success would involve competition-centred *strategy* or orientation (see also Dev et al., 2009).

The focus here is on *entrepreneurial behaviour (EO) of the owner-manager*, which is *strategy* or strategic management behaviour for acting entrepreneurially (Chaston 2000; Gilmore and Carson, 2000; Harrington, 2005; Lumpkin and Dess as cited in Gray, 1999; Spillan and

Ziemniewicz, 2003; Stokes cited in Mador, 2000; Vitale et al., 2003). According to the *upper echelon theory*, top management team (TMT) plays a critical role in shaping and positioning the organization strategically to achieve performance, using their demographics to influence organizational dynamics (Hambrick and Mason as cited in Carmeli, 2008). Problem is that demographics are *unreliable* as explanatory variables for entrepreneurial performance (Jackson et al., 2001). Consequently, in recent times, attention has been turned to entrepreneurial orientation (EO) to account for entrepreneurial performance.

Covin and Slevin (as cited in Quince and Whittaker, 2003) suggest that EO is critical to enterprise performance. However, as Wiklund (1998: 222-236) has found, EO performed poorly as a performance-mediating variable, which was not surprising because it is an ambiguous concept that is conceptually problematic. Vitale et al. (2003) found that EO variables have a holistic influence on performance. These inconsistent findings further create a feeling of uncertainty with regard to the role of EO in performance.

A guiding key research question, therefore, is, “Does entrepreneurial *orientation* explain actual entrepreneurial *behaviour*?” It can be expected that if EO is efficacious in mediating performance, and given that EB is synonymous with performance, then EO should explain EB. Thus, the limited objective of this study is to determine whether EO explains EB. This is done by positioning EO as an explanatory antecedent to EB.

The present paper is structured to tackle this task. After the introduction to the study as made above, the researcher reviews the extant literature to gain a thorough grasp of both EO and EB constructs. Subsequently, the researcher explains the methodology of the study. The findings are discussed in the subsequent section. The next section concludes the paper.

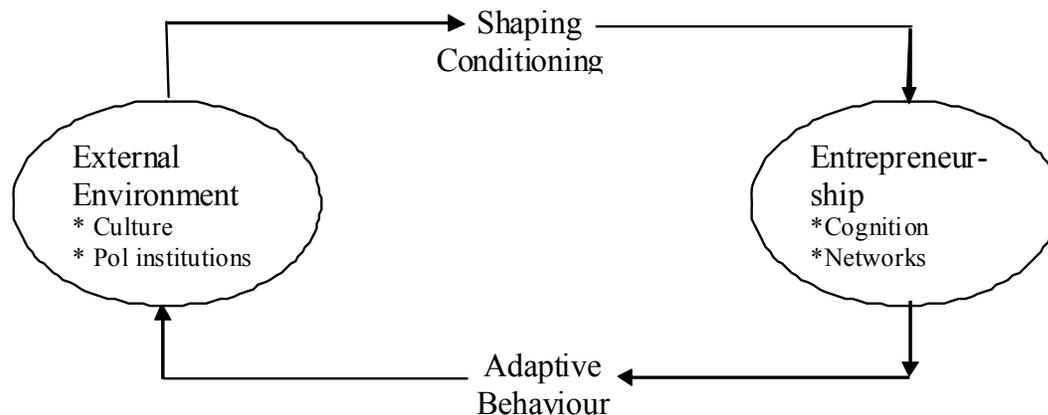
## REVIEW OF THE LITERATURE

### Antecedents to entrepreneurial performance

I take the social embeddedness perspective as the theoretical frame of reference for the present study. Gosling and Mintzberg (2006) suggested that theories are “maps of the world” and “cases are travellers’ tales”. Cognitively, the management researcher is such a traveller in the social world in search of solutions to business problems. As such, the theoretical framework provides a *knowledge compass* that gives direction to the study such that it guides the researcher towards finding the answer to the problem being investigated.

The social embeddedness theory suggests that economic activities take place in social contexts. Taking this perspective, the external business environment is conceptualized as the context for the founding and performance of the entrepreneurial firm. The social embeddedness perspective for the business enterprise may be modelled as in this schematic presentation in Figure 1:

Figure 1: Social Embeddedness Framework.



Source: Researcher's Model

As Figure 1 suggests, the environment influences entrepreneurship by conditioning or shaping cognition, culture, social structure, and political institutions (Boyne and Meier, 2009; Brandl and Bullinger, 2009; Bunch, 2007; Dacin et al., 1999; Yang, 2004). It is a social milieu or ecosystem within which creativity/entrepreneurship takes root (Hawkins as cited in Peters and Besley, 2008).

The external business environment creates both direct and indirect impacts on the firm. These impacts may be perceived as attractive *opportunities and significant threats or challenges*, which facilitate or constrain entrepreneurial performance. The firm devises *adaptive response behaviour or strategy* by arraying its strengths, such as knowledge, skills, attitudes, and other variables (KSAOs) *and fits them to the external business environment* (Bacon and Hofer, 2003; Boyne and Meier, 2009). As Summers-Effler (cited in Summers-Effler, 2007) suggests, "... all organization is embedded, and all organization will encounter obstacles. In *response* to these obstacles, centers of action develop defensive strategies" to cope with these obstacles.

From the above discussion, the following hypotheses are put forward for empirical testing:

*H0<sub>1a</sub>: There is no statistically significant direct relationship between the business environment and sales performance.*

*H0<sub>1b</sub>: There is no statistically significant direct relationship between the business environment and profit performance.*

*H0<sub>1c</sub>: There is no statistically significant direct relationship between the business environment and employment performance.*

*H0<sub>1d</sub>: There is no statistically significant direct relationship between the business environment and performance.*

## MEDIATING VARIABLES

Both EO and LC have been used as mediating variables. But while EO performed unsatisfactorily (Wiklund, 1998), LC leveraged performance (Gray, 1999). Combining both constructs to model performance can yield a better result than modelling them separately. These constructs are discussed in the next two subsections.

### Entrepreneurial orientation

As stated before, EO suffers from a conceptual ambiguity (Wiklund, 1998: 222), which leads to a feeling of agnosticism about its mediating role in entrepreneurial performance.

Conceptually, EO has five dimensions (Quince and Whitaker, 2003; Yang, 2004). *Autonomy* implies acting independently of others to bring about ideas and vision. *Competitive aggressiveness* means aggressive response to the strategic moves of competitors. *Innovativeness* involves engaging in creative activities (visioning and experimentation) which may result in new products, services, or processes. *Pro-activeness* involves future oriented behaviour such as ‘first mover’ actions to secure and protect market share/demand. *Risk-taking* is the willingness to commit significant resources to a project in the face of uncertainty.

But when entrepreneurs report that they are, say, risk-taking, how does it show that they are actually behaving as such? It can be expected, therefore, that:

*H0<sub>2</sub>: There is no statistically significant direct relationship between the business environment and EO.*

*H0<sub>3a</sub>: There is no statistically significant direct relationship between EO and sales performance.*

*H0<sub>3b</sub>: There is no statistically significant direct relationship between EO and profit performance.*

*H0<sub>3c</sub>: There is no statistically significant direct relationship between EO and employment performance.*

---

*H0<sub>3d</sub>: There is no statistically significant direct relationship between EO and performance.*

### **Entrepreneur's locus of control**

Originally developed by Rotter (as cited in Hisrich and Peters, 2002: 66), the term "locus of control" is a personality construct, which is used to describe a person's *sense of control* over his life. Applied to business entrepreneurship, it relates to "attribution explanatory style" in respect of venture performance (Askim and Feinberg, 2001). Externals tend to attribute venture performance to *external causation*; are susceptible to frustration and *learned helplessness*.

But internals attribute performance to their *personal causation*. As an example of the influence of internality on performance, Ward (as cited in Lumpkin and Edorgan, 1997) found that internals plan for expansion (growth) of their businesses even when unemployment rates are high. Internality is thought to be related to pro-activeness and competitive aggressiveness.

However, Heider (as cited in Brandl and Bullinger, 2009) cautioned against making "fundamental attribution error" in overestimating personal over situational causation. In other words, a string of successes can feed *narcissistic* feelings of infallibility, hubris (pride), omnipotence (all-powerful), and omniscience (all-knowing); with a tendency to be lulled into complacency or "cessation of vigilance" (Stein, 2003). Thus, taken to extremes, both successes and failures can impede further performance.

The following hypotheses are, therefore, put forward for empirical testing:

*H0<sub>4</sub>: There is no statistically significant direct relationship between the business environment and LC.*

*H0<sub>5a</sub>: There is no statistically significant direct relationship between LC and sales performance.*

*H0<sub>5b</sub>: There is no statistically significant direct relationship between LC and profit performance.*

*H0<sub>5c</sub>: There is no statistically significant direct relationship between LC and employment performance.*

*H0<sub>6</sub>: There is no statistically significant interaction between EO and LC.*

The researcher now turns attention to the dependent variables in the next section. These are performance and EB.

## DEPENDENT VARIABLES

### Performance

Research indicated that most studies of SMEs utilized financial or hard measures like sales, profit, and employment growths for studying performance (Baron and Tang, 2008; Walker and Brown, 2004; Wiklund, 1998:296 – 307). Drawing on these studies, I consider performance of SMEs or entrepreneurs multi-dimensionally or multi-componentially. Thus, performance is the latent construct while sales, profit, and employment growths are its components or manifest variables.

### Entrepreneurial behaviour

EB consists of aspects of the behaviour of an entrepreneur such as being proactive, competitive, innovative, risk-taking, and independent. Thus, many studies ended up describing EB when they were actually studying and describing EO (Wiklund, 1998: 223). One reason for this apparent confusion is that both concepts have similar dimensions. But while EO is an orientation, which is akin to entrepreneurial *intention*, EB is *action-based*. Logically, the orientation must be converted to action before performance benefits can be realized.

Pirela (2007) suggested that EB is critical to performance even in a hostile, unstable, and uncertain business environment. In this case, EB involved *taking action* to change the institutional environment. Thus, appropriately, it is conceptualized (i.e., labelled) as a *behaviour* rather than an orientation. Evidently, EO is a *disposition to act* entrepreneurially but EB is *acting* entrepreneurially.

Drawing on prior studies, Wiklund (1998: 222-225) suggested that EB comprises nine indicators. These are (i) establishing of *new* enterprises or *growing* the existing firms, (ii) making *new* market entry, (iii) developing a *new* market or marketing to *new* customers), (iv) developing a *new* product, (v) producing a *new* product ahead of competitors, (vi) investing in *new* product development which is fraught with uncertainty and failure, (viii) introducing *new* operating procedures, and (ix) *reorganizing* the firm.

It can be seen from this list that *newness* pervades the EB landscape. Thus, the following hypotheses are advanced:

*H0<sub>7a</sub>: There is no statistically significant direct connection between EO and EB*

*H0<sub>7b</sub>: There is no statistically significant direct connection between LC and EB*

Based on the above review of the literature, the mediating variables are incorporated to produce the full research model for explaining performance and then EB. Consequently, the following hypotheses are proposed for the full research model:

*H0<sub>8a</sub>: There is no statistically significant indirect relationship between the business environment and sales performance.*

*H0<sub>8b</sub>: There is no statistically significant indirect relationship between the business environment and profit performance.*

*H0<sub>8c</sub>: There is no statistically significant indirect relationship between the business environment and employment performance.*

*H0<sub>8d</sub>: There is no statistically significant indirect relationship between the business environment and performance.*

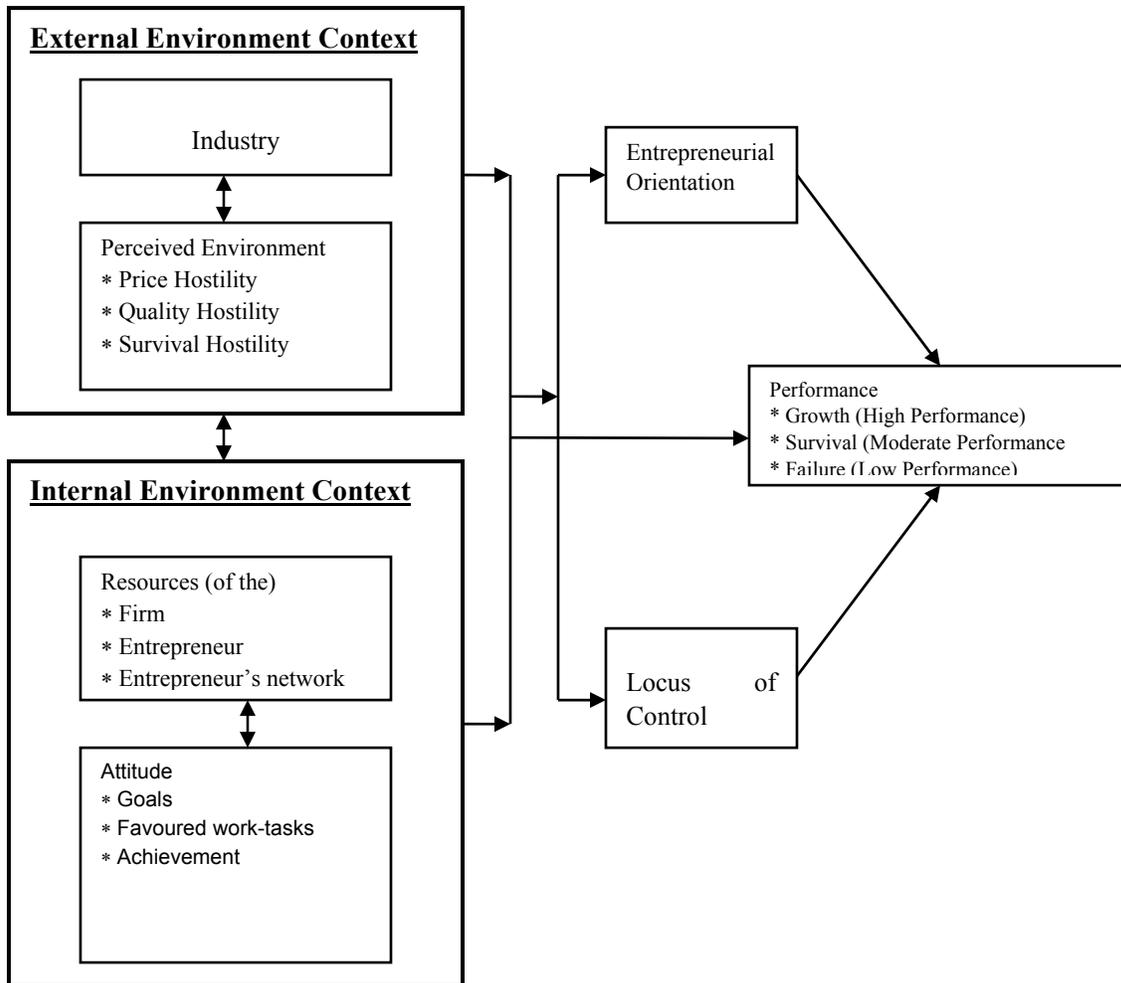
These hypothetical relationships are built into the input model as presented in Figure 2 on the following page.

As depicted, Figure 2 suggests that the internal and external business environments are inextricably linked to one another. Their interconnectedness leads to mutual impacts on one another and co-emergence (Porter, 2006). The firm derives its behaviour from the external business environment in terms of strategy, structure, ideology, and orientation. These ultimately impact on the performance of the firm.

A firm's behaviour is not independent of its customers, suppliers, competitors, stockholders, and so on. Actually, firm behaviour is normally derived from and in *response to* these actors who constitute environmental forces. For example, competitors are a *force* shaping a firm's competitive strategy (Porter, 1979/1995:113 – 125); customers are a source of business revenue and favourable or unfavourable word-of-mouth advertising; suppliers are a source of credits, raw materials, parts, or components; (Bradley et al., 2003; Duhan et al., 1997); and stockholders own, provide capital, and ultimately direct or control the firm (Morgan and Kristensen, 2006).

In the next section, I describe the methodology of the study.

Figure 2: Model for Performance of SMEs



Source: Adapted from Wiklund (1998)

## METHODOLOGY

### The instrument and measurement of variables

Given the lack of secondary data for the variables of the study as well as the difficulty of interpreting such data, a survey instrument, derived from Wiklund (1998: 315-342), was used to generate the required data. A pilot study was conducted in Benin City from November 3 – 27,

---

2006, which enabled the researcher to validate and purify the instrument precedent to conducting the full scale study. Four explanatory and two context (mediating) latent constructs were selected for attention in the present study. They were measured as explained below.

*Subjective (perceived) environment* was indicated in 3 sub-dimensions of competition and assessed with 3 semantic differential subscales each with 7 grid points. Factor loadings ranged from .56 to .68 with an index reliability of .59. *Industry environment* variable captured industry characteristics. Two Likert-type scales were used to measure these variables. The composite reliability was .60.

*Resources* were captured in four dimensions. (i) *Resources of the entrepreneur* were indicated by 8 manifest variables with factor loadings ranging from .16 to .44 and a composite reliability of .61. (ii) *Resources of the enterprise* were indicated by 7 manifest variables, which were measured on semantic differential scales with reliability ranging from -.3 to .60. (iii) *Resources of the entrepreneur's network* were indicated by 5 manifest variables. Factor loadings ranged from .53 to .75 with a composite reliability of .92.

*Entrepreneur's psychological drive (motivation)* had two dimensions whose indicators were measured on Likert-type scales. These were (i) *Entrepreneur's goals* which were assessed through 5 indicators with factor loadings ranging from .61 to .91 and a composite reliability of .52; and (ii) *Entrepreneur's favoured work-tasks* which were indicated by 7 manifest variables with factor loadings ranged from .71 to .92 and an index reliability of .72.

*Locus of control* was indicated by 2 manifest variables. The items were measured on semantic differential sub-scales containing 7 grid points on a continuum. Both items here were original. Factor loadings were .63 and .68 respectively with a composite reliability of .92.

*Entrepreneurial Orientation* was indicated by 3 sub-latent variables which were three self-assessed strategic behavioural *orientations*, namely, risk-taking propensity, pro-activity (pro-activeness), and innovativeness. They were measured with 7 point scales. Factor loadings ranged from .51 to .64 with composite reliability of .66. *Entrepreneurial behaviour* consisted of three sub-latent variables measuring entrepreneurial *actions*. (i) *Innovation* was measured with 7 sub-items. (ii) *Pro-activeness* was assessed with 3 sub-items. (iii) Risk-taking was measured with 4 sub-items. Data sought were of the interval level and items were measured on Likert-like scales coded with 0 = "none" to 4 = "very great".

The reliability was tested using the Spearman Brown split-half reliability statistic and its equivalents such as the Gutman's split-half and Cronbach Alpha reliability statistics. As indicated above, the reliability coefficients for all except the resource variables ranged from .60 to .93, which were satisfactory (Nunnally and Bernstein as cited in Miller et al., 2007).

To be parsimonious without loss of explanatory power, key variables were extracted for the study based on high factor loadings (conventional cut off coefficient for established surveys is  $r \geq .70$ ). Cut off coefficients for item-total correlations of indicators and communalities were .50. The latent variables were created by summing up multiresponse item scores into index scores. The multiresponse items were used to reduce measurement error (Garson, 2008) and

achieve content validity (Hernandez-Maestro et al., 2009). The instrument achieved strong *convergent validity* as factor loadings of indicators per latent construct were .50 or higher. It also achieved *discriminant validity*, where indicators loaded highest onto target factors with negligible cross-loadings on irrelevant factors (Mezner and Johnson [Jr], 2005) as well as moderate correlations ( $r < .80$ ) among the variables suggesting that there was no threat of confounding multicollinearity (Kennedy, 1979 as cited in Olson et al., 2007).

To ensure adequate response to the survey for the analysis of data, 800 copies of the self-administered questionnaire were distributed, through trained research assistants, to a representative sample of that number of MDs/CEOs even when the threshold sample size required for sampling adequacy (Tan and Chia, 2007) and canonical correlation analysis (Steven, 2001: 475) was 460 respondents (20 cases per variable for 23 variables used in the study). Sampling adequacy makes findings generalizable to the population (Carmeli, 2008). The SMEs included in the study were selected from Bayelsa, Delta, and Rivers states of the South-South geopolitical zone of Nigeria. A total of 640 questionnaires were retrieved from respondents out of which 463 were usable, resulting in a response rate of 80%.

## **DATA ANALYSIS AND FINDINGS**

The principal components factor analysis (PCA) was conducted on the data of the pilot study, using the Statistical Package for Social Sciences-Disk Operating System (SPSS-DOS) version 4 software. SAS version 9 was used to conduct the canonical correlation analysis (CCA) and test the correlational hypotheses in the study. The tests of the hypotheses were based on the structural equation modelling (SEM) technique. The SEM technique is a unified framework for exploring multiple dependent and multiple independent relationships and testing multiple correlational hypotheses (Bouckernooghe et al., 2007; Henley et al., 2006).

### **Empirical findings**

The results of the principal components factor analysis conducted on the data of the pilot study constituted the preliminary findings of the study (Carmeli, 2008). The results are summarized and presented in Tables 1 and 2. The descriptive statistics of LC, EO and EB are in the Appendix.

Variable	Factor 1 Risk-Taking	Factor2 Proactivity	Factor3 Innovation	Item Communality	Item Split- Half Reliability
Attitude to R&D [Innovation 1] (V20f)	+ .80053	-.05250	+.39688	.80	+.65
Capital availability (V20h)	+.61094	-.11642	+.56509	.71	-.09
Appr to exploring environment [Risk-taking 1] (V20a)	+.60410	+.37837	+.04986	.51	+.51
Projects undertaken [Risk-taking] 2 (V20b)	+.47549	+.76553	-.09572	.82	+.59
Relationship with customers [Pro-activity 3] (V20e)	+.32490	+.69540	-.41922	.76	+.59
Firm's Innovation [Pro-activity 2] (V20d)	-.65044	+.62158	+.08498	.82	+.64
Firm's Relative Innovation [Pro-activity 1] (V20c)	-.36148	+.47215	+.72789	.88	+.60
Product Lines Marketed [Innovation 2] (V20g)	-.83524	+.15612	+.23102	.78	+.64
Composite Reliability score (.66)					
Eigenvalue	2.96	1.86	1.25		
Percentage of variance	37.0	23.3	15.7		
Cumm Percentage of variance	37.0	60.3	76.0		
Notes: (i) For ease of interpretation, factor scores were rotated. (2) Method of rotation employed is the orthogonal (varimax) rotation. (3) Items were selected based on Kaizer Rule stipulating eigenvalues of at least 1 (4) Item reliabilities are item-total correlations (5) Factor scores are item-latent correlations					
Source: SAS output (p. 31) as computed from Researcher's survey data					

It can be seen from Tables 1 and 2 that three factors were extracted for each of EO and EB, as in Wiklund's (1998: 347, 349) study against the five dimensions suggested in Quince and Withacker (2000), namely, risk-taking (Factor 1), pro- activity (Factor 2), and innovation (Factor 3). But in some cases, items loaded on factors differently in this study from their loadings in Wiklund's (1998) study.

Variable	Factor 1 Proactivity	Factor 2 Risk- Taking	Factor 3 Innovativeness	Item Communality	Item Split- Half Reliability
New customers (V25a)	+.91914	-.02365	+.29777	.93	.93
New marketing practices (V25b)	+.86107	-.03877	+.11731	.76	.91
New product lines (V25c)	-.33407	+.70294	+.48470	.84	.80
New prod being developed (V25e)	.32521	+.66286	-.12612	.56	.81
New product introd ahead of rivals Proactivity] (V25f)	-.12746	+.71777	+.02787	.53	.88
New operating procedure (V25g)	-.18200	+.74543	-.05987	.59	.54
New (Reorganized) firm (V25h)	+.02473	-.34632	+.91169	.95	.88
[Risk Taking](V25i)	+.16883	+.20823	+.85895	.81	
New prod now in market (V25d)	-.76824	+.26319	+.36654	.79	.83

Variable	Factor 1 Proactivity	Factor 2 Risk- Taking	Factor 3 Innovativeness	Item Communality	Item Split- Half Reliability
Composite Reliability score (.70)					
Eigenvalue	2.85	2.17	1.75		
Percentage of variance	31.7	24.1	19.5		
Cum Percentage of variance	31.7	55.7	75.2		
Notes: (i) For ease of interpretation, factor scores were rotated.					
(2) Method of rotation employed is the orthogonal (varimax) rotation.					
(3) Items were selected based on Kaizer Rule stipulating eigenvalues of at least 1.					
(4) Item reliabilities are item-total correlations					
(5) Factor scores are item-latent correlations					
Source: SAS output (p. 31) as computed from Researcher's survey data					

For example, in Table 1, entrepreneurs' "Attitude to R&D" loaded on risk-taking (Factor 1) rather than loading on innovation (Factor 3). Owner-managers probably considered spending on R&D as an expense rather than viewing it as an investment.

Attitude to the business environment also loaded on risk-taking, suggesting their perception of the environment as hostile and risky (insecure). Another probable reason for this inconsistency in factor loadings may be that the items are related in some ways.

Variable & Multivariate Statistics	Mod 1 EO (X5)	Mod 2 LC (X6)	Mod 3 Sales Grow (y1)	Mod 4 Profit Grow (y2)	Mod 5 Employ Grow y3	Mod 6 Canon Function Yc*	Mod 7 Sales Grow (y1)	Mod 8 Profit Grow (y2)	Mod 9 Employ Grow (y3)	Mod10 Canon Function Yc*
Industry Environ (X1)	-.07	-.07	-.02	.14**	.00		-.02	.12**	.00	
Perceived Environ X2)	.44	.18	.03	.03	.25***		.03	.03	.25***	
Resources (X3)	-.05	-.08	-.01	-.03	.05		-.01	-.03	.05	
Motivation (X4)	-.01	.26	-.05	.07	.02		-.05	.07	.02	
EO (X5)							.08	.07	.08	
LC (X6)							.11*	.00	-.04	
Rc	.47	.33	.07	.15	.26	.26	.13	.16	.31	.32
Rc-Adj	.47	.33	.02	.13	.25	.24	.09	.13	.30	.29
Rc-Sq	.22	.11	.00	.02	.07	.07	.02	.03	.10	.10
SE	.04	.04	.05	.05	.04	.04	.06	.05	.04	.04
F	32.32	14.22	.48	2.66	8.08	3.70	1.39	2.05	8.20	3.81
Wilk's $\lambda$ coeff.	.78	.89	.10	.98	.93	.91	.98	.97	.09	.86
Pr> F (Statistical Sig.)	.000	.000	.75	.03	.000	.000	.22	.06	.000	.000
<b>Notes:</b> (1)*First canonical function or root ; Yc = Variate canonical (performance) variable; Xc = Covariate canonical (environ) variable.										
(2) Path coefficients are Pearson's product moment correlation coefficients.										
(3) Significance: *- p < .05; **- p < .01; ***- p < .001; Wilk's $\lambda$ = Pr>F.										
(4) Models 1 to 5 are direct or main effects structural equation models										
Source: SAS output (pp.1- 39 and 44- 71) as computed from Researcher's survey data.										

Path		Path Coeff.	Multivariate Statistics						
From	To		Rc	Adj. Rc	S. E.	R <sup>2</sup> c	F	Wilk's λ	Pr > F
<b>Model 1</b>									
Industry Environment (X1)	EO	-.07							
Perceived Environment (X2)	EO	.44							
Resources (X3)	EO	-.05							
Motivation (X4)	EO	-.01							
<b>Multivariate Statistics of Model 1</b>			.47	.47	.04	.22	32.32	.78	.000
<b>Model 11: EO</b>	<b>EB</b>	<b>.10</b>	.10		.05	.01	4.45	.99	.040
<b>Model 2</b>									
Industry Environment (X1)	LC	-.07							
Perceived Environment (X2)	LC	.18							
Resources (X3)	LC	-.08							
Motivation (X4)	LC	.26							
<b>Multivariate Statistics of Model 2</b>			.33	.33	.04	.11	14.22	.89	.000
<b>Model 12: LC</b>	<b>EB</b>	<b>.14</b>	.14		.05	.02	9.78	.98	.002

**Source:** SAS output (pp.1- 39 and 44- 71) as computed from Researcher's survey data.

Hypothesis	Hypothesized Structural Path			Model	R <sub>c</sub>	Pr > F	Decision
	From	To	To				
<b>Direct Model Paths</b>							
H0 <sub>1a</sub>	Environment (X)		Sales Growth (y1)	3	.07	.750	Accept
<b>H0<sub>1b</sub></b>	<b>Environment (X)</b>		<b>Profit Growth (y2)</b>	<b>4</b>	<b>.15</b>	<b>.030</b>	<b>Reject</b>
H0 <sub>1c</sub>	Environment (X)		Employ Growth (y3)	5	.26	.000	Reject
H0 <sub>1d</sub>	Environment (X)		Performance (Y)	6	.26	.000	Reject
H0 <sub>2</sub>	Environment (X)		EO (X5)	1	.47	.000	Reject
H0 <sub>4</sub>	Environment (X)		LC (X6)	2	.33	.000	Reject
<b>Direct Paths Between Individual Latent Mediating Variables and Performance</b>							
<b>H0<sub>3a</sub></b>	EO (X5)		Sales Growth (y1)		<b>.08</b>	<b>.100</b>	Accept
H0 <sub>3b</sub>	EO (X5)		Profit Growth (y2)		<b>.07</b>	<b>.150</b>	Accept
<b>H0<sub>3c</sub></b>	EO (X5)		<b>Employ Growth (y3)</b>		<b>.08</b>	<b>.090</b>	Accept
<b>H0<sub>3d</sub></b>	EO (X5)		<b>Performance (Y)</b>		<b>.13</b>	<b>.062</b>	Accept
H0 <sub>5a</sub>	LC (X6)		Sales Growth (y1)		.11	.020	Reject
<b>H0<sub>5b</sub></b>	LC (X6)		Profit Growth (y2)		<b>.00</b>	<b>.970</b>	Accept
<b>H0<sub>5c</sub></b>	LC (X6)		<b>Employ Growth (y3)</b>		<b>.04</b>	<b>.440</b>	Accept
H0 <sub>6</sub>	LC (X6)		EO (X5)		.33	.000	Reject
H0 <sub>7a</sub>	EO (X5)		EB (Y4)	11	.14	.002	Reject
<b>H0<sub>7b</sub></b>	LC (X6)		EB (Y4)	12	.10	.040	Reject
<b>Indirect Relationships (Full Models with Mediating Variables)</b>							
<b>H0<sub>8a</sub></b>	Environment (X)	LC – EO	Sales Growth (y1)	7	<b>.13</b>	<b>.220</b>	Accept
H0 <sub>8b</sub>	Environment (X)	LC – EO	Profit Growth (y2)	8	<b>.16</b>	<b>.060</b>	Accept
H0 <sub>8c</sub>	Environment (X)	LC – EO	Employ Growth (y3)	9	.31	.000	Reject
H0 <sub>8d</sub>	Environment (X)	LC – EO	Performance (Y)	10	.32	.000	Reject

**Source:** SAS output (pp.1- 39 and 44- 71) as computed from Researcher's survey data.

For example, a proactive activity can also be a risk-taking activity, such as a first-mover action. It is innovation but constitutes *treading on unfamiliar terrain*, which has the possibility of failure as there is no previous experience (not done it before) to guide the action and no one to learn from (not seen it done before).

Similarly, it can be seen from Table 2 that items 25a and 25b loaded on proactivity (Factor 1) in the present study. These items loaded on innovation in Wiklund's (1998: 349) study.

Two other factors of innovation (items 25h and 25d) loaded on risk-taking (Factor 3) in the present study. As suggested in the literature, R&D is an indicator for both innovation and risk-taking. Thus, the loadings observed in the present study are consistent with respect to findings in the literature.

Table 3 shows the results of testing hypothesized structural equation Models. Models 1 to 5 depict direct relationships between the business environment variables and EO, LC, sales growth, profit growth, and employment growth respectively. Model 6 is a composite (model) depicting the direct relationship between the canonical environment variable (i. e. variate variable) and the canonical performance variable (i. e. covariate variable). Except model 3 ( $R_c = .07$ ,  $p = .75$ ), the rest of these hypothesized models are highly significant. The specifics are: model 1,  $R_c = .47$ ,  $p = .000$ ; model 2,  $R_c = .33$ ,  $p = .000$ ; model 4,  $R_c = .15$ ,  $p = .03$ ; model 5,  $R_c = .26$ ,  $p = .000$ ; and model 6,  $R_c = .26$ ,  $p = .000$ .

Table 3 also shows the results of testing hypothesized structural equation Models 7 to 10. These models depict indirect relationships between the business environment variables and sales growth, profit growth, and employment growth respectively. Model 10 is also a composite (model) depicting the indirect relationship between the canonical environment variable (i. e. 'var' or variate variable) and the canonical performance variable (i. e. 'with' or covariate variable). Models 9 and 10 were highly significant.

In particular, the statistics were, for model 9,  $R_c = .31$ ,  $p = .000$ ; and model 10,  $R_c = .32$ ,  $p = .000$ . Models 7 and 8 were not significant, that is, the statistics were, for model 7,  $R_c = .13$ ,  $p = .22$ ; and model 8,  $R_c = .16$ ,  $p = .06$ . More compactly, these results are summarized and displayed in Table 5.

Table 4 shows the two-step movement from the business environment to EO and thence to EB. As shown (Table 4), model 1 indicates the link between the business environment and EO ( $R_c = .47$ ,  $p = .000$ ) while model 11 indicates the link between EO and EB ( $R_c = .10$ ,  $p = .04$ ). Both paths are significant but in model 1, the correlation coefficient is by far greater and the significance level much higher than those for model 11.

In other words, the business environment had strong direct link with both EO, as in model 1 ( $R_c = .47$ ,  $p = .000$ ) and performance, as in model 6 ( $R_c = .26$ ,  $p = .000$ ). The indirect link between the business environment and performance is *equally* strong as in model 10 ( $R_c = .26$ ,  $p = .000$ ), which is the composite (full) canonical model incorporating the mediating variables. The corresponding path through LC displays similar features, as in model 2 (Table 4)

except that the link between LC and EB, as indicated in model 12, is stronger ( $R_c = .33$ ,  $p = .002$ ). According to the rule of mediation (see Olson et al., 2007), this suggests that EO did not play a statistically significant mediating role in performance. This can also be seen from the weak direct link between EO and performance,  $R_c = .13$ ,  $p = .06$  (see  $H_{03(d)}$  in Table 5). In particular, the rule of mediation stipulates that the indirect impacts must be less statistically significant than the direct impacts.

To summarize, *under the direct relationships*, the business environment had a statistically significant impact on EO ( $R_c = .47$ ,  $p = .000$ ). It also had a statistically significant impact on performance generally ( $R_c = .26$ ,  $p = .000$ ). Thus, hypothesis 2 and hypothesis 1(d) were not empirically supported. But EO had no statistically significant impact on performance and its dimensions (the levels of significance ranged from  $p = .062$  to  $p = .150$ ). Consequently, hypotheses 3 (a) to 3(d) were empirically supported. Surprisingly, EO had statistically significant impact on EB ( $R_c = .14$ ,  $p = .002$ ). Thus hypothesis 7(a) was not empirically supported.

*Under the indirect impacts*, in the composite models incorporating the mediating latent constructs (EO and LC), the business environment explained performance generally ( $R_c = .32$ ,  $p = .000$ ) and employment performance specifically ( $R_c = .31$ ,  $p = .000$ ). Thus, hypotheses 1(c) and 1(d) were not empirically supported. But, considering that the levels of significance in the direct and indirect links are the same, EO played no mediating role.

## POLICY RECOMMENDATIONS FROM FINDINGS

Respondents in this study were slightly externals: “Owner’s beliefs in performance” (mean = 3.80, SD = 1.66); “Owner’s improvement on performance” (mean = 3.93, SD = 1.73). This is consistent with observation (but less than expected). The belief in occult forces mediating success in business and politics is deeply entrenched in the psyche of most Nigerians. It is clearly portrayed in Nollywood home movies, as freely and abundantly displayed in the *Africa Magic* (AM) programme, for example.

This may be inimical to performance of SMEs in Nigeria. In this case, they may easily surrender to the constraints, uncertainties, or hostilities of the external business environment. From this finding, the importance of the business environment in the performance of the subject SMEs is clearly evident. The social embeddedness framework clearly captured this reality.

The fact of externality also implies that the “decision-making self-efficacy” (Bandura, 1977 as cited in Luthans et al., 1995) of entrepreneurs may have impaired or blocked the full expression of the EO dimensions. Among other factors, estimations of one’s ability to achieve performance are derived from “decision-making self-efficacy”, which is used for assessing resources and constraints that *direct strategic thinking*, which, in turn, is found to explain firm performance (Mitchell as cited in Jones, 1997).

As such, it was no surprise that the indirect path through LC to EO had a weak impact on performance. In particular, this finding is supported by Wiklund (1998: 222-236) who did not

express surprise at the low link between EO and performance because EO is only partly action-oriented.

One implication of this finding is that entrepreneurial performance can be enhanced by *changing the mindset of owner-managers through confidence-building, capacity-building programmes* necessary for transformative response to the environment. Stemming from the finding of Pirela (2007), entrepreneurs who have the capability to transform the environment can achieve performance by always looking for an opportunity and seizing it; doing so even in adversity in the business environment.

Such entrepreneurs have resilience (elasticity), which means that they can bounce back from adversity (see Tetteh, 1999); generate, and enjoy sustainable performance through “multiple temporary advantages” (see Farjoun, 2007). Entrepreneurship development policy should encourage attribution explanatory style that stresses moderate *personal (internal) causation*, with the possibility of improving performance through their personal *agency (action)*, scanning the environment, *identifying or creating opportunities*, and acting proactively to tap them.

Another implication, for entrepreneurship education, may be that entrepreneurship should be held up as a desirable career option to whet the desire of youths in educational institutions. On graduation, or ultimately, they are likely to realize such dreams.

## CONCLUSION

The objective of this study was to find an answer to the key research question raised for the study, “Does entrepreneurial *orientation* explain actual entrepreneurial *behaviour*?” EO had been shown to suffer from conceptual ambiguity because it is part thinking-oriented and part action-oriented; thus its impact on entrepreneurial performance is dilute. The present study, therefore, positioned EO as an explanatory antecedent to entrepreneurial behaviour within an entrepreneurial performance framework with a view to determining the actual action content of EO.

It was found that the business environment had statistically significant direct explanations for EO, performance generally, and employment growth specifically. EO did not have a statistically significant explanation for performance. It was also found that, in the presence of EO and LC, the business environment had a statistically significant explanation for performance. But, considering that the presence of the mediating variables did not make a statistically significant difference in the level of explanation, EO did not play a significant mediating role in performance. Surprisingly, however, EO had a statistically significant explanation for entrepreneurial behaviour. The implication is that entrepreneurs who nurture entrepreneurial orientation (disposition or what seems to be intention) do take action to realize their entrepreneurial thoughts, plans, or dreams.

It is possible for readers to raise concern about *same source* bias as responses were generated from one informant (instead of two or more) per participating SME, especially in the strategy context of the study (Carmeli, 2008). They may also legitimately worry about *monomethod* response bias, as the structured survey instrument alone was used to obtain the data for the present study (Carmeli, 2008). To mitigate these, however, the instrument was examined for clarity, construct validity, and reliability. These were shown to be satisfactory and in many cases exceeded conventional standards for variable measurements (Nunnally and Bernstein, 1997).

One outstanding limitation was the use of a cross-sectional design, which proved cause-effect attribution impossible. However, such attribution was not an objective of this study. A longitudinal study would be needed to establish, mainly, prediction. In any case, it can be useful for future research to address this issue.

## REFERENCES

- Askim, M. K. and Feinberg, R. A. (2001). "Building Theory: The Relationship Between Attribution Theory and the Perceived Outcomes of Entrepreneurial Venture Failure." *Academy of Entrepreneurship Journal*, 7(2): 95-110. Downloaded from <http://www.alliedacademies.org/entrepreneurship/aej7-2.pdf> on October 27, 2006.
- Askim, M. K. and Feinberg, R. A. (2001). "Building Theory: The Relationship Between Attribution Theory and the Perceived Outcomes of Entrepreneurial Venture Failure." *Academy of Entrepreneurship Journal*, 7(2): 95-110. Downloaded from <http://www.alliedacademies.org/entrepreneurship/aej7-2.pdf> on October 27, 2006.
- Baron, R. A. and Tang, J. (2008). "Entrepreneurs' Social Skills and New Venture Performance: Mediating Mechanisms and Cultural Generality." *Journal of Management*, 35 (2): 282-306. Downloaded from <http://jom.sagepub.com/cgi/content/abstract/35/2/143> on September 18, 2009.
- Bacon, C. M. and Hofer, C. W. (2003). "Matching Strategic Resources With Strategy and Industry Structure", *Academy of Entrepreneurship Journal*, 9 (2): 67-81. Downloaded from <http://www.alliedacademies.org/entrepreneurship/aej9-2.pdf> on October 27, 2006.
- Bouckernoooghe, D., de Clercq, D., Willem, A. and Buelens, M. (2007). "An Assessment of Validity in Entrepreneurial Research." *Journal of Entrepreneurship*, 16 (2): 147-171. Downloaded from <http://joe.sagepub.com/cgi/content/abstract/16/2/147>.
- Boyne, G. A. and Meier, K. J. (2009). "Environmental Turbulence, Organizational Stability, and Public Service Performance." *Administration & Society*, 40 (8): 799-824. Downloaded from <http://aas.sagepub.com/cgi/content/abstract/40/8/799> on April 29, 2009.
- Bradley, D. B., Fryar, S., and Riper, D. V. (2003). "Effects of the Hispanic Population on Arkansas Small Business." *International Journal of Entrepreneurship*, 7: 87-113. Downloaded from <http://www.alliedacademies.org/entrepreneurship/ije7.pdf> on October 27, 2006.
- Brandl, J. and Bullinger, B. (2009). "Reflections on the Social conditions for the Pervasiveness of Entrepreneurial Behaviour in Western Societies." *Journal of Management Inquiry (OnlineFirst)*, 20 (10), 1-15. Downloaded from <http://jmi.sagepub.com> on April 4, 2009.
- Bunch, K. J. (2007). "Training failure as a consequence of organizational culture." *Human Resources Development Review*, 6 (2): 142-163. Downloaded from <http://hrd.sagepub.com/cgi/content/abstract/24/6/635> on October 24, 2008.

- Carmeli, A. (2008). "Top Management Team Behavioural Integration and the Performance of Service Organizations." *Group & Organization Management*, 33 (6): 712-735. Downloaded from <http://tas.sagepub.com/cgi/content/abstract/33/6/712> on April 29, 2009.
- Chaston, I. (2000). "Organisational Competence: Does Networking Confer Advantage for High Growth Entrepreneurial Firm?" *Journal of Research in Marketing & Entrepreneurship*, 2 (1): 36-56. Downloaded from <http://websrv.ewu.edu/-groups/cbpacea/2000springArticlesorganisationalcompetence.pdf> on August 12, 2007.
- Chiles, T. H., Bluedon, A. C. and Gupta, V. K. (2007). "Beyond Creative Destruction and Entrepreneurial Discovery: A Radical Austrian Approach to Entrepreneurship." *Organization Studies*, 28 (4): 467-493. Downloaded from <http://oss.sagepub.com/cgi/content/abstract/28/4/467> on November 07, 2007.
- Dacin, M. T., Ventresca, M. J., and Beal, B. D. (1999) "The Embeddedness of Organizations: Dialogue & Directions." *Journal of Management*, 25 (3): 317-356. Downloaded from <http://jom.sagepub.com/cgi/content/abstract/25/3/317> on November 03, 2007.
- Dev, C., Zhou, K. Z., Brown, J., and Agarwal, S. (2009). "Customer Orientation or Competitor Orientation: Which Marketing Strategy Has a Higher Payoff for Hotel Brands?" *Cornell Hospitality Quarterly*, 50(1): 19-28. Downloaded from <http://cqx.sagepub.com/content/50/1/19> on September 14, 2010
- Duhan, D. F., Johnson, S. D., Wilcox, J. B., Harrell, G. D. (1997). "Influences on Consumer Use of Word-of-Mouth Recommendation Sources." *Journal of the Academy of Marketing Science*, 25 (4): 283-295.
- Farjoun, M. (2007). "The End of Strategy?" *Strategic Organization*, 5 (3): 197-210. Downloaded from <http://soq.sagepub.com> on April 14, 2009.
- Garson, G. D. (2008). "Structural Equation Modelling." *Statnotes: Multivariate Analysis*. Downloaded from <http://www2.chass.ncsu.edu/garson/pa765/reliab.htm> on August 12, 2007.
- Gilmore, A., Carson, D. (2000). "The Demonstration of a Methodology for Assessing SME Decision Making." *Journal of Research in Marketing & Entrepreneurship*, 2 (2): 108-124. Downloaded from <http://websrv.ewu.edu/groups/cbpacea/2000-summerArticles/demonstrationofamethodology.pdf> on August 12, 2007.
- Gosling, J. and Mintzberg, H. (2006). "Management Education as if Both Matter." *Management Learning*, 37 (4): 419-428. Downloaded from <http://mlq.sagepub.com/cgi/content/abstract/37/4/419> on October 11, 2007.
- Gray, J. H. (1999). "A Predictive Model of Small Business Success." *Academy of Entrepreneurship Journal*. 5 (2): 25-36. Downloaded from <http://www.alliedacademies.org/entrepreneurship/aej5-2.pdf> on October 27, 2006.
- Harrington, R. J. (2005). "The How and Who of Strategy Making: Models and Approaches for Firms in Hospitality and Tourism Industries." *Journal of Hospitality & Tourism industries*, 29 (3): 372-395. Downloaded from <http://jht.sagepub.com/cgi/content/-abstract/29/3/372> on April 08, 2009.
- Henley, A. B., Shook, C. L., and Peterson, M. (2006). "The Presence of Equivalent Models in Strategic Management Research Using Structural Equation Modelling." *Organizational Research Methods*, 9: 516-535. Downloaded from <http://orm.sagepub.com/cgi/content/abstract/9/4/516> on September 11, 2007.
- Hernandez-Maestro, R. M. Munoz-Gallego, P. A. and Santoz-Requejo, L. (2009). "Small-Business Owners' Knowledge and Rural Tourism Establishment Performance in Spain." *Journal of Travel Research*, 48 (1): 58-77. Downloaded from <http://jtr.sagepub.com/cgi/content/abstract/48/1/58> on September 02, 2009.
- Hisrich, R. D. and Peters, M. P. [2002]. *Entrepreneurship*. New York: McGraw – Hill/Irwin.
- Jackson, W.T., Gaulden, C., and Gaster, W. (B). [2001] "Who is It and What It Does: Finding the 'Heffa-preneur' ", *Academy of Entrepreneurship Journal*, 7 (2): 17-29. Downloaded from <http://www.alliedacademies.org/entrepreneurship/aej7-2.pdf> on October 27, 2006.
- Kotler, P. and Singh, R. (1980). "Marketing Warfare in the 1980s." *Journal of Business Administration*, 1 (13): 30-41. Reprinted in Dale Littler and Dominic Wilson (eds.). [1995]. *Marketing Strategy*. Oxford: Butterworth-Heinemann Ltd.

- 
- Lumpkin, G. T. and Erdogan, B. [1999]. "If not Entrepreneurship, Can Psychological Characteristics Predict Entrepreneurial Orientation?—A Pilot Study." Downloaded from <http://www.sbaer.uca.edu/research/usasbe/1999/31.pdf> on September 12, 2007.
- Luthans, F., Envik, B. R., and Anderson, R. D. (1995). "A proposed idiographic approach to the study of entrepreneurship." *Academy of Entrepreneurship Journal*, 1 (1): 1-17. Downloaded from <http://www.alliedacademies.org/entrepreneurship/aej1-1.pdf> on October 27, 2006.
- Mador, M. [2000]. "Strategic decision making process research: Are entrepreneur and owner managed firms different?" *Journal of Research in Marketing & Entrepreneurship*, 2(3): 215-234. Downloaded from <http://websrv.ewu.edu/-groups/cbpacea/2000FallArticles/strategicdecisionmaking.pdf> on August 12, 2007.
- Meznar, M. B. and Johnson, J. H. (Jr). (2005). "Business-government relations within a contingency theory framework: strategy, structure, fit, and performance." *Business & Society*, 44 (2): 119-143. Downloaded from <http://bas.sagepub.com/-cgi/content/abstract/44/2/119> on April 4, 2009.
- Miller, N. J., Besser, T., and Maishe, A. (2007). "Strategic Networking Among Small Businesses in Small US Communities." *International Small Business Journal*, 25 (6): 631-665. Downloaded from <http://isb.sagepub.com/cgi/content/abstract/25/6/631> on May 28, 2008.
- Morgan, G. and Kristensen, P. H. (2006). "The Contested Space of Multinationals: Varieties of Institutionalism, Varieties of Capitalism." *Human Relations*, 59 (11): 1467-1490. Downloaded from <http://hum.sagepub.com/cgi/content/abstract/59/11/1467> on November 27, 2007.
- Olson, B. J., Parayitam, S., and Bao, Y. (2007). Strategic Decision Making: the Effects of Cognitive Diversity, Conflict, and Trust on Decision Outcomes." *Journal of Management*, 33 (2): 196-222. Downloaded from <http://jom.sagepub.com/cgi/-content/abstract/33/2/196> on October 30, 2008.
- Pearce, J. W. and Carland, J. W. (Trey) (1996). "Intrapreneurship and Innovation in Manufacturing Firms: an Empirical Study of Performance Implications", *Academy of Entrepreneurship Journal*, 1 (2): 87-96. Downloaded from <http://www.alliedacademies.org/entrepreneurship/aej1-2.pdf> on October 27, 2006.
- Peters, M. A. and Besley, T. (A. C.) (2008). "Academic Entrepreneurship and the Creative Economy." *Thesis Eleven*, 94 (1): 88-105. Downloaded from <http://the.sagepub.com/cgi/content/abstract/94/1/88> on April 25, 2008.
- Pirela, A. (2007). "Entrepreneurial Behaviour and Institutional Change: the Dynamics of Building Industry Alliances in Venezuela." *Science, Technology & Society*, 12 (1): 113-139. Downloaded from <http://sts.sagepub.com/cgi/content/abstract/12/1/113> on October 13, 2008.
- Pirela, A. (2007). "Entrepreneurial Behaviour and Institutional Change: the Dynamics of Building Industry Alliances in Venezuela." *Science, Technology & Society*, 12 (1): 113-139. Downloaded from <http://sts.sagepub.com/cgi/content/abstract/12/1/113> on October 13, 2008.
- Pirela, A. (2007). "Entrepreneurial Behaviour and Institutional Change: the Dynamics of Building Industry Alliances in Venezuela." *Science, Technology & Society*, 12 (1): 113-139. Downloaded from <http://sts.sagepub.com/cgi/content/abstract/12/1/113> on October 13, 2008.
- Porter, T. B. (2006). "Coevolution as a Research Framework for Organizations and the Natural Environment." *Organization & Environment*, 19 (4): 479-504. Downloaded from <http://oae.sagepub.com/cgi/content/abstract/19/4/479> on November 20, 2007.
- Quince, T. and Whittaker, H. (2003). "Entrepreneurial orientation and entrepreneurs' intentions and objectives." *Economic and Social Research Centre (ESRC) for Business Research, University of Cambridge Working Paper No. 271 on small and medium sized Enterprises*. Downloaded from <http://www.cbr.cam.ac.uk/pdf/2p271.pdf> on August 9, 2004.
- Remenyi, D., Williams, B., Money, A., and Swartz, E. (2003). *Doing Research in Business and Management: An Introduction to Process and Method*. London: SAGE Publications.
-

- Spillan, J. E. and Ziemnowicz, C. (2003). "Strategic Management in Small Retail Businesses: the Case of Guatemala." *International Small Business Journal*, 21 (4): 461-478. Downloaded from <http://isb.sagepub.com/cgi/content/abs-tract/21/4/461> on October 26, 2008.
- Stein, M. (2003). "Unbounded Irrationality: Risk and Organizational Narcissism at Long Term Capital Management." *Human Relations*, 56 (5), pp. 523-540. Downloaded from <http://hum.sagepub.com/cgi/content/abstract/56/5/523> on April 30, 2009.
- Stokes, D. (2000). "Putting Entrepreneurship into Marketing: the Processes of Entrepreneurial Marketing." *Journal of Research in Marketing & Entrepreneurship*, 7(1): 1-16. Downloaded from <http://websrv.ewu.edu/groups/cbpacea/2000SpringArticles/putting-entrepreneurship.pdf> on August 12, 2007.
- Summers-Effler, E. (2007). "Vortexes of Involvement: Social Systems as Turbulent Flow." *Philosophy of the Social Sciences*, 37 (4): 433-448. Downloaded from <http://pos.sagepub.com/cgi/content/abstract/37/4/433> on December 10, 2009.
- Tan, S. J. and Chia, L. (2007). "Are we Measuring the Same Attitude? Understanding Media Effects on Attitude Towards Advertising", *Marketing Theory*, 7 (4): 353-377. Downloaded from <http://mtq.sagepub.com/cgi/content/abstract/7/4/353> on December 06, 2009.
- Tetteh, E. O. (1999). "From Business Networks to Virtual Organisation: A Strategic Approach to Business Environment Transformation in Online Small and Medium-Sized Enterprises." In *the book of Proceedings of the 10<sup>th</sup> Australasian Conference on Information Systems*, pp. 980-992.
- Vitale, R., Giglierano, J., and Miles, M. (2003). "Entrepreneurial Orientation, Market Orientation, and Performance in Established and Start-Up Firms." *University of Illinois at Chicago College of Business, Faculty staff symposium paper*. Downloaded from [http://www.cob.Sjsu.edu/fac.staff/gigli\\_i/Research/sympop-2003.doc](http://www.cob.Sjsu.edu/fac.staff/gigli_i/Research/sympop-2003.doc) on May 12, 2005.
- Walker, E. and Brown, A. (2004). "What success Factors are Important to Small Business Owners?" *International Small Business Journal*, 22 (6): 577-594. Downloaded from <http://isb.sagepub.com/cgi/content/abstract/22/6/577> on October 26, 2008.
- Wiklund, J. (1998). *Small Firm Growth and Performance: Entrepreneurship and Beyond*. Unpublished Doctoral Dissertation. Jonkoping International Business School, Sweden.
- Yang, H. (2004). "Leveraging Social Networks to Cultivate Entrepreneurial Orientation: An Organisational Embeddedness Perspective." *Paper presented at the 2004 Midwest Academy of Management Conference held in Minneapolis in April*. Downloaded from <http://cobacoursesCreighton.edu/MAM/2004/papers-/yang.doc> on August 9, 2004.

# **SOCIAL ENTREPRENEURSHIP: REDUCING CRIME AND IMPROVING THE PERCEPTION OF POLICE PERFORMANCE WITHIN DEVELOPING COUNTRIES**

**K'adamawe K'nIfe, University of West Indies, Mona  
Andre Haughton, University of West Indies, Mona**

## **ABSTRACT**

*Several strategies and have been attempted in resolving the escalating crime problem in developing countries. The traditional 'Use of Force' approach has been found ineffective while the newer approach of improving 'Citizen's Security' is questioned as to its sustainability. This research uses a mixed methodology approach of regression analysis and focus group session, to examine the factors that impact the stakeholder's perception of police performance within developing countries. The police are considered to be a key stakeholder, yet is the least trusted. Data is retrieve from a Community Policing Survey amongst a total of 3000 adults island-wide (Jamaica), using a nationally representative sample. The results show that interaction with citizens, ability to control crime; trust, confidence and fear are significant in explaining the perception of police performance. These elements are also critical in bolstering and sustaining social inclusive partnerships and strategies. The discussion reveals that Social entrepreneurship and social enterprises is one of the most appropriate vehicles to build and deliver sustainable social inclusive strategies; while improving the perception of performance of all stakeholders, including the police. The paper contributes to the scholarship on Social Entrepreneurship and Community Safety and Security as these are interconnecting if the objective is to be achieved and sustained. It provides useful insights for the police force, policy makers, international funding agencies, NGOs and community groups and members.*

**Keywords:** Social Entrepreneurship, crime prevention, citizen security, social inclusion, policing strategies

## **INTRODUCTION**

Increasingly many developing countries are faced with significant challenges. Among these challenges is the task of maintaining and improving the quality of life of its increasingly impoverished populations. This reality is further compounded by the challenges of preventing crime, in absence of adequate resources to do so.

The prevalence of crime has been an impediment to establishing sustained patterns of growth for both developed and developing countries. The UNDP Caribbean HDR (2012) and The UNODC (2010) report indicates that there is an increasing trend in the incidence of violence within countries globally and more so in developing countries. A significant proportion of these violent acts are carried out by individuals, as well as groups/gangs engaged in organised crime supported by the drug trade. These organised gangs generally have a leader with others who support the activities. While the gangs are sustained by a number of factors, a critical support comes from the monies it generates through its activities (UNODC 2010). Hence there is a strong link between gang activities, organize criminal enterprise and violence.

An immediate challenge therefore, is how to engage these individuals effectively, by providing meaningful alternatives, which generate socio-economic rewards. Several already established programmes and or projects have been implemented in many of these countries, yet the crime and violence persist. In most instances these have been associated with increasing gang activities, which has resulted in increasing cost of crime in these economies.

The cost manifest itself in rising health bills, increasing security costs for business, and increasing opportunity cost of monies used to arrest these gang activities (CCYD 2010). Ultimately this process erodes the level of safety and security to all stakeholders. The situation becomes more worrying as these gangs are not only sustained by illegal enterprise, but also a sustained flow of youths into these illegal activities. Like most regions according to CCYD (2010, p. 66) “crime and violence is the number one concern among adolescents and youths in virtually all member states within the Caribbean Community.” Sustainability of societies and economies invariably depends upon the youths. The entry into gangs has a direct negative impact on the survival of these youths and hence the sustainability of these societies. Hence, there are a number of emerging concerns and questions: how do developing countries effectively stem the inflow of youths into gang activities; how are these gangs sustained and when removed how are the ‘services offered’ meaningfully replaced and satisfied.

While there have been many social interventions programmes and projects to prevent entry into and further gang formation, in many developing nations these have had only partial successes (UNODC 2010, CCYD 2010). The research paper posits that a primary reason for this is that many of these programmes are not self-sustaining and thus ineffective in sustaining impact; while gangs engage in enterprise activities, which sustains its membership and impact, the social programmes do not. This invariably leaves a significant gap for the youth of no income, increasing unemployment and rising poverty (UN-WYR 2003). As indicated in ILO (2010, p 1) “some 620 million economically active youth age 15 – 24 years, 81 million were unemployed at the end of 2009 – the highest number ever. This is 7.8 million more than the global number in 2007. The youth unemployment rate increased from 11.9% in 2007 to 13% in 2009.” The resulting effect of this increasing unemployment, is the “social hazards associated with discouragement and prolonged inactivity ...rising vulnerable employment in an increasingly ‘crowded’ informal economy (ILO Summary 2010)”. Despite these social interventions these

youths still remain vulnerable to gang pressures or at best engage in informal illegal activities (Baumol 1990). The question, which many countries now face, is how to effectively redirect the flow of youth from gangs via the establishment of sustainable alternative intervention all of which are connected (UN 2010).

Two approaches can be used in this context: Use of Force, which is the traditional approach. This has been applied without much success within these countries (UNDP HDR 2012). The second and now recommended approach, development of social inclusive programmes 'Community Safety and Security (CSS) approach', which engages citizens as stakeholders in developing community strategy to improve safety and security. (UNDP HDR 2012) This is the approach, which the paper focuses on.

Community Safety and Security programmes are usually facilitated with the key support of the local police force. Note however that the LAPOP (2010) reveals that within many developing countries, the local police are among the least trusted state institution. This thus raises question as to the efficacy of such a strategy, which depends upon implementation by a distrusted stakeholder. More importantly it questions what drives the perception of their performance and this continued lack of trust and confidence. Understanding this will enable planners to firstly reverse this perception, rebuild trust and confidence in the force. This thus provides insight for developing a meaningful platform to building safety and security within these countries.

Among developing countries, Jamaica is recognized as having one of the highest homicide rates in the world. It has one of the longest history of traditional 'Use of Force' policing practice. It has had substantial social intervention programmes implemented for at least three decades. Over the last decade it has been changing its policing strategy to a Community Safety and Security Strategy; its model is now being applauded as one of the most effective (Caribbean Basin Security Initiative Conference 2011). Therefore understanding how the population perceives the police performance and what drives this perception is important to local, regional and international stakeholders; who are intended on redeveloping their strategies along the lines of CSS.

The paper presents research findings on Jamaica, which aimed at assessing the perception of police performance in Jamaica and controlling crime and violence using a mixed methodology. It unearths the drivers which need to be controlled in order to effectively halt the increasing levels of violence carried out by youths and which ultimately they become victims of (PIOJ – 2009). It thus presents some stylized facts on the situation and thus will be valuable for policy makers, law enforcers, supporting institutions and communities who design programmes and strategies for violence prevention and sustained national development. Currently in the Jamaican economy there is the need to engage these youths in activities not just with the aim of preventing crime solely, but also to improve their standard of living, which is the root cause of the crime in the first instance. We argue that social entrepreneurship and social enterprises can

bridge the gap between crime prevention and legally increasing the income of those who normally engage in criminal activity.

The study thus contributes to the growing literature social entrepreneurship, crime and violence prevention, and gang formation. More importantly however it offers a different approach to developing strategies, which are self-sustaining. Given that these strategies are anchored in the development of social enterprise, it makes a significant contribution to the sparse literature on the role of social entrepreneurship in violence prevention. Research exists on social intervention strategies for violence prevention generally and with specific reference to Latin America and the Caribbean. However there is no known study, which makes the connection and presents stylized facts on the perception of police performance and the role of social entrepreneurship in reducing and preventing violence within developing countries and Latin America and the Caribbean in particular. It also presents a platform for further analysis in understanding the relationship between the social entrepreneur and violence prevention.

The remainder of the paper is as follows. The following section analyses the literature on Entrepreneurship, social entrepreneurship and crime. This is followed by an examination of the situation in Jamaica as well as Latin America and the Caribbean, the method used in the research, the sample the results and the discussion of the results. The paper concludes with recommendations and the implications of the findings for research and policy development.

### **ENTREPRENEURSHIP: DUAL PLAYERS**

Like any other discipline entrepreneurship has varying schools of thought that are based on different models. Littunen (2000) argues that in understanding entrepreneurship there are two basic schools of thought, one based on the trait model and the other on contingency thinking. In the former, the success of the entrepreneur is determined by his/her characteristic while in contingency thinking the characteristic of a successful entrepreneur is driven by the environment and business situation. Chell (2000, p.66) supports this view arguing that that “the entrepreneur cannot be isolated from context”. Littunen (2000, p. 266) also argues that the theories most applied to entrepreneurship research are “McClelland’s (1961) theory of the need to achieve and Rotter’s (1966) locus of control theory.” In the former, those with the strong desire to achieve usually become successful entrepreneurs; in the latter the success depends upon whether control is internal or external. The internal locus generally tends to drive learning and innovation the converse is true. Goss (2005) highlights that, Schumpeter’s ‘theory of entrepreneurship have three typologies of entrepreneur, 1) the main types of entrepreneurial behavior; 2) three forms of entrepreneurial motivation and 3) factors that inhibit the expression of entrepreneurial action. Schumpeter (1934) referenced in Goss (2005) identifies three main motivational factors for entrepreneurial action, 1) the desire to found a private kingdom or dynasty, 2) the will to win fight and to conquer and 3) the joy and satisfaction from creation and problem solving. Entrepreneurial activities do not only take place in the formal sector. These activities manifest in

---

the informal sector as well, legal and/or illegal activities. Whether the activities are legal or illegal the motivational factors for entrepreneurial actions are the similar or the same. Smith (2009) argues that, Schumpeterian idea of the entrepreneur, as creative destructor and Kirzner idea of the entrepreneur as an opportunist trader are theories, which are “helpful in ascribing entrepreneurial status to criminal behavior.” Smith argues that:

“The Schumpeterian entrepreneur is a unique and creative individual who develops new products, services and techniques, which innovate the way in which people operate in a given environment. Thus, in a criminal context, the Schumpeterian entrepreneur develops new *modus operandi* for committing a particular type of crime, or introduces a new commodity to be exploited criminally. This suggests there is some special quality in the behaviour of the individual. The annals of crime abound with examples of such individuals. Conversely, the Kirznerian crime-entrepreneur merely needs to exploit the opportunity to trade to be labeled an entrepreneur (2009 p 259).”

From all the ideas of Schumpeter, Kirzner, McClelland and Rotter it is clear that an entrepreneur as well as a criminal can have similar traits, locus of control and motivational factors. Both the criminal and the entrepreneur are innovative and creative, using these traits to exploit and opportunity to generate revenue through enterprise. This suggests therefore that like a business man, a criminal will also be entrepreneurial.

Chell et al (1991) argue that the image and motivational factors for entrepreneurs are similar to that of the criminal. Van Duyne (1993 referenced in Smith 2009) argues, “both organized criminals and legitimate entrepreneurs operate in a similar manner”. Scott (2008) points out that, attributes like a desire for independence and autonomy and a willingness to disregard rules and conventions lead people to both engage in criminal activity and to start businesses. Cassons (1991 quoted in Smith 2009) further argues that it is “normally only organized crime which qualifies as being entrepreneurial.” Like developed countries, many developing countries also contends with the impact of organized crime as well as seemingly unorganized crime as a fuel and vehicle for violence (UN 2010).

In developing countries the situation is more worrying, given few opportunities to engage in legal enterprising activities and low clear up rates of crimes committed. The resulting effect is that persons might find establishing a criminal enterprise to be easier, more rewarding and less risky. As argued by Smith (2009) this lack of provision of legal opportunities for entrepreneurial activity drives many to engage in illegal entrepreneurship because legal and illegal entrepreneurs often come from the same pool and share similar backgrounds. As argued by Fairlie (2002) those who engage in illegal activities (like entrepreneurs) tend to have a strong desire for self-employment and determination that is often realized in the drug trade. Similarly Scott (2008) reminds that Baumol (1990) highlighted that, the number of start-ups in business depends a lot on the incentives offered for entrepreneurship. In countries where there is an absence of meaningful incentives “people with the desire and talent to become entrepreneurs often turn to crime.” Many developing countries do not have a robust entrepreneurship policy, which guides

the development of start up enterprises worse yet, a robust incentive scheme. As argued by Williams (2006) a resultant effect is that entrepreneurs often commence their operations informally and may continue to do so even when it is established.

The convergence between the minds of the criminal and entrepreneur; the similarity of traits and motivational factors, highlights the need for a robust and dynamic intervention strategy. One, which understands the context and incorporate the cultured nature of the targeted beneficiary. The UNDP HDR 2012, argues that there is the need to ensure that intervention strategies are socially inclusive while addressing the fundamental problems faced by many in these societies, alienation, joblessness and overall poverty. Essentially the intervention strategy developed to engage these youths must have a strong enterprise component, while delivering and sustaining the social value being created.

### **SOCIAL ENTREPRENEURSHIP AND CRIME PREVENTION**

Many youths within developing countries find themselves been marginalized and socially excluded. This social exclusion generally deprives youths of resources that could help them improve the quality of their lives and that of their families (Hills et al. 2002 and Silver, 2007). It is within the reality of this social exclusion that these unattached youths find themselves being attracted to and subsequently becoming a part of a gang/criminal enterprise.

The rise of criminal enterprise has had a significant negative impact on the socioeconomic situation and quality of life in many developing countries. The violence associated with these activities has resulted in countries taking numerous steps to arrest this situation. The violence prevention strategies in countries like Jamaica have tended to be anchored in the use of force coupled with inconsistent social intervention strategy, which has been ineffective. This begs therefore for a strategy which is innovative and self sustaining in replacing the socio-economic support which the criminal enterprise offers. As argued by Overall et al. (2010, p1) "Social entrepreneurship provides a fresh context to explore new notions of innovation. We need to take into account the different factors involved with the social aspect of entrepreneurship. "Social Entrepreneurship provides a vehicle through which this social exclusion can be meaningfully addressed. However the discipline is still evolving and thus there is no one accepted definition of how this process roles out. Tapsell and Woods (2010) argue that the focus is on creating something that supports a social cause and the social community. Another view is that the social entrepreneur connects with the social community to achieve social outcomes within a socio-economic context (Tapsell and Woods 2010 and Chell 2007 referenced in Overall. 2010).

Overall (2010) further argues that among the varying definitions two components are constant, social entrepreneurs is driven to create social value and seeks to create change through something new and not replicating existing enterprises. Essentially social entrepreneurship is the implementing of interventions, which seeks to improve the quality of life of the beneficiaries,

and is sustained by enterprise development. Within this definition, the activity may or may not be an enterprise; however it is funded and supported by an enterprise activity as against grant funding. Through social entrepreneurship youths are able to develop social capital, which enables them to achieve a consented objective (Putnam, 1995). Additionally it breaks the structural holes (Gittel and Vidal 1998), which prevents various stakeholders from collaborating and access unused financial resources. The bringing together of these individuals who previously were not engage will prove beneficial to the sustainable development of the communities and country (Overall, 2010)

### **CRIME AND VIOLENCE IN LATIN AMERICA AND THE CARIBBEAN.**

Jamaica finds itself in a precarious position on the one hand Jamaica is ranked in the top five countries in the world in start-ups (GEM 2005 and 2006) and in the top three in the world for homicides. Additionally Jamaica has over 140000 youths who are not engaged in any social/economic activity. This suggests that the lack of engagement, which can lead to the frustration argued by Baumol, might be a driver for the involvement of these youths in criminal activities. As highlighted in the CCYD:

“Latin America and the Caribbean has the highest homicide rates in the world of men between the ages of 15 to 29 (68.6 per 100000); more than three times the global average of 19.4. Furthermore, it is estimated that young men in the 15 to 35 age group commit 80 per cent of the crime in the region...Leading the region in this area is Jamaica, where the youth under age of 25 were responsible for 51 of all murders and 56 percent of all major crimes in 2000 (CCYD 2010, p. 67).”

The CCYD further reports that, the crime and violence is linked to “poverty, unemployment, social inequalities; and high unemployment and limited business opportunities (CCYD 2010, pg 67).” While this is so the numerous programmes designed to remedy this problem tend to omit and at best only partial supports the required socio economic intervention (UNDP 2009 and DFID 2009). The focus has primarily been on the use of the criminal justice system (USAID – COMET 2010 draft). The consensus as articulated by CCYD 2010, p. 69 is that:

“In general there has been an over reliance on the criminal justice approach to reduction of crime in the region, to the detriment of other complementary approaches which can be effective, in reducing certain kind of crime and violence...at the very highest level, it is believed that reducing poverty, unemployment and social inequality – issues which affect youths, women and children disproportionately – may reduce incentives for people to turn to violence, property and drug related crime (CCYD 2010, p. 69).”

Social entrepreneurship given its flexibility to address both social and economic issue thus provides a meaningful vehicle to resolve some of these problems. More specifically through its inclusive approach, it can enhance the social capital that youths would find within gangs,

through the development of partnerships and social networks. More importantly however within the context of developing countries, it provides a mechanism to adequately replace the socio economic role being played by the leaders of gangs, and not being satisfied by the state institutions.

## **STUDY METHOD AND DATA**

The research employed a mixed methodology approach of regression analysis and focus group session. Ordinary Least Squares was employed to conduct the regression analysis. The data set emerged from a Community Policing Survey amongst a total of 3000 adults island wide (Jamaica), using a nationally representative sample. The purpose of the survey was to benchmark the public's perception of the police performance and to develop indicators for more efficient policing in communities beset with crime. In order to capture the perception of the youth, focus group sessions were held. This engaged the youth population between the ages 12-18 years on the issues raised in the JCF Baseline Survey. This had to be done as persons below the age of 18 are not allowed legally to participate in surveys of this nature. 12 focus group sessions were held across 12 out of 14 parishes in Jamaica. While the data is useful, there were three main limitation: The data analysis is solely on perception of policing; aspects of the data do not lead itself to regression analysis (in this case cross tabulations across demographic categories was done; the data has no time component and as such the analysis is static at a point time.

## **VARIABLES USED IN THE STUDY**

The overall research investigated the perception of police performance within Jamaica, at both the national and community level. The data set was further analysed to elicit the significant variable in determining confidence in the police. This was done as, apriori confidence in the police was of significant interest as it is considered by the senior officers in the Jamaica Constabulary Force as the critical factor that, which drives the other elements, in particular interaction with citizens. In the first set of regressions, the variables of interest as outlined below:

*INTERACTION\_CITIZENS* is the perception of the police interaction with citizens and respect for human rights.

*ABILITY\_CONTROL\_CRIME* is the perception of the police's ability, given resources and tactics, to control crime in the society.

*TRUST* is degree of trust that respondents have in the police.

*CONFIDENCE* is the degree of confidence held by respondents in the police's ability to control crime.

---

*FEAR* is the general perception of fear in the society. This significantly explains the perception of policing at both the county and community level.

*PERC\_CRIME* is the general perception/prevalence of crime in the society. This is insignificant at the community level but significant at the country level.

*ACT\_VIC* is a dummy variable, which captures whether or not the respondent was a victim of crime.

*ABUSE\_RIGHTS* is an index which was created to capture respondents encounters with the police where their rights were violated.

In the other regression, which focused on Confidence in the police the variables of interest were as outlined below:

*EMERGENCY\_CALL* this reflects that the respondents have some amount of confidence in the police to respond to emergency calls.

*EMERGENCY\_CALL2* this reflects that the respondents have a great deal of confidence in the police to respond to emergency calls.

*CONTROL\_DONMANSHIP* this reflects that the respondents have some amount of confidence in the police to control inner-city donmanship-

*CONTROL\_DONMANSHIP2* this reflects that the respondents have a great deal of confidence in the police to control inner-city donmanship.

*CONTROL\_CRIME* this reflects that the respondents have some amount of confidence in the police to control crime in Jamaica.

*CONTROL\_CRIME2* this reflects that the respondents have a great deal of confidence in the police to control crime in Jamaica.

*COMMISSIONER'S\_ABILITY* this reflects that the respondents have some amount of confidence in the commissioner's ability to control the crime problem in Jamaica.

*COMMISSIONER'S\_ABILITY2* this reflects that the respondents have a great deal of confidence in the commissioner's ability to control the crime problem in Jamaica.

*SIZE\_FORCE* is a dummy variable, which captures the respondents' thoughts that increases in the size of the police force will effectively reduce crime.

*POLICE\_TRAINED* is a dummy variable which captures the respondents' confidence that the police are properly trained.

## **ANALYSIS TECHNIQUE**

The broad purpose of this study was to develop indicators for the assessment of the perception of police performance across Jamaica. Ordinary Least Squares regression analysis and cross tabulations were combined with focus group sessions were used to conduct the study. To conduct the analysis perception of police performance at the national and community levels were treated as dependent variables to be explained by those listed above. Additionally these independent variables were also treated as dependent variable so as to unearth the significant

elements that explain these variables. It is from this second process that the data on Confidence in the police was analysed which forms the core of the argument being presented. The information, which emerged from the focus group sessions and the cross tabs were triangulated with the regression outputs in conducting the analysis.

## RESULTS

This section of the paper presents the findings from the analysis of the data from three sets of regressions. These are police performance at the national and community level, as well as confidence in the police. The details of the discussion are presented in the proceeding section.

### Perception of police performance at the national/country level.

The regressions on the perception of police performance at the national and community level respectively, took the functional form:

$$\begin{aligned} PERC\_COUNTRY\_POLICING = & \lambda_0 + \lambda_1 INTERACTION\_CITIZENZ + \lambda_2 ABILITY\_CONTROL\_CRIME \\ & + \lambda_3 TRUST + \lambda_4 CONFIDENCE + \lambda_5 FEAR + \lambda_6 PERC\_CRIME \\ & + \lambda_7 ACT\_VIC + \lambda_8 ABUSE\_RIGHTS + \varepsilon_i \end{aligned}$$

$$\begin{aligned} PERC\_COMMUNITY\_POLICING = & \lambda_0 + \lambda_1 INTERACTION\_CITIZENZ + \lambda_2 ABILITY\_CONTROL\_CRIME \\ & + \lambda_3 TRUST + \lambda_4 CONFIDENCE + \lambda_5 FEAR + \lambda_6 PERC\_CRIME \\ & + \lambda_7 ACT\_VIC + \lambda_8 ABUSE\_RIGHTS + \varepsilon_i \end{aligned}$$

$\lambda_0$  and  $\varepsilon_i$  are the intercept and disturbance term respectively, where the dependent variables at the national and community levels are *PERC\_COUNTRY\_POLICING* is the general perception of policing in the society and *PERC\_COMMUNITY\_POLICING* is the perception of policing in the community respectively.

COUNTRY LEVEL POLICING	B	Std. Error	Beta		
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
CONSTANT	.210	.028		7.512	.000
INTERACTION_CITIZEN	.403	.018	.393	21.961	.000
ABILITY_CONTROL_CRIME	.047	.015	.047	3.183	.001
TRUST	.094	.021	.080	4.498	.000
CONFIDENCE	.236	.015	.271	15.288	.000
FEAR	-.043	.013	-.050	-3.327	.001
PER_CRIME	-.035	.017	-.032	-2.120	.034
ACT_VICTIM	-.006	.007	-.013	-.862	.389
ABUSE_RIGHTS	-.002	.032	-.001	-.066	.947

COMMUNITY LEVEL POLICING	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
CONSTANT	.354	.036		9.790	.000
INTERACTION_CITIZEN	.275	.024	.241	11.623	.000
ABILITY_CONTROL_CRIME	.053	.019	.048	2.751	.006
TRUST	.136	.027	.103	5.034	.000
CONFIDENCE	.171	.020	.176	8.572	.000
FEAR	-.060	.017	-.063	-3.601	.000
PER_CRIME	.000	.022	.000	-.020	.984
ACT_VICTIM	-.018	.009	-.036	-2.048	.041
ABUSE_RIGHTS	-.021	.042	-.009	-.496	.620

Within these regressions, eight variables were used to explain the perception of police performance: interaction with citizens, ability to control crime, trust, confidence, fear, perception of crime, actual victimization and abuse of rights.

### Confidence in the police

The regression on confidence in the police to the functional form:

$$\begin{aligned}
 CONFIDENCE = & \theta_0 + \theta_1 EMERGENCY\_CALL + \theta_2 CONTROL\_DONMANSHIP + \\
 & \theta_3 CONTROL\_CRIME + \theta_4 COMMISSIONER'S\_ABILITY + \theta_5 SIZE\_FORCE \\
 & + \theta_6 POLICE\_TRAINED + \varepsilon_i
 \end{aligned}$$

CONFIDENCE IN THE POLICE	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
CONSTANT	.248	.007		34.488	.000
EMERGENCY_CALL	.013	.009	.032	1.574	.116
EMERGENCY_CALL2	.090	.015	.126	5.871	.000
CONTROL_DONMANSHIP	.068	.008	.166	8.374	.000
CONTROL_DONMANSHIP2	.128	.017	.153	7.359	.000
CONTROL_CRIME	.070	.010	.168	7.310	.000
CONTROL_CRIME2	.095	.019	.116	5.091	.000
COMMISSIONER'S_ABILITY	.030	.009	.072	3.290	.001
COMMISSIONER'S_ABILITY2	.085	.015	.122	5.575	.000
SIZE_FORCE	.029	.007	.070	4.319	.000
POLICE_TRAINED	.042	.007	.104	6.373	.000

Within this regression, five variables were of interest. These variables were treated as dummy variables with 1 indicating confidence in the police, and 0 reflecting no confidence. Variables that reflected confidence in the police was divided into a component which determined low level or high level of confidence.

## DISCUSSION

Our results show that among the eight regressors; interaction with citizens, ability to control crime, trust, confidence and fear are significant in explaining the perception of police performance. These elements have been found as well to be critical in bolstering and sustaining social inclusive partnerships and strategies. The UNDP Caribbean HDR 2012, substantiates the above findings; supporting our claim that the substantial transformation of the lives of these populations requires a socially inclusive approach, which focuses on safety and security of the citizens and not just the state.

“The central message of this report is simple enough: the Caribbean countries need to complete the shift from an approach to security that is centrally concerned with regime protection to the full adoption of a citizen security approach that is consistently pursued in the context of human development. The central message of this report is simple enough: the Caribbean countries need to complete the shift from an approach to security that is centrally concerned with regime protection to the full adoption of a citizen security approach that is consistently pursued in the context of human development...Such a fundamental change entails greater social integration, which may be brought about by seeking to resolve the problems of social exclusion and marginalization among large sections of the populations (UNDP 2012,9).”

With the focus on human development, which essentially builds economic, social and political cohesion; there will be increasing trust in service providers and decreasing fear of crime. Given that our results also show that fear have a negative impact on perception of police, by reducing fear, will improve peoples perception of the police. Inevitably this makes the job of the police for effective and meaningful.

Excepting for fear, all other regressors had a positive relationship with the perception of police performance. This relationship suggests that an improvement in programs, which improves these components will result in a more positive perception of police performance. Among these significant variables, interaction with citizens and confidence in the police if improved would have the biggest positive impact on the perception of police performance. That is the police would be seen as performing better at their duties. Interaction with citizens implies an increase emphasis on non-use of force engagement, and one, which emphasizes more involvement in community based activities. This fact came out clearly in the focus group sessions, where it was argued that the 'best' officers were those who engaged in school, youth clubs and general community activities.

Confidence in the police revealed a number of interesting results. Response to emergency calls, control of dons, control of crime, commissioner's ability to control crime, size of force and police trained are all significant and positively related to confidence in the police. While control of crime, the commissioner's ability to control crime, size of the police force and police trained were significant, they would not be as impacting as a controlling the dons in the communities. This is important for number of reasons. The don is considered to be the driver of political, social and economic capital for many of these communities given a failing state (DFID 2009 and UNDP 2009). Regardless of numbers and training of the police, it agreed by the focus group participants that the police are fearful of and at times collude with the dons in their illegal and violent activities. As such an increase in the numbers and training might not change the situation. There are concerns surrounding the level of corruption among high officials, in the force, government and drug dealers/gang leaders. As such there is little optimism in the commissioner's ability to control crime. It is the control of the don's in these communities, which both the focus group and the regressions reveal to be the critical variable. However the control of the dons has significant socio economic implications, given that he/she would be the key service provider in these communities. It is therefore clear that whatever mechanism would be used to replace the don as a income/service provider, will have to be self sustaining and income generating. More importantly the emphasis have to be on improving the quality of life of the people, and not just on sustaining profits for the organization.

Essentially there is the need for a different approach to building safety and security within developing nations. The traditional approach of focusing on state security while implementing traditional social programmes, are not impacting. Essentially they fail to generate the requisite social value, which is critical. The thinking therefore is to develop a sustainable strategy, which builds trust, confidence and persistent partnership among the stakeholders. Social

entrepreneurship provides a vehicle that facilitates social inclusion and the building of critical social, economic and political capital among the beneficiaries. Failure to do so can result in sustained crime and violence, continued social exclusion and the opportunity for persons with nefarious intent to use social programmes as a medium of solidifying their control over these communities as argued by Williams and Knife (2011).

## **IMPLICATIONS OF FINDINGS AND CONCLUSIONS**

The findings inform that the two elements that will have the most significant impact of the perception of police performance, is that of the interaction with citizens and the control of dons within the communities. The interaction of citizens is instructive as this speaks to a break away from the use of force to one of a community based approach to policing. This community based approach involves the police supporting and participating in community activities, through schools, youth clubs and general community activities. The second which is the control of dons is more complex, this carries a number of meanings. Control could be the removal of, or transformation of the practice. The removal has been the preferred approach, however this has resulted in significant gaps. These gaps tend to be filled by another youth and hence the situation is perpetuated. The transformation approach tends to be more effective, but requires more sustained intervention and support. This transformation would require that the activities of the dons are transformed into legal activities. A third scenario which is being advanced now as the desired scenario, is one in which the don is either removed or transformed. However in this process the interventions empower the community members and the youths to establish their own enterprise individually or as groups. Additionally the associated social interventions are not sustained by grant funding, but through enterprise. The enterprise could be related to the activity or independent of the activity. The imperative is that this intervention have an independent source of financing, not the state nor donor agencies. It is this approach which tends to give the greatest benefit to the collective

Emerging out of the Community Security Initiative project completion narrative report (DFID 2009) which was commissioned by Department for International Development in collaboration with the Ministry of National Security, it was found that there was a huge gap created by the removal of the Dons from these communities. Usually the don/gang leader, offered political as well as both social and economic support funded through their often time illegal enterprises. CSI was developed to replace this function however it was found ineffective. The programme implementers did not recognize the breadth and depth of the needed intervention. Moreover the enterprise component was woefully lacking, as skills training were conducted, but there was no mechanism in place to generate enterprise from these acquired skills in a situation of increasing unemployment. This situation again fuels the frustration and vulnerability of these youth. Essentially the CSI programme did not employ a social entrepreneur approach to replacing the role played by the dons.

The findings thus have a number of implications for varying stakeholders, including the state, intervening institutions and community members. Firstly it informs the state of a need for a more dynamic approach to community development post the removal of dons; one which requires that both social and economic gaps need to be meaningfully addressed. While skills training are useful, transforming these skills to generate enterprise is more effective. To facilitate enterprise development, there is need for policy support, which generates incentives for enterprise development. Currently there is no MSME or entrepreneurship policy in Jamaica. While the use of force might be important in combating crime, there is need for alternative approaches to be used; one such approach could be the transformation of criminal gangs into legitimate business partnerships. There is precedence in Jamaica for truth and reconciliation committees, this could be done as it relates to youths who are in gangs and give them a chance to move from informal illegal activities, to legal enterprises.

### CONCLUDING REMARKS

This paper presented some stylized facts on the perception of police performance in Jamaica. From this analysis and in particular that of confidence in the police there emerge useful insights for reducing crime and violence through establishing social enterprises. Social entrepreneurship presents a viable approach to replacing dons, while sustaining effective social intervention strategies. It empowers the collective and thus presents an alternative for youths to empower themselves. In doing this it improves the social capital, reduces social exclusion and thus renders informal illegal activities less inviting. From these positives the resulting effect will be the reduction of gang formation, gang violence and an overall reduction in crime and violence. The spinoff effects are reductions in cost of crime, in particular the opportunity cost of crime. Essentially social entrepreneurship presents a meaningful full approach to halt crime and violence, while supporting sustainable community development and sustained growth and national development.

### REFERENCES

- Baumol, W.J. (1990), "Entrepreneurship: productive, unproductive, and destructive", *Journal of Business Venturing*, Vol. 11 pp.3-22.
- Caribbean Basin Security Initiative Conference (2011). USAID/COMET. Nassau, Bahamas
- Casson, M.C. (1982), *The Entrepreneur*, Martin Robertson, Oxford,
- Chell, E. (2007), "Social enterprise and entrepreneurship", *International Small Business Journal*, 25,1, pp.5-26.
- Chell, E., Brearley, S. and Hawthorn, J. (1991), *The Entrepreneurial Personality: Concepts, Cases and Categories*, Routledge, London.
- Commission on Youth Development (CCYD) 2010. *Eye on the Future Investing in Youth Now for Tomorrow's Community*. Draft Report of the CARICOM Commission on Youth Development (CCYD). January 2010.
- Department for International Development (2009). *Community Security Initiative Project Completion Narrative Report*. DFID

- Fairlie R. W. Drug Dealing and Legitimate Self-Employment. [Journal of Labor Economics , 2002, vol. 20, no. 3]
- Global Entrepreneurship Monitor Report (GEM) 2006. Global Entrepreneurship Monitor 2006, Jamaica Report. University of Technology. Jamaica.
- Global Entrepreneurship Monitor Report (GEM) 2005. Global Entrepreneurship Monitor 2005, Jamaica Report. University of Technology. Jamaica.
- Gittell, R., Vidal, A. (1998), *Community Organizing: Building Social Capital as a Development Strategy*, Sage, Thousand Oaks, CA.
- Goss, D. 2005. Schumpeter's Legacy? Interaction and Emotions in the Sociology of Entrepreneurship.
- Hills, J., Le Grand, J., Piachaud, D. (Eds) (2002), *Understanding Social Exclusion*, Oxford University Press, New York, NY, .
- International Labour Organisation (ILO). 2010. *Global Employment Trends for Youth*, ILO August 2010.
- Kirzner, I.M. (1973), *Entrepreneurship and Competition*, University of Chicago Press, Chicago, IL.
- Latin America Popular Survey (LAPOP). 2010. *The Political Culture of Democracy in Jamaica 2010. Democratic Considerations in the Americas in Hard Times*. USAID. Jamaica.
- Littunen H. (2000). "Entrepreneurship characteristics and the characteristics of the Entrepreneurial Personality." International Journal of Entrepreneurial Behavior and Research. Vol 6 number 6, 2000, 295-309.
- Lupton, R., Power, A. (2002), "Social exclusion and neighbourhoods", in Hills, J., Grand, J.L., Piachaud, D. (Eds), *Understanding Social Exclusion*, Oxford University Press, New York, NY, .
- McClelland D.C. (1961). *The Achieving Society*. Collier McMillan. New York, NY and London
- Overall J., P. Tapsell, C. Woods. 2010. Governance and indigenous social entrepreneurship: when context counts. *Social Enterprise Journal*. file:///G:/Governance%20and%20indigenous%20social%20%20entrepreneurship.htm
- Planning Institute Of Jamaica, 2009. Vision 2030 Jamaica National Development Plan. PIOJ. Jamaica.
- Putnam, R.D. (1995), "Turning in, turning out: the strange disappearance of social capital in America", *Political Science and Politics*, Vol. 28 No.4, pp.664-83.
- Putnam, R.D. (1993), *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton University Press, Princeton, NJ,
- Rotters, J.B. (1966). "Generalised expectations for internal versus external control of reinforcements." Psychological Monographs, general and applied. Vol 80. No 1. Pp 1
- Schumpeter, T. (1934), *The Theory of Economic Development*, Harvard University, Cambridge, MA.
- Scott, S. (2008). *Criminals and Entrepreneurs Similar?* Small Business Trends, July 28, 2008.
- Silver, H. (2007), *Social Exclusion: Comparative Analysis of Europe and Middle East Youth*, Brookings, Washington, DC,
- Smith, R. (2009). "Understanding entrepreneurial behavior in organized crime." Journal of Enterprising Communities: People and Places in the Global Economy. Volume 3, 3, 2009, 256 – 268.
- Tapsell, P., Woods, C. (2010), "Social entrepreneurship and innovation: self organisation in an indigenous context", *Entrepreneurship & Regional Development*, Vol. 10 No.5, pp.1-22.
- United Nations (UN) 2010. *Small Arms Survey*. Cambridge Press.
- United Nations 2003. *World Youth Report*. United Nations
- United Nation Development Programme (UNDP) (2009). *Assessment of Community Security and Transformation Programmes in Jamaica*. Planning Institute of Jamaica.
- United Nation Development Programme (UNDP). 2012. *Caribbean Human Development Report, 2012. Human Development and the Shift to Better Citizens Security*. UNDP, New York, US.
- US Agency for International Development (2010). JCF Benchmarking and Indicator Survey. USAID, Jamaica
- Williams, C.C. (2006), *The Hidden Enterprise Culture: Entrepreneurship in the Underground Economy*, Edward Elgar, Cheltenham,

# **TWO PEAS IN A POD? EXPLORING THE MARKET ORIENTATION, INNOVATION, AND DYNAMISM OF MEXICO AND TURKEY'S ENTREPRENEURIAL CULTURE**

**Laura Serviere-Munoz, University of Dallas  
Handan Vicdan, Emlyon Business School, France  
Anshu Saran, University of Texas of the Permian Basin**

## **ABSTRACT**

*For businesses where resources are scarce and the environment is volatile in political, economic and cultural terms, such as the current case of Mexico and Turkey businesses might suggest, the pursue of business practices that adopt a market orientation (MO) is critical to maintain market share and survive. We address whether MO and innovation and dynamism levels, relevant constructs in such volatile business environments, differ among small businesses in Mexico and Turkey. The analysis was conducted from an ownership (manager vs. owner) and gender (male vs. female) approach. Findings suggest that gender differences were not significant with respect to MO, innovation, and dynamism in Turkey. Neither there were gender differences with respect to MO in Mexico. However, women in Mexico showed a higher orientation for innovation and dynamism. Owner and manager differences towards MO, innovation, and dynamism were not found significant in both regions denoting the importance that these concepts attain regardless of being an owner and manager. Entrepreneurial forces remain focused on exhibiting a marketing concept that leads to remain as a source of income, employment, and growth.*

*Keywords:* market orientation, innovation, dynamism, ownership approach, gender differences, Mexico, Turkey

## **INTRODUCTION**

Small businesses are encountering a demanding and more than ever changing external environment as a result of rapid technological evolution, globalization, and increasingly sophisticated competitors. For businesses where resources are scarce, such as the case of Mexican and Turkish businesses might suggest, striving for business practices that embrace market orientation becomes a key factor to survive or maintain their market share. Along with the dearth of resources, the environment for entrepreneurs becomes even more challenging due to unstable cultural, economic, and political factors. While abundant research is present on

market orientation and its relation to performance in the Western context (Kohli and Jaworski, 1990; Narver and Slater, 1990), the focus has recently shifted towards studying this construct in a non-US and a non-Western context (Bhuan, 1998; Subramanian and Gopalakrishna, 2001; Horng and Chen, 1998; Hooley, Cox, Fahy, Shipley, Beracs, Fonfara and Snoj, 2000). Despite numerous studies that have explored the market orientation-performance relationship, scholars continue to study the relationship due to the mixed nature of the results found, especially in non-western contexts. Thus, the question remains as to whether the market orientation construct is similarly relevant in such different and unstable environments. In addition, empirical studies have mostly focused on large U.S. businesses, with the exception of a few studies (Pelham, 1997, 1999, 2000; Pelham and Wilson, 1995, 1996; Verbees and Meulenberg, 2004; Tzokas, Carter and Kyriazopoulos, 2001). Studying market orientation from an entrepreneurial view is critical as it can result in a significant difference as to whether a small business sustains its market share. Therefore, it is important to investigate and further enhance our understanding of the MO behavior and other related constructs in small businesses in developing economies (Serviere-Munoz and Saran, 2012) as well as in non-Western economies.

The market orientation-performance relationship has received an extensive support in the literature. Thus, this study not only focuses on this construct but expands its focus to assess other influential factors, such as dynamism and innovation, to determine whether differences exist in the practice of these constructs with respect to ownership (owner vs. manager) and gender (male vs. female) in Mexico and Turkey. Innovation and dynamism are included in response to the call for studying market orientation in conjunction with other variables as it allows to study the relative importance of market orientation and understand whether and how is interrelated to other factors (Renko, Carsrud and Brannback, 2009). For example, studying market orientation with additional variables has furthered our understanding that dynamism has an impact on the market orientation-performance relationship (Byrom, Medway and Warnaby, 2001; Megicks, 2001) and that, when paired with innovation (Han, Kim and Srivastava, 1998; Jaworski, Kohli and Sahay, 2000; Slater and Narver, 1994, 1995) market orientation has positive influence on organizational performance. Environments whose nature reflect a dynamic perspective can motivate small businesses to identify and satisfy customer needs and observe competitors' actions by developing externally oriented actions which, after all, are factors that make up a marketing orientation (Serviere-Munoz and Saran, 2012).

The literature in the small business area indicates that differences between managers and owners of small businesses are likely to be discovered when studying these businesses (Daily and Dollinger, 1993; Gallo 1995; Gudmundson, Tower and Hartman, 2003; McConaughy, Matthew and Fialko, 2001). In almost all emerging markets, the dominant pyramid ownership structures still prevail and disparate power relations exist between owners and managers, which bring the potential ramifications in terms of managerial agency problems (Lins, 2003). Furthermore, gender differences are still viewed as a key factor to produce variation in managerial styles as Sonfield, Lussier, Corman, and Mckinney (2001) have pointed out. This

leads to conclude that the literature about male entrepreneurs is inconclusive and with the increasing number of small business owned by females, there is also the natural curiosity to wonder whether these small businesses differ from their counterparts (Perry, 2002). The present study attempts to expand the current body of research reported and following Serviere-Munoz and Saran's (2012) approach aims at investigating whether men and women in Mexico and Turkey differ in the way they gear their small businesses toward market orientation.

This paper will address whether market orientation, innovation, and dynamism levels substantially differ among small businesses in two developing countries, Mexico and Turkey, from an ownership (manager vs. owner) and gender approach. Overall, this study is aimed at answering: (1) are small business owners and managers overall leading their businesses from a market orientation perspective in Mexico and Turkey?, (2) are there any differences in the practice of market orientation, innovation, and dynamism between businesses run by the owners versus those run by managers among small businesses in Mexico and Turkey?, and (3) are there any gender differences among the small businesses in Mexico and Turkey? The study begins by reviewing the market orientation, innovation, and dynamism literatures. Then, to set up the context, the existing entrepreneurial climate in Mexico and Turkey is addressed. Market orientation, innovation, and dynamism are the variables used to develop hypotheses on whether ownership (owner vs. manager) and gender (male vs. female) differ regarding these three variables. After the hypotheses section, the methodology, results, and discussion sections are discussed. The study concludes with closing thoughts as well as with a discussion of future research and limitations.

## **LITERATURE REVIEW**

### **Market orientation literature in small business**

The theoretical foundation for market orientation as a construct was originally provided by two groups of scholars within the marketing field. The first group formed by Kohli and Jaworski (1990) defined market orientation as "the organization-wide generation of market intelligence, dissemination of intelligence across departments, and organization-wide responsiveness to this intelligence" (p. 3). However, this conceptualization, while stressing the importance of information generation and dissemination, and a firm's overall responsiveness to this information processing, overlooks the cultural aspect of the MO concept. The second group, formed by Narver and Slater (1990), suggested a five dimensional operationalization of the MO concept consisting of three behavioral and two decision-making principles. The three behavioral dimensions included customer and competitor orientation, and inter-functional coordination, whereas the two decision-making dimensions included long-term and profit focus. Narver and Slater (1990) define MO as "the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, superior

performance for the business” (p. 21), which further emphasizes the cultural norms and values adopted by organization-wide employees as a means of gaining a competitive advantage.

Empirical support for MO and its association and significance with business performance has been addressed by several scholars (Jaworski and Kohli, 1993; Slater and Narver, 1994). While most of the empirical support for MO came from a Western context, the focus of research has shifted to explore and test this construct in a non-Western context. While studies conducted in the United Kingdom revealed contradictory results for the MO-performance relationship (Greenlay, 1995; Diamantopoulos and Hart 1993), positive results supporting this relationship came from the Arab World (Bhuiyan, 1998), India (Subramian and Gopalakrishna, 2001), Taiwan (Horng and Chen, 1998) and central Europe (Hooley et al., 2000). These inconsistencies pertaining to MO-performance relationship in the Non-Western context still calls further attention to whether this construct similarly holds in third world countries striving to gain a global competitive advantage. As Ngai and Ellis (1998) suggested, studies aimed at testing MO construct in countries other than the U.S., where a positive relationship was established between MO and performance, present mixed results pertaining to this association.

Usually the significance of MO towards generating stronger firm performance has been greatly supported in the literature when focusing on large firms and recently the significance of this relationship has been emphasized by research aimed at examining different industries (Pelham, 2000) and small to medium sized firms (Kara, Spillan and Deshields, 2005) as well as small businesses (Pelham and Wilson, 1996; Pelham, 1997, 1998). As Pelham (1998) suggested, “Market orientation may be especially important for small firms, because market-oriented firms can leverage their potential advantages of flexibility, adaptability, and closeness to their customer base into superior, individualized service” (p. 34). His study on small manufacturing firms enhanced the significance of MO, suggesting that small firms, as they have advantages related to closeness to customers and flexibility and adaptability, and disadvantages related to scarcity of resources, might gain and sustain a strong competitive advantage through adopting a strong MO culture. It is important to clarify that small businesses were defined as “those which are of small size in the contexts of their particular industries and have significant independent and principal power of decision making residing in single individuals, with ownership usually but not necessarily residing in management” (Jocumsen, 2004, p.660). The term “professional manager” was used to make a distinction of the family manager from the non-family one (for a similar approach see Daily and Dollinger, 1993).

### **Dynamism and innovativeness**

Kohli and Jaworski (1990) and Slater and Narver (1994) also acknowledge the significance of other complementary orientations such as entrepreneurial orientation (risk taking, innovativeness, proactiveness, autonomy) and market dynamism to MO. Dynamism is an environmental factor that take account of the rate of unforeseeable environmental changes and

the stability of the environment (Dess and Beard, 1984). Dynamic markets have been found to be a critical force on entrepreneurial behavior at the firm level (Miller, Droge and Toulouse, 1988). If managers gauge their external environmental conditions to be dynamic and uncertain, it is more likely they will exhibit proactive and innovative behaviors (Miles and Snow, 1978). Dynamism and market instability may be derivative from consumer preferences that are constantly changing as well as technological turbulence, which all necessitate a stronger focus on MO (Egeren and O'Connor, 1998). Egeren and O'Connor (1998), in their study on service firm performance and MO relationship, found that firms in highly dynamic environments exhibit a higher degree of MO, as opposed to firms in low dynamic environments. There is substantial support in the literature on environmental factors, such as market dynamism and the intensity of competition, that they have a strong influence on MO-performance relationship (Slater and Narver, 1994; Greenlay, 1995) and a firm's market-oriented activities (Diamontopoulos and Hart, 1993; Pelham and Wilson, 1996).

Innovation has been another significant variable that contributes to the growth and the survival of small businesses. When researchers explored the relationship between MO and business performance, they treated innovation as an instrumental construct and created models aimed at examining MO innovation association specifically on large businesses (Jaworski, Kohli and Sahay, 2000; Connor, 1999; Slater and Narver, 1995, 1998, 1999; Han et al., 1998). However, considering that innovation in large firms differ from innovation in small firms (Audretsch, 2001; Eden, Levitas and Martinez, 1997), the exploration of this concept within the small business context would further help understand the importance of innovation and small firms. Verhees and Meulenber (2004), contend that owner's innovativeness is a vital component of entrepreneurial orientation for innovativeness in small businesses. The owner's interest in a specific domain (e.g. new product domain and product innovation) led to the conclusion that the innovativeness of small firm owners has a critical influence on MO, innovation, and performance.

Innovativeness is defined as "the notion of openness to new ideas as an aspect of a firm's culture" (Hurley and Hult, 1998, p.44), and more specifically, in small firms in defined as the "willingness of the owner to learn about and adopt innovations, both in the input and output markets" (Verhees and Meulenber, 2004, p.138). Therefore, from this perspective, one can conclude that the degree of innovativeness will vary based on the owner's willingness towards innovations. Verhees and Meulenber (2004) state that small business owners can be interested in a particular domain with an adaptive style, while approaching other domains with an innovative style possibly due to limited financial resources and research and design capacities. For example, evidence from Turkey suggests that SMEs' adoption and implementation of innovations yield unsatisfactory results due to lack of organizational skills and the workforce that lacks the necessary trainings and is relatively cheap. These findings reveal the ineffective implementation of innovations and the concurrent ramifications pertaining to organizational performance (Acar, Kocak, Sey and Arditi, 2005). Another recent study by Kaya and Seyrek

(2005) contends that the level of market dynamism influence entrepreneurial, technological and customer orientations of firms and their relationship to financial performance. In light of these findings in the literature, we believe that MO should be accompanied by innovation and dynamism, which are critical concepts for the survival and growth of small businesses.

### **Research context: why Mexico and Turkey?**

The Mexican business environment has recently started to experience a stronger entrepreneurial culture that is reflected in the great exchange of workers and jobs for entrepreneurs. The Mexican government recognizes the need for constant improvement and an environment open to innovation to support economic growth. In order to sustain such progress, the government has given priority to the economic strategies that further strengthen the domestic economy, the domestic market, and the capacities of communities and families (Fox, 2004). As a result, during the years of 2002 and 2003, Mexican businesses with less than five workers generated one and a half million of new jobs (Fox, 2004). Currently, Mexico is experiencing an evolving entrepreneurial culture that highlights the relevance of small and medium business in the country's economy (Serviere-Munoz and Saran, 2012). The relevance of small businesses has been recognized and supported since the presidency of Vicente Fox, and the actual government continues to support the need for development and improvement of small businesses with an orientation towards innovation to maintain progress. An outcome of such support has been the significant increase of small businesses. According to some of the latest numbers reported by a governmental agency, there are 5,144,056 businesses in Mexico and 99.8% were within the small and medium sized bracket with most of them focusing on services (47%), commercial activities (26%), and manufacturing (18%) (Secretaria de Economia, 2010). Moreover, the government has also made the tax structure and procedures easier for imported and exported goods as an attempt to facilitate commerce and reduce uncertainties (Secretaria de Economia, 2010). The entrepreneurial force in Mexico is called to remain competitive and to strive for individuals that are professional and lead their business towards a MO complemented with key variables, such as innovation and dynamism.

Turkey also experiences a shift towards a stronger entrepreneurial culture. Turkey represents a unique entrepreneurial cultural that is characterized with the synergy between Islamic and capitalist values, especially with the influence of the Islamic political party (AKP – Muslim Justice and Development Party) in power on the Turkish economy and its triumph in the global economy (Adas, 2006). The majorities of small businesses are family owned/controlled, and operated by Islamic entrepreneurs (Adas, 2006). Despite the many teachings of Islam that prohibit certain economic activities, outcomes and impedes economic development, the secular stance of Turkey in the economy gives rise to the entrepreneurial activities, specifically Islamic entrepreneurs. In fact, the establishment of MÜSIAD in 1990s – a collective institution for Islamic entrepreneurs, has supported the growth of entrepreneurial activity in Turkey and

blended the Islamic values such as shared values, networking, solidarity and trust with secular capitalist values in doing business. Such associations, both secular and Islamic, serve to alleviate or mediate the secular-Muslim tension in entrepreneurial activities and support entrepreneurial commitment to both secular democratic and Islamic values (Yavuz, 2010). Therefore, it is important to understand the nature and characteristics of entrepreneurial culture in Turkey.

Small firms play a significant role in driving sustainable economic growth and new job opportunities and contributing to trade policies intended for tapping into global markets in developing countries such as Turkey (Yetim and Yetim, 2006). Despite the dominance of the small to medium enterprises (SMEs) that account for over 95% of the business population in Turkey (Coskun, 2004), small businesses still face difficulties such as lack of know-how that has a negative impact on market expansion and growth plans, financial problems that serve as a stumbling block for technological improvement and resource aggregation, insufficient training and unstable political and economic environment that have strongly distorted government policies and programs in this area (Kozan, Oksoy and Ozsoy, 2006). It is important to note that the recent implementation of new programs as a means of supporting small businesses has received increasing attention since Turkey joined the Customs Union with the European Union (EU) in 1996 (Small and Medium-Sized Enterprises in Turkey, 2006). SMEs represent 99.8% of all industrial firms, and the investments made by SMEs make up for 38% of the total investments in Turkey, contributing to the total value with 26.5% (Ozkanli, Benek and Akdeve, 2006; Tosyov, 2004). The small firms sector is noteworthy to the European competitive development and future job. Thus, the development of small business sector to meet the requirements of the EU will be vital for Turkey on the way to EU accession.

In addition, societal pressures such as gender inequality serve as a stumbling block for women that are willing to establish their own businesses. Turkey prime minister declared that only 10 percent of employers are women in the country and the social and economic development depends on supporting women entrepreneurs (Ready for Business, 2005). Despite the persistent gender inequality in business, progressive measures are taken to solve this issue, such as the establishment of gender equality committee in the Turkish parliament TÜSIAD (Turkish Industry and Business Association) and KAGIDER (Women Entrepreneurs Association of Turkey) organize training programs for potential women entrepreneurs to support and advocate their strong and effective presence in the Turkish economic landscape and business decision making (Alde Raies, 2011; Turkey: A Culture of Change, 2011), a process also stimulated by the goal of Turkey's accession to the European Union (EU).

Together, Mexico and Turkey even though a world apart, geographically speaking, denote signs of an evolving marketplace in which the relevance and growth of small businesses is acknowledged and supported. This support is mainly due to the extensive role of small and medium businesses in generating income for their countries. In addition, both countries are facing numerous uncertainties such as bureaucratic procedures and national security. This paper is a strong chance to further the understanding of gender and ownership dynamics in two

countries that although physically far away, seem to be going through similar entrepreneurship evolution. Moreover, identifying the similarities and differences with respect to managerial practices from an ownership and gender approaches can help elicit future theory developments.

### **Previous research in ownership**

Several research works have been explored the existing differences between owner-managers and professional managers. This is in response to the fact that ownership structure is a significant factor to be considered in small business research (Storey 1994). Some of the previous research has shown that professional managers tend to seek their personal gain in the advancement, promotion, and monetary aspects within a business (Gomez-Mejia, Tosi and Hinkin, 1987) and rely in a greater degree in the use of formal internal control systems (Daily and Dollinger, 1993).

Another approach that has been undertaken in comparison of family vs. non family managed businesses, such as owner-manager vs. professional managers which is the approach adopted in this study. Based on this approach, Donckels and Frohlich (1991) uncovered that family businesses were rather conservative in their strategic activities and that their managers had a lesser concern for profits and growth than managers did in non-family firms. Along with this approach, Gallo (1995) showed that family businesses had a slower growth rate than the non-family ones when studying the role of family business and its behavior in an industrial setting. Furthermore, efforts to identify family versus non-family managed businesses have also been carried out. Daily and Dollinger (1993) tested whether size, age, strategy pursued, and the use of internal control systems, would serve as discriminating factors between the family-managed versus professionally managed businesses. According to the study's results, all of these characteristics served as significant discriminators between owners and professional managers.

Recent studies have started to show a shift in findings when compared to earlier studies. For example, McConaughy, Matthew, and Fialko (2001) found that family firms had greater value, were managed more efficiently, and were financially better off than other firms. In addition, with regards of practices, in a later study conducted by Gudmundson, Tower, and Hartman (2003) it was determined that family managed businesses implemented and initiated more innovations than their counterparts. The latter finding was believed to be the result of a more supportive and empowering culture in the family business. Gudmundson, Tower, and Hartman (2003) study contradicts Donckels and Frohlich (1991) study which determined that family businesses placed less importance on creativity and innovation. In sum, these works offer an extensive range of findings where, because most of them are mixed in nature, inconclusive results are offered and productive work can still be conducted. Following Sonfield et al. (2001), we used a null hypotheses approach in this research. Therefore, based on the inconclusive nature of the previous works, we employ null hypothesis to test for gender differences. This approach has been used by Sonfield et al. (2001), who explored gender differences in strategic decision

---

making of the entrepreneurial strategy mix and by Serviere-Munoz and Saran (2012), who tested gender differences in a Latin American country:

- H1: There are no differences between owners and professional managers in their orientation towards MO regarding their small businesses in Mexico and Turkey.*
- H1a: There are no differences between owners and professional managers in their orientation towards innovation regarding their small businesses in Mexico and Turkey.*
- H1b: There are no differences between owners and professional managers in their orientation towards dynamism regarding their small businesses in Mexico and Turkey.*

### **Previous research on gender differences**

In the last years, the significant number of women business owners and their contribution to economic growth and job creation was along with an increasing number of studies of female entrepreneurs (Verheul, Risseuw and Bartelse, 2002). Even though the number of studies on female entrepreneurs keeps rising, this does not mean that they have not deserved attention in the past literature. According to Powell and Ansic (1997), work completed prior to the 1980's showed that differences existed based on gender in entrepreneurial strategic behavior. The great majority of studies concluded that females were less confident and aggressive, had less leadership skills, and were more cautious and easier to persuade (Johnson and Powell, 1994).

More recent work has continued producing results comparing the female and male entrepreneur and has covered a broad collection of activities. Gender differences studies, with respect to strategic management, have indicated that the differences do exist (Chaganti and Parasuraman, 1996; Powell and Ansic, 1997; Sonfield et al., 2001; Verheul et al., 2002). For example, males rely less on social networks and more on individual practices (Brush, 1992; Cuba, De Cenzo and Anish, 1983; Hisrich and Brush, 1984; Moore and Buttne, 1997). Female entrepreneurs appeared less opportunity driven and were less inclined to offer additional services, while male entrepreneurs were more prone to pursue a growth strategy and were better at aiming to maintain or enhance the loyalty of key employees in the real market (Verheul et al., 2002). Communication style of both genders is another area that has received attention within entrepreneurial research. For example, Freeman and Varey (1997) determined that communication styles were largely subjected by gender differences. Women emphasize "voice" over "vision" and the value of a two-way communication. They are also inclined to nurture and encourage talent, and influencing rather than commanding (Freeman and Varey, 1997).

Focusing on female entrepreneurs, studies have also covered a wide range of topics; that range from psychological and demographic studies to perceived start up obstacles (Hisrich and Brush, 1984; Sexton and Bowman-Upton, 1990; Sexton and Kent, 1981). Females have the distinctive characteristic that personal and business aspects fusion into one area. They inter-relate the interests of family, business, society, perceive their businesses as a supportive network of relationships (Brush, 1992) and experience higher trends towards autonomy and change. Women

refute the perception of female entrepreneurs based on earlier studies (Sexton and Bowman-Upton, 1990). However, additional streams of research offer mixed results suggestive of gender similarities more than differences. One study found no significant differences in venture innovation/risk situation or in strategies selected by business owners based on gender (Sonfield et al., 2001). Chaganti and Parasuraman (1996) support that differences between men and women do not really exist as well as found no significant differences between men and women in the areas of performance, management practices, and strategies. Moreover, Eagly (1995) and Hollander (1992) support that both genders are equally effective in their function of leadership and Perry (2002) found that gender does not make much variation in the strategies, management practices, performance and survival of a small business. Johnson and Powell (1994) also determined that when faced with decision making under circumstances of risk both genders can equally achieve success. Some other studies, such as Sexton and Bowman-Upton (1990) have also addressed psychological characteristics. Their study found no significance differences in five of the nine measured growth traits based on the individual's gender (Sexton and Bowman-Upton, 1990). Based on the mixed nature of the findings on gender, as in ownership research, to test whether men and women have similar or different management practices towards MO, we propose:

- H2: There are no differences between men and women when applying MO in their small businesses in Mexico and Turkey.*
- H2.a: There are no differences between men and women in their level of innovativeness with their small businesses in Mexico and Turkey.*
- H2.b: There are no differences between men and women in their level of dynamism with their small businesses in Mexico and Turkey.*

## METHODOLOGY

To determine whether ownership and gender influence small businesses MO, innovativeness, and dynamism, we conducted a two factor multivariate analysis of variance (MANOVA). MANOVA is a multivariate data analysis technique which allows for the inclusion of more than one dependent variable. Therefore, it can be seen as a more robust extension of analysis of variance. MANOVA was selected because the purpose of the study was to investigate a dependent relationship represented as the variation in a group of dependent variables across groups formed by one or some non-metric independent variables (Hair, Anderson, Tatham, and Black, 1998). The MO, dynamism, and innovation were the dependent and the ownership (owner and manager) and gender (male and female) were the independent variables. The responses were collected through a field survey of small businesses in two northern cities of Mexico and one western city of Turkey. Interviewers visited the business where they would contact the owner or the manager of the business. Along with the survey, the interviewers made an accessible cover letter that explained the project.

## **Scales**

Scales that have been previously developed were employed in this study. We adopted the MO scale developed by Pelham as it was based on Narver and Slater's (1990) measure of MO. To measure innovativeness and dynamism, Donthu and Gilliland's (1996) innovativeness scale and Sinkula, Baker, and Noordewier's (1997) dynamism scales were adopted. The scales conveyed in a satisfactory manner the concepts we were interested in measuring while offering high reliability. The innovativeness scale is a three-item, Likert type scale that measures the extent to which a person has a desire to take chances and pursue new things. The dynamism scale (Sinkula, Baker and Noordewier, 1997) is also a three-item, Likert type scale that assesses how often a business alters its offering of products or brand and its marketing and sales strategies.

## **Development of the Spanish and Turkish version questionnaire**

The back-translation method, suggested by Green and White (1976), was employed to develop the Spanish and Turkish questionnaires. This is a three step approach which consists on first, translating the questionnaire from English into the selected language. Then, an individual who speaks the chosen language and who has not seen the questionnaire back translates it into English. Then, any discrepancies that were identified from this process were reworded to ensure a simple and easy to understand questionnaire. It is important to mention that, the questionnaire was pre-tested with a sample of Spanish and Turkish speaker individuals to obtain direct feedback about the questionnaire. Unclear issues were addressed to obtain a clearer version.

## **RESULTS**

### **General profile of the respondents**

A field survey of small businesses in two northern cities of Mexico and one western city in Turkey was conducted to collect the responses for this study. The researchers trained interviewers how to carry out the project. The total number of usable responses was 203 responses from Mexico and 103 responses from Turkey. Please refer to Table 1, general profile of the respondents, for additional sample details.

Table 1: General Profile of the Respondents

Business	Mexico		Turkey		Respondents	Mexico		Turkey	
	N	Percent	N	Percent		N	Percent	N	Percent
Services	107	52.7	34	33.0	Owner	129	63.5	70	67.9
Products	96	47.3	54	52.4	Manager	74	36.5	33	32.0
Other			15	14.6					
<i>Legal Formation</i>					<i>Gender</i>				
Business Society	60	29.6	22	21.4	Female	117	57.6	25	24.3
Sole proprietorship	52	25.6	65	63.1	Male	86	42.4	78	75.7
Other	91	44.8	16	15.5					
<i>Business Life</i>					<i>Age</i>				
<5 years	96	47.3	18	17.5	<30 years	84	41.4	26	25.2
5-10 years	58	28.6	32	31.1	31-50 years	101	49.8	65	63.1
>10 years	49	24.1	53	51.5	>51	18	8.9	11	10.7
<i>Work Load</i>					<i>Workers</i>				
20hrs week	39	19.2	4	3.9	1-5	128	63.1	66	64.1
40hrs week	68	33.5	24	23.3	6-10	48	23.6	16	15.5
50hrs week	25	12.3	26	25.2	11-15	17	8.4	5	4.9
60>hrs week	71	35.0	48	46.6	16-20	5	2.5	6	5.8
					21>	5	2.5	10	9.7
Mexico N=203									
Turkey N= 103									

## Hypotheses testing

Before conducting any data analysis, the normality of each of the dependent variables was reviewed by means of skewness tests and histograms (Hair et al., 1998). Skewness values were within the recommended limits for each variable and the histograms showed a normal distribution of the data. The internal consistency of the scales was established using Cronbach's alpha. The alpha values for the Mexican sample were satisfactory: MO = .81, innovation = .86 and dynamism = .81. For the Turkish sample, the alpha values also revealed satisfactory scores: MO = .80, innovation = .78 and dynamism = .76. The initial MANOVA findings (Table 2) showed that for the Mexican sample, there were differences between the gender groups. There were no differences between the ownership groups. Regarding the Turkish sample, there were no differences in both categories (ownership and gender) in any of the three variables studied: MO, innovation, and dynamism.

Mexico Effect		Value	F	Sig.
Owner/Manager	<i>Wilk's Lambda</i>	1.000	.032	.992
Gender	<i>Wilk's Lambda</i>	.758	20.926	.000
Turkey Effect		Value	F	Sig.
Owner/Manager	<i>Wilk's Lambda</i>	.989	.345	.793
Gender	<i>Wilk's Lambda</i>	.977	.758	.520

To determine the validity of our hypotheses, the tests of between-subjects effects was assessed. For the Mexican sample, as illustrated in Table 3, the MANOVA findings reveal that there were no differences in the probability that market orientation ( $F = .022$ ,  $df = 1$ ,  $p = .882$ ), innovation ( $F = .026$ ,  $df = 1$ ,  $p = .872$ ) and dynamism ( $F = .028$ ,  $df = 1$ ,  $p = .867$ ) are carried out by owners and managers in small businesses (Table 3). Therefore, H1, H1a, and H1b were supported in Mexico. A further examination of the groups' means can be found in Table 4. Regarding gender, the results showed that in Mexico there were no differences between males and females when practicing market orientation ( $F = 1.983$ ,  $df = 1$ ,  $p = .161$ ); Therefore, H2 was supported. In contrast, differences were found between men and women in their level of innovativeness ( $F = 62.058$ ,  $df = 1$ ,  $p < .05$ ) and in their level of dynamism ( $F = 5.307$ ,  $df = 1$ ,  $p < .05$ ), see Table 3. Data did not support H2a and H2b for Mexico.

Source	Dependent variables	Mexico			Turkey		
		F	df	Sig.	F	df	Sig.
Owner/Manager	Market Orientation	.022	1	.882	.691	1	.408
	Innovation	.026	1	.872	.182	1	.671
	Dynamism	.028	1	.867	.113	1	.737
Gender	Market Orientation	1.983	1	.161	1.841	1	.178
	Innovation	62.058	1	.000	.044	1	.834
	Dynamism	5.307	1	.022	1.387	1	.242

$p < .05$

For the Turkish sample, the results were as follows: the MANOVA findings revealed that there were no differences in the likelihood that market orientation ( $F = .691$ ,  $df = 1$ ,  $p = .408$ ), innovation ( $F = .182$ ,  $df = 1$ ,  $p = .671$ ) and dynamism ( $F = .113$ ,  $df = 1$ ,  $p = .737$ ) are practiced by owners and managers in small businesses (Table 3). Therefore, H1, H1a, and H1b were supported for Turkey.

Concerning gender, the results showed in Turkey, there were no statistically significant differences between males and females when applying a market orientation to their business ( $F = 1.841$ ,  $df = 1$ ,  $p = .178$ ); Therefore, H2 was supported. In addition, no differences were found between men and women in their level of innovativeness ( $F = .044$ ,  $df = 1$ ,  $p = .834$ ) and in their level of dynamism ( $F = 1.387$ ,  $df = 1$ ,  $p = .242$ ), see Table 3. Therefore, data were able to support

H2a and H2b for Turkey. A summary review of the hypotheses and their results can be found in Table 5.

Owner/Manager		Mexico		Turkey	
		Mean	Std. Error	Mean	Std. Error
Market Orientation	owner	5.042	.074	4.459	.122
	manager	5.025	.094	4.287	.167
Innovation	owner	4.191	.109	4.662	.135
	manager	4.219	.138	4.759	.185
Dynamism	owner	4.033	.117	3.773	.194
	manager	4.065	.148	3.662	.267
Gender					
Market Orientation	female	.118	.083	.233	.178
	male	4.949	.087	4.513	.105
Innovation	female	4.896	.121	4.686	.197
	male	.514	.127	4.735	.116
Dynamism	female	4.267	.130	3.523	.285
	male	3.832	.137	3.912	.168

		Mexico	Turkey
<b>Ownership</b>			
H1	Market Orientation	S	S
H1a	Innovation	S	S
H1b	Dynamism	S	S
<b>Gender</b>			
H2	Market Orientation	S	S
H2a	Innovation	NS	S
H2b	Dynamism	NS	S
S: supported NS: Nor supported			

## DISCUSSION AND CONCLUSIONS

This study further investigated and expanded our knowledge of the MO construct along with two key additional variables: innovation and dynamism. In addition, the results offer insights from an ownership and gender perspective from two countries, Mexico and Turkey, who are experiencing a similar growth and changes in their entrepreneurial force. Deriving from previous research, we acknowledge that small firms in developing economies need a stronger orientation toward MO and other influential factors, such as innovation and dynamism, in order to compete in the global marketplace, maintain market share, and sustain their competitive

advantage. After a review of the literature on gender and ownership, we expected that there would be differences in carrying out MO, innovation and dynamism between owners and managers of small firms in these economies. Furthermore, we hypothesized no differences between men and women when engaging in MO, innovation and dynamism due to inconsistent results about gender in previous works.

The expected lack of differences relating to owners and managers of small businesses in Mexico and Turkey, and their practices of MO, innovation and dynamism were supported by the results in this study. Owners and managers guide their businesses with a market oriented, innovative, and dynamic approach. Such a parallel approach denotes that, regardless of who is in charge, the business can hope for a future with a better capacity to adapt to the environment and thus, greater likelihood for success. In addition, businesses in both countries Western literature might suggest that owners and professional managers vary in their managerial styles but these findings denote differences in non-western cultures, which call for further exploration of research findings in these countries. This finding also supports the highly paternalistic values between owners and managers of the organizations in Turkey as suggested by Yetim and Yetim (2006). Paternalism reflects the equal loyalty and belongingness of managers to the business compared to the owners. Thus, the relationship between managers, owners and their organizational practices are heavily influenced by these diverse cultural orientations among Turkish entrepreneurs (Yetim and Yetim, 2006). This same rationale can be applied to explain Mexico's results. Just as in Turkey, there were no differences in market orientation between owners and managers which can be attributed to high paternalistic levels from both parties as well as strong commitment to the endeavor. The fact that owners and managers exhibited the same orientation uncovers the high extent to which there is a corporate culture that creates value for buyers in both countries; positioning them at a better place for continued activities and success. Some of these activities range from recognizing the business's strength and weaknesses, monitoring and improving based on customer satisfaction, and focusing on understanding how to continue to create value for customers. These are some examples of activities adopted owners and managers in Mexico and Turkey as they entail a market orientation..

Moreover, owners and managers demonstrated the same levels towards maintaining innovative and dynamic environments within their business in both countries. This approach denotes the owners' and managers' innovativeness willingness, such as an openness to take chances and pursue new things (such as product innovations). Regarding their dynamic business behavior, the results indicate that they are willing to, as part of the normal course of activities, change the business marketing and sales strategies, as well as the offering of products or brands if needed.

Regarding gender, the results from Turkey revealed that men and women did not differ significantly with respect to their application of MO and their level of innovation and dynamism as expected. Mexican data also revealed that MO is equally practiced among men and women

where, contrasting with the Turkish sample, the majority of respondents were women. This equal orientation from both genders towards MO reflects once again the high degree to which these individuals exhibit a corporate culture that generates value for the marketplace. Men and women in Turkey and Mexico equally focus on being receptive to serve their market target, and on being perceptive of their customer's needs so that they base their activities on those needs. Our findings show that Turkish and Mexican men and women managing a small business understood how the totality of the business's activities can generate customer value and attend the business external environment. In both countries, men and women actively pay attention and respond to their competitors' actions. The fact that men and women in both countries exhibited such a similar MO, innovation, and dynamism approach is noteworthy since individuals with an incomplete education or up to high-school form about one third of both samples.

It is important to note that the results supported differences in Mexico in the level of innovation and dynamism practiced by men and women. These women showed a higher orientation for innovative practices than their counterparts. For example, Mexican women might have a greater fondness towards innovative behaviors such as taking chances, by perhaps venturing to start a business or expanding their current one, trying new ways to conduct activities, and finding value in introduce new products as part of their business offering. Furthermore, the results show Mexican women exhibit a higher orientation for dynamic practices. Having orientation that incorporates dynamism calls for being more open to changes in their product mix and brands, and to allow for an evolution of the sales strategies employed in their businesses. For example, these women might be more open to and actually try several sales promotions and advertising strategies, which might also reveal that they feel more comfortable with changes than men do. We believe such difference might be worth of further study.

Small firms may not be able to compete successfully in the global market by blindly duplicating the strategies and practices of large firms. Therefore, the only way that small firm managers can achieve a sustainable competitive advantage is by adopting market-oriented behaviors. Eventually, small firms that adopt high MO, which consists of three behavioral dimensions: customer orientation, competitor orientation and inter-functional coordination (Narver and Slater, 1990), will have fewer defects, lower costs, greater customer satisfaction, and higher profitability (Pelham and Wilson, 1995). Although larger corporations are more active in globalization processes and penetration into international markets, recent developments in global markets reveal that SMEs become more aggressive in implementing competitive strategies by extending their sales force and local supply chains on a global scale (Chiarvesio, Di Maria and Micelli, 2007).

This paper contributed to expand the knowledge on global entrepreneurship, a progressively more relevant topic in the international business arena, from the non-Western perspective of Mexico and Turkey. The results exhibited whether small businesses are leading their operations under a MO strategy. In addition, this study allowed uncovering that MO, innovation and dynamism are equally pursued by owners and professional managers in Mexico

and Turkey. Furthermore, the study uncovers no differences between genders in Turkey for any of the three variables. However, data supports gender differences for innovation and dynamism in Mexico. Women are more prone to engage in practices that pursue new and different marketing and sales strategies. Overall, if small businesses in Mexico and Turkey remain focused on sustaining, MO, innovation, and dynamism, this will more likely take them to succeed in a competitive marketplace.

### **LIMITATIONS AND FUTURE RESEARCH**

Data collection for this study required a large effort from all the participants, which yielded over 200 and 100 responses for Mexico and Turkey respectively. However, the sample size obtained for this study was uneven between the two countries. Mexican data was double the size of the Turkish data leading to a possible under representation of the small business arena in Turkey. In addition, Turkish women accounted for less than one third of the sample size. A possible explanation for the lack of women might be that in Turkey, women have not represented a high percentage of the small business population yet. This is an important area for future research, specifically due to the recent entrepreneurial initiatives of women entrepreneurs in Turkey. Despite the promising support from entrepreneurial, business associations and the government, the Islamic-secular tension still exists in Turkey, which might hinder the inclusion of women in entrepreneurial activities. Future research could explore the impact of religion on entrepreneurial values, specifically in Turkey, the world's second fastest growing economy after China (Parkinson and Candemir, 2012).

A future research opportunity also lies in the ownership and gender approaches. Owners and managers as well as men and women, might differ with respect to their entrepreneurial culture. A further exploration of other constructs will advance our knowledge of the behaviors of male and female entrepreneurs acting as owners or managers of small businesses. Moreover, future research could address not only whether the ownership and gender approaches differ but also the reason for such differences, if any. To do so, an interdisciplinary approach could be adopted, following theories from sociology and psychology to provide an explanation of the differences observed among subjects. Expanding the research work to address the source of such differences will greatly benefit entrepreneurship research by proving a more comprehensive and theoretically based framework.

### **REFERENCES**

Alde Raises Issue of the Role of Women in EU-Turkey Relations (2011). A 2020 Gender Perspective for the European Union and Turkey Conference, retrieved from [http://www.tusiad.org/\\_rsc/shared/file/ALDE-Conference-FINAL-MAYIS2011.pdf](http://www.tusiad.org/_rsc/shared/file/ALDE-Conference-FINAL-MAYIS2011.pdf)

- Acar, Emrah, Ismail Kocak, Yildiz Sey and David Arditi (2005), "Use of Information and Communication Technologies by Small and Medium-Sized Enterprises (SMEs) in Building Construction," *Construction Management and Economics*, 23, 713-722.
- Adas, Emin Baki (2006), "The Making of Entrepreneurial Islam and the Islamic Spirit of Capitalism," *Journal for Cultural Research*, 10 (2), 113-137.
- Amit, Raphael and Belen Villalonga (2004), "Family Business: Why Firms Do Well When Founders are at the Helm," (accessed on October 21, 2004) [available at <http://knowledge.wharton.upenn.edu/article/1065.cfm>]
- Audretsch, David B. (2001), "Research Issues Relating to Structure, Competition, and Performance of Small Technology-Based Firms," *Small Business Economics*, 16 (1), 37-51.
- Aycan, Z. and R. N. Kanungo (2000), "Toplumsal Kulturun Kurumsal Kultur ve İnsan Kaynakları Uygulamaları Üzerine Etkileri (The Impacts of National Culture on Organizational Culture and Human Resource Practices)." In Z. Aycan (eds.): *Türkiye'de Yönetim, Liderlik ve İnsan Kaynakları Uygulamaları*(Management, Leadership, and Human Resources Practices in Turkey), *Türk Psikologlar Derneği Yayınları* (Turkish Psychology Association Press, Ankara), 25–53.
- Bhuiyan, Shahid N. (1998), "An Empirical Examination of Market Orientation in Saudi Arabian Manufacturing Companies," *Journal of Business Research*, 43, 13-25.
- Brush, Candida (1992), "Research on Women-Business Owners: Past Trends, a New Perspective and Future Directions," *Entrepreneurship: Theory and Practice*, 16 (4), 5-30.
- Byrom, J., Medway, D. and Warnaby, G. (2001). Towards a typology of rural retailing strategies: Evidence from the UISTS. Proceedings of the Academy of Marketing conference. In Megicks, P. and G. Warnaby (2008). Market orientation and performance in small independent retailers in the U.K. *The International Review of Retail, Distribution, and Consumer Research*, 18 (1), 105-119.
- Cetindamar, Dilek (2005), "Policy Issues for Turkish Entrepreneurs," *International Journal of Entrepreneurship and Innovation Management*, 5 (3/4), 1-1.
- Chaganti, Radha and Saroj Parasuraman (1996), "A Study of the Impacts of Gender on Business Performance and Management Patterns in Small Businesses," *Entrepreneurship: Theory and Practice*, 21 (2), 73-75.
- Chiarvesio, Maria, Eleonora Di Maria and Stefano Micelli (2007), "Internationalization of Clusters and Competitiveness of Small Firms," Proceedings of the Academy of Management Conference, the International Management Track
- Connor, Tom (1999), "Customer-Led and Market-Oriented: A Matter of Balance," *Strategic Management Journal*, 20 (12), 1157-1163.
- Coskun, Ali (2004), "Motors of Innovation and Development," *OECD Observer*, 243, 48-49.
- Cuba, Richard, David DeCenzo, and Andrea Anish (1983), "Management Practices of Successful Female Business Owners," *American Journal of Small Business*, 8 (2), 40-45.
- Daily, Catherine M. and Marc J. Dollinger (1991), "Family Firms are Different," *Review of Business*, 13 (1-2), 3-5
- Daily, C. M. & M.J. Dollinter (1993), "Alternative Methodologies For Identifying Family Versus Nonfamily-Managed Businesses," *Journal of Small Business Management*, 31 (2), 79-90.
- Dess, Gregory G. and Donald W. Beard (1984), "Dimensions of Organizational Task Environments," *Administrative Science Quarterly*, 27, 467-488.
- Diamantopoulos, Adamantios and Susan Hart (1993), "Linking Market Orientation and Company Performance: Preliminary Work on Kohli and Jaworski's Framework," *Journal of Strategic Marketing*, 1, 93-122.
- Donthu, Naveen and David Gilliland (1996), "The Infomercial Shopper," in *Marketing Scales Handbook*, Vol. III, Gordon C. Bruner, Karen E. James and Paul J. Hensel, eds. Chicago: American Marketing Association, 296.
- Donckels, R and Frohlich, E. (1991), "Are Family Businesses Really Different?," in *Innovation in Small Businesses: Culture and Ownership Structure Do Matter*, Donald Gudmunson, Burk C. Tower and Hartman Alan E. (2003), *Journal of Developmental Entrepreneurship*, 8 (1): 1-17.

- 
- Eagly, Alice (1995), "The Science and Politics of Comparing Women and Men," *American Psychologist*, 50 (3), 145-158.
- Eden, Lorraine, Edward Levitas and Richard J. Martinez (1997), "The Production, Transfer, and Spillover of Technology: Comparing Large and Small Multinationals as Technology Producers," *Small Business Economics*, 9 (1), 53-66.
- Esmer, Y. (1998), "Ahlaki Degerler Ve Toplumsal Degisme (Moral Values And Social Change),' in Turkey Bilimler Akademisi (Ed.), *Turkiye'de Bunalım ve Cikis, Yolları (Crisis in Turkey and Democratic Solutions)*, TUBITAK, Ankara, Publication, 423, 12-33.
- Freeman, Sue and Richard J. Varey (1997), "The Effects of Entrepreneur Characteristics and Gender-Based Management and Communication Styles From an Internal Marketing Perspective, Within Both Small and Large Business Environment," *Marketing Education Review*, 7 (3), 74-85.
- Fox, Vicente (2004), "Local Development and Community Capacity Building," (accessed on October 30, 2004), [available at [www.oecd.org/document/39/0,2340,en\\_2649\\_34457\\_33700071\\_119808\\_70651\\_1](http://www.oecd.org/document/39/0,2340,en_2649_34457_33700071_119808_70651_1)]
- Gallo, Miguel A. (1995), "The Role of Family Business and its Distinctive Characteristic Behavior in Industrial Activity," *Family Business Review*, 8 (2), 83-97.
- Gomez-Mejia, Luis R., Henri Tosi, and Timothy Hinkin (1987), "Managerial Control, Performance, and Executive Compensation," *Academy of Management Journal*, 30 (March), 51-70.
- Green, Robert T. and Phillip D. White (1976), "Methodological Considerations in Cross-Cultural Research," *Journal of International Business Studies*, 7 (2), 81-88.
- Greenley, Gordon E. (1995), "Market Orientation and Company Performance: Empirical Evidence from UK Companies," *British Journal of Management*, 6, 1-13.
- Gudmunson, Donald, Burk C. Tower and Hartman Alan E. (2003), "Innovation in Small Businesses: Culture and Ownership Structure Do Matter," *Journal of Developmental Entrepreneurship*, 8 (1): 1-17.
- Han, K., J. Kim, and Srivastava, R. K. (1998). Market orientation and organizational performance: is innovation a missing link? *Journal of Marketing*, 62(4), 30-45.
- Hisrich, Robert and C. Brush (1984), "The Women Entrepreneur: Management Skills and Business Problems," *Journal of Small Business Management*, 22 (1), 30-37.
- Hollander, E. (1992), "The Essential Independence of Leadership and Followership," in *Gender Comparisons in Strategic Decision-Making: An Empirical Analysis of the Entrepreneurial Strategy Matrix*, Mathew Sonfield, Robert Lussier, Joel Corman, and Mary Mckinney (2001), *Journal of Small Business Management*, 39 (2), 165-173.
- Hooley, Graham, Tony Cox, John Fahy, David Shipley, Jozsef Beracs, Krzysztof Fonfara and Boris Snoj (2000), "Market Orientation in the Transition Economies of Central Europe: Tests of the Narver and Slater Market Orientation Scales," *Journal of Business Research*, 50, 273-285.
- Hornig, Shun-Ching and Arthur Cheng-Hsui Chen (1998), "Market Orientation of Small and Medium-Sized Firms in Taiwan," *Journal of Small Business Management*, July, 79-85.
- Hurley, Robert F. and Thomas M. Hult (1998), "Innovation, Market Orientation, and Organizational Learning: An Integration and Empirical Examination," *Journal of Marketing*, 62 (3), 42-54.
- Jaworski, Bernard J. and Ajay K. Kohli (1993), "Market Orientation: Antecedents and Consequences," *Journal of Marketing*, 57, 53-70.
- Jaworski, Bernard J., Ajay K. Kohli and A. Sahay (2000), "Market-driven versus Driving Markets," *Journal of The Academy of Marketing Science*, 28 (1), 45-54.
- Jocumsen, Graham (2004), "How do Small Business Managers Make Strategic Marketing Decisions?," *European Journal of Marketing*, 38 (5/6), 659-674.
- Johnson, Johny and P. Powell (1994), "Decision Making, Risk and Gender: Are Managers Different?," *British Journal of Management*, 5 (2): 123-138.
-

- Kara, Ali, Jonh E. Spillan and Oscar W. Deshields, Jr. (2005), "The Effect of a Market Orientation on Business Performance: A study of Small –Sized Service Retailers Using MARKOR Scale," *Journal of Small Business Management*, 43 (2), 105-118.
- Kaya, Nihat and Ibrahim H. Seyrek (2005), "Performance Impacts of Strategic Orientations: Evidence from Turkish Manufacturing Firms," *The Journal of American Academy of Business*, 68-71.
- Kohli, Ajay K. and Bernard J. Jaworski (1990), "Market Orientation: The Construct, Research Proposition, and Managerial Implications," *Journal of Marketing*, 54, (2), 1-18.
- Kozan, M. Kamil, Dolun Oksoy and Onur Ozsoy (2006), "Growth Plans of Small Businesses in Turkey: Individual and Environmental Influences," *Journal of Small Business Management*, 44 (1), 114-129.
- Lins, Karl V. (2003), "Equity Ownership and Firm Value in Emerging Markets," *The Journal of Financial and Quantitative Analysis*, 38 (1), 159-184.
- Martínez, Sandra M. and Peter W. Dorfman (1998), "The Mexican Entrepreneur," *International Studies of Management and Organization*, Summer, 28 (2), p97-124,
- McConaughy, Daniel L., Charles H. Matthews, and Anne S. Fialko (2001), "Founding Family Controlled Firms: Performance, Risk, and Value," *Journal of Small Business Management*, 39 (1), 31-49.
- Miles, Raymond E. and Charles C. Snow (1978), "The Structural and Environmental Correlates of Business Strategy," *Strategic Management Journal*, 8, 1, 55-76.
- Miller, Danny, Cornella Droge and Jean-Marie Toulouse (1988), "Strategic Process and Content as Mediators between Organizational Context and Structure," *Academy of Management Journal*, 31, 544-569.
- Moore, Dorothy and Holly E. Buttner (1997), *Women Entrepreneurs: Moving Beyond the Glass Ceiling*. Thousand Oaks, California: Sage.
- Narver, John C. and Stanley F. Slater (1990), "The Effect of a Market Orientation on Business Profitability," *Journal of Marketing*, 54, (4), 20-35.
- Narver, J. C. & S. F. Slater (1998), "Customer-Led and Market-Oriented. Let's Not Confuse the Two," *Strategic Management Journal*, 19 (10), 1001-1006.
- Narver, J. C. & S. F. Slater. (1999), "Market-Oriented is More Than Being Customer-Led," *Strategic Management Journal*, 20 (12), 1165-1168.
- Ngai, J. C. H. and P. Ellis (1998), "Market Orientation and Business Performance: Some Evidence from Hong Kong," *International Marketing Review*, 15 (2), 119-139.
- Ozkanli, Ozlem, Sedat Benek and Erdal Akdeve (2006), "Export Barriers of Small Firms in Turkey: A Study of Ankara-Ivedik Industrial District," *Problems and Perspectives in Management*, 4 (3), 78-90.
- Pelham, Alfred M. (1997), "Mediating Influences on the Relationship between Market Orientation and Profitability in Small Industrial Firms," *Journal of Marketing Theory and Practice*, 5 (2), 1-23.
- Pelham, A.M. (1998), "Strategy, Market Orientation, or Environment: Relative Influence on Small-Manufacturing Firms," *Developments in Marketing Science*, 21, 458.
- Pelham, A.M. (1999), "Influence of Environment, Strategy, and Market Orientation on Performance in Small Manufacturing Firms," *Journal of Business Research*, 45, 33-46.
- Pelham, A.M. (2000), "Market Orientation and Other Potential Influences on Performance in Small and Medium-Sized Manufacturing Firms," *Journal of Small Business Management*, Jan, 48-67.
- Pelham, Alfred M. and David T. Wilson (1995), "Does Market Orientation Matter for Small Firms?" *Marketing Science Institute*, Report No. 95-102 (April).
- Pelham, Alfred M. and D. Wilson (1996), "A Longitudinal Study of the Impact of Market Structure, Firm Structure, Strategy, and Market Orientation on Dimensions of Performance," *Journal of the Academy of Marketing Science*, 24, 27-43.
- Perry, Stephen C. (2002), "A Comparison of Failed and Non-failed Small Businesses in the United States: Do Men and Women Use Different Planning and Decision Making Strategies?," *Journal of Developmental Entrepreneurship*, 7 (4), 415-428.

- Powell, Melanie and David Ansic (1997), "Gender Differences in Risk Behavior in Financial Decision-Making: An Experimental Analysis," *Journal of Economic Psychology*, 18 (6), 605-628.
- Ready for Business (2005), *OECD Observer*, 250 (July 2005), 16.
- Renko, M., Carsrud, A. and Brannback, M. (2009). The effect of market orientation, entrepreneurial orientation, and technological capability on innovativeness: A study of young biotechnology ventures in the United States and in Scandinavia. *Journal of Small Business Management*, 47(3), 331-369.
- Secretaria de economia (2010). Contacto Pyme. Retrieved on March 3, 2011 from [http://www.economia.gob.mx/swb/es/economia/p\\_Contacto\\_PyME](http://www.economia.gob.mx/swb/es/economia/p_Contacto_PyME)
- Serviere-Munoz, Laura and Anshu Saran (2012), "Market Orientation, Innovation, and Dynamism from an Ownership and Gender Approach: Evidence from Mexico," *International Journal of Management and Marketing Research*, 5 (2).
- Sexton, Donald and Nancy Bowman-Upton (1990), "Female and Male Entrepreneurs: Psychological Characteristics and Their Role in Gender Related Discrimination," *Journal of Business Venturing*, 5 (1), 29-36.
- Sexton, Donald and Kent, C.A. (1981), "Female Executives vs. Female Entrepreneurs," in *Female and Male Entrepreneurs: Psychological Characteristics and Their Role in Gender Related Discrimination*, David Sexton and Nancy Bowman-Upton (1990), *Journal of Business Venturing*, 5 (1), 29-36.
- Sinkula, James M., William E. Baker, and Thomas Noordewier (1997), "A Framework for Market-Based Organizational Learning: Linking Values, Knowledge, and Behavior," in *Marketing Scales Handbook*, Vol. III, Bruner C. Gordon, Karen E. James and Paul J. Hensey, eds. Chicago: American Marketing Association, 970-971.
- Slater, Stanley F. and J. Narver (1994), "Does Competitive Environment Moderate the Market Orientation Performance Relationship?" *Journal of Marketing*, 58, 46-55.
- Slater, Stanley F. and John J. Narver, (1995), "Market Orientation and the Learning Organization," *Journal of Marketing*, 59, 63-74.
- "Small and Medium Enterprises in Turkey: Issues and Policies," (Accessed Feb 20, 2006), Available at: <http://www.oecd.org>
- Sonfield, Mathew, Robert Lussier, Joel Corman, and Mary Mckinney (2001), "Gender Comparisons in Strategic Decision-Making: An Empirical Analysis of the Entrepreneurial Strategy Matrix," *Journal of Small Business Management*, 39 (2), 165-173.
- Storey, David (1994), *Understanding the Small Business Sector*. New York: Routledge.
- Subramanian, Ram and Pradeep Gopalakrishna (2001), "The Market Orientation-Performance Relationship in the Context of a Developing Economy: An Empirical Analysis," *Journal of Business Research*, 53, 1-13.
- Tosyov (2004) II. KOBİ (SME) Zirvesi (Summit). – Ankara: TOSYÖV Yayını (Publication),
- Turkey: A Culture of Change (2011), published by TÜSIAD, Retrieved on April 2012 at: [http://www.tusiad.us/content/uploaded/Turkey\\_A\\_Culture\\_Of\\_Change\\_by\\_TUSIAD.pdf](http://www.tusiad.us/content/uploaded/Turkey_A_Culture_Of_Change_by_TUSIAD.pdf)
- Parkinson, Joe and Yeliz Candemir (2012) "Turkish Growth Slows," Wall Street Journal, retrieved on April 2012 at: <http://online.wsj.com/article/SB10001424052702304023504577318941968618750.html>
- Tzokas, Nikolaos, Sara Carter and Panagiotis Kyriazopoulos (2001), "Marketing and Entrepreneurial Orientation in Small Firms," *Enterprise and Innovation Management Studies*, 2 (1), 19-33.
- Verhees, Frans J. H. M. and Matthew T. G. Meulenber (2004), "Market Orientation, Innovativeness, Product Innovation, and Performance in Small Firms," *Journal of Small Business Management*, 42 (2), 134-154.
- Verheul, Ingrid, Peter Risseuw, and Gaby Bartelse (2002), "Gender Differences in Strategy and Human Resource Management: The Case of Dutch Real Estate Brokerage," *International Small Business Journal*, 20 (4), 443-476.
- Yavuz, Devrim (2010), "Testing Large Business's Commitment to Democracy: Business Organizations and the Secular-Muslim Conflict in Turkey", *Government and Opposition*, 45 (1), 73-92.

Yetim, Nalan and Unsal Yetim (2006), "The Cultural Orientations of Entrepreneurs and Employees' Job Satisfaction: The Turkish Small and Medium Sized Enterprises (Smes) Case," *Social Indicators Research*, 77, 257-286

# **PRIVATE EQUITY AND ENTERPRISE GROWTH: AN ITALIAN PERSPECTIVE**

**Emanuele Teti, Bocconi University, Italy**  
**Gennaro Casillo, Bocconi University, Italy**

## **ABSTRACT**

*This paper investigates the entrepreneurial and economic benefits of Italian companies subject to participation in risk capital by private equity and venture capital firms. By analyzing the performances before, during and after investor and fund participations in companies on a time horizon of 10 years, this work shows that the impact of private equity is extremely positive in economic, asset and financial terms, both compared to an appropriate benchmark and the national trend. Results also highlight the improved performances of companies in the years following private equity and possible IPO process, as well as of enterprises in which the investors and funds have retained major, rather than minor or nonexistent, interest after listing procedure.*

Keywords: Private equity, Entrepreneurship, venture capital, Enterprise Growth, IPO  
JEL Keywords: G21, G24, G32

## **INTRODUCTION**

The economic importance of risk capital in companies management is of topical interest, especially in the European market which is almost completely constituted of small and medium-sized enterprises (SMEs), and access to large sums of equity is often arduous (Ayyagari, et al, 2007). Risk capital brought by private equity firms represents a relevant source for those companies that are in the most awkward phases of their cycle of life (Lu & Beamish, 2006). In particular, in the continental European entrepreneurial background in this specific economic and historical phase, equity investors and funds could provide those sources of flows that the banking system (ie. typical source of finance in these contexts) is not able to assure any more. Private equity can, thus, act as a primary instrument to strengthen the mass of small and medium enterprises that constitute the core of Italian and other European economies. The managerial phase through which direct investments enter equity of non-listed company is particularly critical in the Italian context, making it necessary to monitor constantly the involved companies.

The strong financial position that these investors and funds have, compared with SMEs, makes the corporate ownership of the latter particularly vulnerable. Accordingly, this aspect often drives private equity firms to ask for positions in the board of directors of backed

companies. On the one hand, this could be interpreted as a risk for the control of enterprises, but on the other hand, can be seen as a growth opportunity by making ampler financial resources available to exploit growth opportunities. However, the equity investors' presence in the board of directors is not indicative enough about their higher or lower commitment in the management and development issues of the company (Ahrens et al., 2011).

It has been demonstrated that it is possible to create substantial value, even without taking part in activities of the board of directors, to be passive and not significantly involved in a project, but simply sitting on the board. Wide extent exists to increase corporate value, and essentially refers to improvement in corporate image and credibility, to give technical and managerial support, and increase the corporate networking through the acquisition of new technologies and knowledge, access to new markets and different financial sources, implementation of new expansion strategies and growth through M&A and joint venture (Chun, 2005). However, potential benefits deriving from the involvement of private equity investors in companies is still under discussion and needs further in-depth examination. This paper aims at assessing whether enterprises participated by private equity, achieve higher economic and financial performances, or not, as a consequence of their involvement. The specific Italian geographical area investigated, as representative of the Continental European entrepreneurial scenario, is of particular topicality, for the high presence of SMEs there, that usually can hardly take advantage of substantial private equity investments.

The remainder of this paper is structured as follows. Section 2 carries out a background and literature review, while Section 3 introduces data sample and method used in the work. Section 4 reports empirical results of the analysis. Finally, Section 5 ends the paper with some concluding remarks.

## LITERATURE REVIEW

It has widely debated in the literature, whether or not direct investments in companies through equity and comparable financial instruments can be valuable drivers of value creation. A recent view on this matter highlights that private equity can generate value not only because of money injection, but also because of expertise, monitoring, coaching, contact and connections it can provide to the management of the firm, as well as incentives to firm maximization (Kaiser & Westarp, 2010). Different studies have also attended to the main supposed drivers that lie at the bottom of the value creation process. Achleitner et al. (2010) identify in the leverage effect, EBITDA growth, free cash flow variation, multiple effect and combination effect, key indicators to be considered to appraise the value creation process of buyouts in the European context. Diller and Kaserer (2009) also find that major drivers of value creation from private equity are financial factors such as total fund inflows, but also managerial factors such as General Partner's skills, while Matthews et al. (2009) stress the importance of focusing on and improving the business of invested companies after the equity investment has occurred. Among the assessed indicators,

financial leverage is critical, since if on the one hand it can act as a key driver of value creation (Axelson et al., 2009), on the other hand is also quite a critical variable, as potential predictor of bankruptcy risk of private equity backed companies (Wang & Campbell, 2010; Teti et al, 2013). For this reason, in our paper we use a relative indicator of indebtedness by comparing the net financial position to net invested capital, rather than leverage only, to infer the share of increase in debt connected to higher investments made by companies. The performance contribution of private equity is also assessed with regard to time variable, to prove that direct equity investments do not have a short-term horizon only, but their long-term managerial and financial importance for backed companies is also demonstrated (Lerner et al., 2011; Wright et al, 2004). Also, Jelic & Wright (2011) stress the importance of a longer horizon analysis, by proving that there is neither significant evidence of underperformance nor overperformance in a short time horizon as a consequence of private equity involvement in non-listed companies.

In our paper, we also investigate the governance implications on corporate ownership arising from private equity investments in the backed company. In this regard, a plethora of research has analyzed the connection between direct equity involvement in companies and corporate governance issues. Bruton et al. (2010) indicate that private equity is a powerful tool to consolidate corporate governance practices of companies, but the performance of firms shared by private equity differs, based on the kind of investors that enter their capital risk (e.g. business angel vs. venture capital). Furthermore, Acharya et al. (2012) take into account the link between corporate governance and outperformance of firms when private equity funds hold a relevant part of their equity, providing evidence that the background of the general partner (GP) responsible for managing the investment affects the «type of performance» that can be achieved. In particular, GPs with operational background outperform through an internal value creation, while those with financial background try to increase the value through external growth (i.e. through M&A deals). Different other studies draw on field of agency theory and value creation, in order to infer the connection between corporate governance and private equity, finding that solid corporate governance practices with private equity involvement offer incentives to decrease agency and free cash flow problems (Wright et al, 2009), and companies shared by private equity provide higher managerial incentives to their top management (Leslye & Oyer, 2009).

Another issue investigated in our work is the evaluation of post-IPO performances of firms participated by private equity investors. Levis (2011) carries out this analysis for private equity-backed companies listed on the London Stock Exchange, both from market and operating perspectives, finding that they record better market and accounting performances in years just after the IPO, similar to findings of Brav & Gompers (1997). However, the Continental European market, and the Italian market in particular, work differently from the Anglo-Saxon one. In this regard, Viviani et al. (2008) come to quite surprising results, finding that Italian private equity-backed firms get lower market performances after IPOs than not-backed firms.

Drawing on the insight from the literature contribution, in our paper we assess the performance of private equity and venture capital backed companies by analyzing the

performance of six variables: employment, revenues, earnings before interest, taxes, depreciation, and amortization (EBITDA), value added, net debt/net invested capital, and capital expenditure (capex)/net invested capital. We find confirmation of soundness of indicators used, also in a thorough research where the previous variables are used as predictors of the economic impact of private equity on companies (PwC, 2008). In addition, adequacy of the indicators we use can be found also in other empirical papers, which use all of these variables, or some of them (Ivan, 1989; Kaplan & Stromberg, 2009; Ivanov & Xie, 2010; Bernstein et al., 2010).

## **METHODOLOGY AND SAMPLING**

### **DATA GATHERING AND METHOD**

The sample of analysis includes Italian companies participated by private equity and venture capital firms, with partial or total interest divestiture of the latter occurring through listing. The dataset is constituted of venture capital companies quoted on the Milan Stock Exchange between 2000 and 2005, covering an investigation time horizon of ten years from 1998 to 2007: the period of analysis for each company includes the two business years before listing, the business year of listing (divestiture by the private equity firm), and the two business years after listing. As a consequence of the previous statement, we could have also included operations closed in 2008 and 2009, to assess the performances of the two following years up to 2011. Deals concluded during the financial crisis begun in 2007, are purposely not considered for different reasons. First, no relevant private equity investments have occurred in Italy in this period, and their analysis would not be statistically significant. Second, accounting data from this period are heavily biased by the liquidity effect and financial and economic crisis that affected particularly SME economic performances and investment capability more than other European firms, where the number of SMEs is relevant, but non-comparable to the Italian entrepreneurial scenario (del Junco & Brás-dos-Santos, 2009).

The objective of the analysis has a triple nature. First, to compare the performance of investigated companies with regard both to an appropriate benchmark and corresponding data at a national level on the same time horizon. Second, to compare the performances during the private equity's permanence period within the companies with the performances in the period after the private equity firm's divestiture through listing. Third, to evaluate the performances of companies from which private equity firms have disengaged after IPO process and those in which the private equity firm has maintained a major interest, even after listing. With regard to the first objective, the benchmark is constituted of 2015 firms, representing 44% of all Italian manufacturing companies with more than 20 employees, investigated by Mediobanca's study and research department, in collaboration with Unioncamere's research centre.

As mentioned in the previous section, economic impact generated both by private equity and quotation process on firms is assessed through the variations observed in some significant

income, asset, and financial parameters: employment, revenues, Ebitda, value added, ratio between net financial position divided and net invested capital, ratio between capital expenditure divided and net invested capital. As for employment, the assessment is carried out on the basis of the number of people in the workforce (directors, executive managers, employees, and workers) as of 31<sup>st</sup> December of each business year. Revenues are drawn from the consolidated income statements of each analyzed firm. Ebitda is chosen rather than Ebit, as the former is not influenced by budgetary policies concerning non-monetary costs such as depreciation and amortization. Value added is assessed as the difference between the value of production and all external costs and, thus, is a straightforward indicator of companies' vertical integration process versus outsourcing. The ratio between net financial position and net invested capital is used, rather than net financial position or leverage for the observations made in Section 2. Net financial position (Net debt) is calculated as the difference between the overall amount of financial debt and cash and equivalents. Capital expenditure represents the outflows spent to make operating investments. A positive capex is synonymous with liquidity generated – that is, divestures. A negative capex is synonymous for liquidity absorbed – that is, new investments made.

All variables taken into consideration have been directly acquired from the companies' official consolidated financial statements, drawn both from the financial statements published on Milan Stock Exchange's site ([www.borsaitaliana.it](http://www.borsaitaliana.it)), and Cerved ([www.cerved.com](http://www.cerved.com)).

For each indicator, the simple arithmetic mean has been determined, to reach synthesized values.

Finally, to measure the significance of values obtained, each simple arithmetic mean has been assessed through a *t-test*.

## **DATA SAMPLE**

The overall population constituted of the venture-backed firms listed on the Italian Stock Exchange between 2000 and 2005 is represented by 33 observations. Our sample has excluded two financial companies, as their income, asset, and financial indicators cannot be compared, and are not statistically insignificant; a technologic/internet company, because of market manipulation and statement falsification decrees against the management that have heavily biased the company's activity; and an industrial company, as just one year after listing it has been subject to propaedeutic procedure to delisting, as a result of a very unsatisfactory economic semester and loss of some trade agreements. According to these exclusions, the final sample includes 29 out of 33 total observations. The following table reports their names, as well as each firm IPO dates, reference industry, and monetary amount of the offer.

<b>Table 1 - Sample Analyzed</b>			
Company	IPO Date	Industry	Offer amount (€ mln)
Chl	Feb 06, 2000	Technologic/Internet	43.79
Fmr Art'é	May 31, 2000	Services/others	51.76
Ferretti	June 23, 2000	Industrial	152.87
Euphon	July 04, 2000	Media/Publishing	87.58
Biosearch	July 31, 2000	Biotechnological	160.65
Inferentia	Aug 01, 2000	Technologic/Internet	41.40
Acotel Group	Aug 09, 2000	Technologic/Internet	44.91
Buongiorno Vitaminic	Oct 12, 2000	Technologic/Internet	31.20
Datamat	Oct 12, 2000	Technologic/Internet	184.71
Novuspharma	Nov 09, 2000	Biotechnological	200.00
El.En	Dec 11, 2000	Technologic/Internet	35.08
Engineering	Dec 12, 2000	Technologic/Internet	99.74
Dmail	Dec 22, 2000	Retailing	25.38
Cardnet Group	Mar 02, 2001	Technologic/Internet	27.06
Giacomelli	Jul 04, 2001	Retailing	37.07
Campari	Jul 06, 2001	Food	424.69
Negri Bossi	Nov 06, 2001	Industrial	31.88
Astaldi	Jun 06, 2002	Construction	127.72
Isagro	Nov 05, 2003	Chemical/Pharmaceutical	16.00
Trevisan Cometal	Nov 05, 2003	Industrial	35.46
Dmt	Jun 22, 2004	Technologic/Internet	84.00
Panaria Group	Nov 19, 2004	Retailing	88.70
Rgi	Nov 25, 2004	Technologic/Internet	3.89
Igd	Feb 11, 2005	Industrial	152.25
Marr	Jun 21, 2005	Retailing	175.56
Guala Closurers	Nov 22, 2005	Industrial	156.63
Eurotech	Nov 30, 2005	Technologic/Internet	29.42
Safilo Group	Dec 09, 2005	Luxury/Fashion/Textile	686.00
Eurofly	Dec 21, 2005	Transports	40.32

The sample is first broken down by distinguishing industry, number of employees, and sales distribution of the companies investigated.

As for the first variable, companies running the technologic industry constitute 37.9% of the sample. This result can be attributed to the high number of IPOs from companies operating in the Internet sector, and hardware and software production industry. The industrial sector represents about 17% of the sample, distribution sector about 14%, and biotechnological sector 7%. Thus, the four sectors mentioned cover about 76% of the overall sample investigated.

With regard to the second variable, 45% of the companies are SMEs, that is – they have less than 250 members in the staff, according to the SME definition given by the European Union (2003). The firms with more than 1,000 employees are about 28%, while 17% of the sample has between 501 and 1,000 employees, and 10.5% between 251 and 500.

As for the third variable, 41% of companies record sales revenues lower than €50 million, 20% more than €2,000 million, 17% between 101 and €200 million, and 14% between 51 and €100 million.

As a general rule, it can be stated that companies in which private equity and venture capital funds have invested between 2000 and 2005, essentially belong to four main sectors, are quite diversified in terms of number of employees, and have different levels of turnover, although almost half of them can be identified as SMEs.

## **RESULTS**

The results of the analysis are presented hereafter in sub-sections.

### **SAMPLE VERSUS BENCHMARK AND ITALIAN SYSTEM PERFORMANCE**

At this level of analysis the performances of the venture-backed companies are assessed with respect to both the appropriate benchmark mentioned and national statistics. The results for the investigated sample are exhibited in Table 2, considering separately the six variables selected.

Findings indicate that companies subject to investment by private equity and venture capital firms are both strong occupation and revenue creators. Firms of the sample record an average increase in labour force by 32.1% during the period of analysis, while the reference benchmark has observed a 1% decrease, and national employment has increased by only 0.9% ([www.istat.it](http://www.istat.it)). Furthermore, backed firms seem to take advantage of direct equity investment, since their increases in turnover are, on average, 4 times higher than those observed in the benchmark sample (27% vs. 6.6%). This positive result gains even more in significance if the negative economic trend of the period investigated is considered, because of an annual GDP increase of only 1.3%. The results of economic margin indicators show that although ebitda of the benchmark sample are positive in any case (average annual growth rate of 4%), the result is even more important for venture-backed companies, with an average growth rate of 18%, and if we exclude 2000 from the analysis, companies investigated even observe a considerable average annual ebitda growth of 21.3%. The improved market positioning of the venture-backed companies is proved also by value added results, because of an average 16.6% annual growth of this economic margin against a more limited 2.7% annual growth of the benchmark. As for the net financial position to net invested capital ratio, high values observed would suggest limited soundness of these high levered and poorly-capitalized companies, as also indicated by the

literature (Back, 2005). The sizeable amount of debt can be also explained by leveraged buyout operations (LBOs) that these companies have undergone in the period of analysis. The ratio between net financial position and net invested capital for venture backed firms – excluding years 2000 and 2001 – is 0.14, much smaller than the 0.39 observed by the benchmark sample. With regard to the last indicator, during the period of analysis the benchmark observes an average annual ratio capex/net invested capital of 0.04, synonymous with a sober investment policy. The venture-backed companies notice an average annual ratio of 0.28, resulting from a higher propensity to invest and grow both internally and externally.

**Table 2. Performance comparison of the sample versus benchmark and Italian system**

<sup>1</sup> <i>Employment t test:</i> <b>1999:</b> t = 2.250 (Sig. 4.2%). <b>2000:</b> t = 2.019 (Sig. 5.9%). <b>2001:</b> t = 2.808 (Sig.1.2%). <b>2002:</b> t = 2.558 (Sig. 1.9%) <b>2003:</b> t = 2.171 (Sig. 4.3%). <b>2004:</b> t = 2.459 (Sig. 2.1%). <b>2005:</b> t = 3.522 (Sig. 0.6%). <b>2006:</b> t = 2.690 (Sig. 2.7%).
<sup>2</sup> <i>Revenue t test:</i> <b>1999:</b> t = 2.567 (Sig. 2.3%). <b>2000:</b> t = 2.981 (Sig. 0.9%). <b>2001:</b> t = 2.104 (Sig. 5.1%). <b>2002:</b> t = 2.706 (Sig. 1.3%) <b>2003:</b> t = 3.281 (Sig. 0.5%). <b>2004:</b> t = 2.460 (Sig. 2.1%). <b>2005:</b> t = 3.319 (Sig. 0.8%). <b>2006:</b> t = 2.565 (Sig. 2.3%).
<sup>3</sup> <i>Ebitda t test:</i> <b>1999:</b> t = 1.14 (Sig. 26.8%) <b>2000:</b> t = -0.73 (Sig. 47.5%). <b>2001:</b> t = 1.701 (Sig. 11.1%). <b>2002:</b> t = 1.050 (Sig. 30.6%) <b>2003:</b> t = 2.260 (Sig. 4.1%). <b>2004:</b> t = 2.760 (Sig. 1.8%). <b>2005:</b> t = 1.163 (Sig. 27.2%). <b>2006:</b> t = 1.553 (Sig. 16.4%).
<sup>4</sup> <i>Value added t test:</i> <b>1999:</b> t = 0.68 (Sig. 50.7%). <b>2000:</b> t = -0.47 (Sig. 64.8%). <b>2001:</b> t = 0.711 (Sig. 48.7%). <b>2002:</b> t = 2.036 (Sig. 5.5%) <b>2003:</b> t = 2.010 (Sig. 6.7%). <b>2004:</b> t = 3.590 (Sig. 0.4%). <b>2005:</b> t = 3.466 (Sig. 0.6%). <b>2006:</b> t = 2.494 (Sig. 3.7%).
<sup>5</sup> <i>Net financial position/net invested capital t test:</i> <b>1999:</b> t = -0.07 (Sig. 94.6%) <b>2000:</b> t = -1.3 (Sig. 21.6%) <b>2001:</b> t = -0.87 (Sig. 39.7%). <b>2002:</b> t = 1.14 (Sig. 26.8%) <b>2003:</b> t = 2.56 (Sig. 2.4%). <b>2004:</b> t = 1.696 (Sig. 11.8%). <b>2005:</b> t = 0.55 (Sig. 59.5%). <b>2006:</b> t = 0.09 (Sig. 92.9%).
<sup>6</sup> <i>Capex /net invested capital t test:</i> <b>1999:</b> t = 4.062 (Sig. 0.1%). <b>2000:</b> t = 4.740 (Sig. 0.0%). <b>2001:</b> t = 3.299 (Sig. 0.4%). <b>2002:</b> t = 4.034 (Sig. 0.1%) <b>2003:</b> t = 3.283 (Sig. 0.5%). <b>2004:</b> t = 2.137 (Sig. 5.8%). <b>2005:</b> t = 2.137 (Sig. 5.4%). <b>2006:</b> t = 2.525 (Sig. 3.6%).

## BEFORE AND AFTER PRIVATE EQUITY FIRMS' DIVESTURE PERFORMANCES

In this section the results of the two years preceding listing (*2 pre*, and *1 pre*), the listing year (*listing*), and the two years following listing (*1 post*, and *2 post*) are assessed to infer the impact generated on the company, both by the private equity fund and listing process. Table 3 shows the results.

We have already indicated the positive effect of venture-backed companies in terms of workforce and revenues generation. We can now state that this phenomenon is particularly appreciable in the listing year and in the two years following listing for both variables, with revenue and employee growth that are more than double in post- vs. pre-listing period. More specifically, these companies have increased the number of employees to a doubled rate in the

listing year and in the first year after listing. The private equity firms usually restrain the hiring policy in the period before listing in order not to worsen economic margins.

<b>Table 3 . Performance comparison before and after private equity firm's divesture.</b>	
<sup>7</sup> <i>Employment t test:</i>	<b>2 Pre:</b> t = 2.172 (Sig. 4.3%). <b>1 Pre:</b> t = 3.317 (Sig. 0.3%). <b>Listing:</b> t = 2.395 (Sig. 2.5%). <b>1 Post:</b> t = 3.480 (Sig. 0.2%). <b>2 Post:</b> t = 2.204 (Sig. 3.6%).
<sup>8</sup> <i>Revenue t test:</i>	<b>2 Pre:</b> t = 3.184 (Sig. 0.5%). <b>1 Pre:</b> t = 4.537 (Sig. 0.0%). <b>Listing:</b> t = 2.931 (Sig. 0.7%). <b>1 Post:</b> t = 4.231 (Sig. 0.0%). <b>2 Post:</b> t = 2.826 (Sig. 0.9%).
<sup>9</sup> <i>Ebitda t test:</i>	<b>2 Pre:</b> t = 1.645 (Sig. 11.6%). <b>1 Pre:</b> t = 3.164 (Sig. 0.4%). <b>Listing:</b> t = -0.097 (Sig. 92.3%). <b>1 Post:</b> t = 0.699 (Sig. 49.2%). <b>2 Post:</b> t = 1.630 (Sig. 11.5%).
<sup>10</sup> <i>Value added t test:</i>	<b>2 Pre:</b> t = 0.175 (Sig. 86.3%). <b>1 Pre:</b> t = 2.205 (Sig. 3.6%). <b>Listing:</b> t = 0.026 (Sig. 97.9%). <b>1 Post:</b> t = 0.974 (Sig. 33.9%). <b>2 Post:</b> t = 3.848 (Sig. 0.1%).
<sup>11</sup> <i>Net financial position/net invested capital t test::</i>	<b>2 Pre:</b> t = 3.719 (Sig. 0.1%). <b>1 Pre:</b> t = 1.066 (Sig. 29.6%). <b>Listing:</b> t = -1.437 (Sig. 16.4%). <b>1 Post:</b> t = -0.505 (Sig. 61.8%). <b>2 Post:</b> t = 1.682 (Sig. 10.5%).
<sup>12</sup> <i>Capex /net invested capital t test:</i>	<b>2 Pre:</b> t = 2.461 (Sig. 2.1%). <b>1 Pre:</b> t = 4.368 (Sig. 0.0%). <b>Listing:</b> t = 5.573 (Sig. 0.0%). <b>1 Post:</b> t = 3.483 (Sig. 0.2%). <b>2 Post:</b> t = 5.504 (Sig. 0.0%).

Results of EBITDA and value added are both particularly interesting, with slightly lower increases in the two years preceding listing for the latter variable. An important remark can be made according to the positive results achieved. They would suggest that private equity funds benefit from an IPO process thanks to the extremely high ebitda and value added margins observed, to then divest and achieve a substantial capital gain, compared to other divesture typologies.

Results on the fifth indicator are quite easily expectable. Private equity funds usually increase the companies' leverage in the acquisition stage to raise enough financial resources to acquire the company itself. Two years before listing, the net financial position/net invested capital ratio is considerably high, to partially decrease the year before listing. Afterwards, the cash flows generated on the one hand, and money raised through IPO procedure on the other hand, improve the ratio to the extent that it gets negative values (-0.24), implying a liquidity excess, which is also confirmed after listing (*I post*, -0.09). Connected to the previous indicator, capex/net invested capital ratio shows how companies resort more, and more progressively, to the cash flow leverage. The main issue to stress here is that investment activity still represents a major task in the year following listing, while two years after listing the ratio starts dropping, as companies in this phase commonly pursue a consolidation policy after years of substantial investments.

## PRIVATE EQUITY DISENGAGEMENT VS. MAJOR INTEREST PERFORMANCES

The third purpose of the investigation delves into detail by breaking down the sample into two sub-samples: cluster a, including companies in which private equity firms have maintained a major interest after the IPO process (absolute or relative majority in the company or divestment lower than 30% of their initial interest in the company); and cluster b, comprising companies that have seen private equity firms disengagement after listing, that is investors have divested more than 50% of their initial interest. 17 out of the 29 companies of the sample fall within Cluster a, and 12 within Cluster b. To assess the possible different performances of the two groups of companies, the analysis of the years preceding the IPO process (*1 pre*, *2 pre*) is irrelevant, while it is essential for the examination of the years after listing, since it permits to establish whether the permanency of the private equity firm affects, or not, the corporate performances. However, it must be considered that this level of analysis is essentially qualitative, as the limited number of observations in the two clusters does not make it possible to infer statistically dependable findings that are, therefore, only briefly described as follows.

In the two years following listing, especially the second one, the 17 companies belonging to cluster a records both larger increase in the members of employees and revenues, but also in the ebitda and value added margins, than the 12 firms of cluster b, even though both groups observe a considerable employment increase. It is noteworthy that the positive trend for employment rate and revenues can be observed in the years preceding the listing as well, although not comparable to figures observed after listing. Profitability analysis conducted for ebitda is almost equivalent to that of value added, for which positive performances can be noticed for both clusters of companies. However, higher generation of value added by companies, in which private equity funds still retain a major interest after listing, can be observed. The lower profitability performances recorded by companies from which equity funds disengage can be, in their turn, attributed to the smaller growth in terms of employment rate compared to firms in which investors retain a major interest, which anyway lead to positive growth rates.

Results about the two last indicators are worth mentioning, as they show that in the period following the IPO process, companies for which the private equity's divesture has been relevant scarcely resort to financial debt. It can be also observed that companies belonging to cluster a notice an almost nonexistent financial leverage the year before listing (*1 pre*), while companies belonging to cluster b are highly leveraged so, for the latter, listing could represent a major source to repay large part of their debt. With regard to capex/net invested capital ratio, it would emerge that companies in which disengagement of private equity funds has been relevant, absorb more financial resources to support the investment activity. However, companies belonging to cluster a are those which absorb more financial resources before listing. It is interesting to point out that in the listing year, the firms in which private equity firms have maintained a major interest, which have at their disposal greater liquidity than financial debt just

thanks to private equity contribution, invest substantial funds since they are not required to reduce their leverage levels.

## **DISCUSSION, CONCLUSION AND LIMITATIONS**

The popularly held belief still attributes to private equity participation in companies almost exclusively a financial importance (Chen et al., 2002). The work conducted reverses the common opinion, also attributing relevant managerial implications. Initially, it could be affirmed that involvement of equity investors and funds has an extremely positive effect on the performance of participated companies. These results emerge both with reference to an appropriate benchmark investigated and national statistics, as well as interpreting the performances of companies in the years preceding listing and in the years following listing procedure. While most of results found can be questioned, a clear contribution that private equity investments can offer to Italian entrepreneurial scenario can be highlighted. Capital raised in the market has surely made it possible to relieve the financial structure of Italian companies, which are traditionally bank-oriented organizations, distinguished by high indebtedness ratios (Teti & Perrini, 2012). The economic involvement of equity investors first and listing operations then can play a major role in strengthening the financial structure of enterprises, in some cases even generating liquidity excess as a result of the considerable reduction of financial debt (Bruton et al., 2010). Furthermore, private equity involvement would also act as an investment driver, since the ratio between capital expenditure and net invested capital reveals an aptitude to resort consistently to cash flow leverage to fuel the corporate expansion (Grewgroy et al., 2005). The important private equity contribution would also emerge by the investigation of the different performances observed by those companies in which private equity firms have retained major interest after firm listing, compared to those in which it has become fractional or nonexistent after the IPO. Although statistical dependability of these last results is not strong, corroboration is given by similar works on the same topic that confirm our insights that larger increases in revenues and employees, as well as in economic margins, can be observed in companies in which private equity investors have maintained a significant share after listing, thanks to the managerial support, know-how, entrepreneurial skills and network they are able to bring (Wood & Wright, 2009). For the reasons explained in the methodology section, this work has not covered specific direct equity operations occurred as from the outset of the financial crisis in 2007. For the sake of completeness, other research conducted in countries where the number of private equity involvement in companies has been respectable also during the financial turmoil period, indicate that private equity backed firms have performed better than other companies in terms of growth, profitability, productivity and working capital also in this period (Wilson et al., 2012). Nevertheless, we must stress that the just mentioned results refer to a work that considers just the UK market where volume and consistency of private equity operations and also backed

companies are quite different from those of other Continental European countries, and especially Italy, for their structure, size and entrepreneurial culture (Kontinen & Ojala, 2011).

Our results also indicate a positive impact of private equity involvement in the corporate governance practices of companies. While for most results of our papers, we find confirmation in the literature on this matter, it must be pointed out that findings are open to academic discussion. For instance, Goossens et al. (2008), find that the change of ownership does not strongly impact operating efficiency of companies. These conclusions are different to a certain extent from ours, as we show that when private equity investors maintain a major interest in companies after listing procedure, specific governance structure of the latter improves, and their performances also benefit from this specific aspect.

Despite the apparently encouraging results, the present work has different limitations that must be stressed. It is a well-known fact that the Italian industrial system is made up of a relatively low amount of large and medium-large sized enterprises, as it is widely represented by SMEs (Petroni, 1999). The reduced size of companies has represented in the past a strong point of the Italian system, since it made it possible to assure higher flexibility to production system and greater adaptability to demand variations (Dell'Acqua et al., 2012). In this specific historical and economic period, this feature can represent an important limitation towards an internationalized business. Small companies must deal with issues related to efficiency and difficulties concerning new products development and in particular must cope with financial institutions that in the crisis period tend to close off most avenues of easy money to smaller firms (Dmitry et al., 2012). Thus, Italian enterprises have limited instruments to face internationalization and compete with difficulty on global markets where competition is extremely fierce and hardly manageable. While on the one hand, private equity firms have demonstrated to be companies' growth accelerator, and listing – through the divestiture of part of the private equity' interests – can contribute to consolidating the corporate expansion, on the other hand, it must be stressed that this equity operations are still extremely limited in Italy, as well as in most Continental European entrepreneurial contexts (Revest & Sapio, 2012). Although statistical tests conducted seem encouraging, it must also be pointed out that as a narrow sample of companies is used – although covering almost 90 per cent of the overall operations conducted in the examined period – results obtained can be considered inadequate to some extent. The analysis has been carried with «resources available» in terms of potential observations to be investigated, considering that the number of equivalent operations in Anglo-Saxon markets is incommensurably superior. However, the trend delineated by private involvement in the enterprises equity is particularly promising if compared to similar analyses conducted, as indicated in the text, but should be corroborated by further studies. For this reason, additional analysis in the field, extended to other European entrepreneurial scenarios, is highly encouraged, to confirm or confute the results obtained in this paper.

---

## REFERENCES

- Acharya, V.V., O. Gottschalg, M. Hahn & C. Kehoe (2012). Corporate Governance and Value Creation: Evidence from Private Equity. *Review of Financial Studies*, Forthcoming.
- Achleitner, A.K., B. Reiner, E. Nico, F. Christian T. Florian (2010). Value Creation Drivers in Private Equity Buyouts: Empirical Evidence from Europe. *Journal of Private Equity*, 13(2), 17-27.
- Ahrens, T., I. Filatotchev & S.Thomsen (2011). The research frontier in corporate governance. *Journal of Management and Governance*, 15(3), 311-325.
- Axelson, U., P. Stromberg & M.S. Weisbach (2009). Why Are Buyouts Levered? The Financial Structure of Private Equity Funds. *The Journal of Finance*, 64(4), 1549-1582.
- Ayyagari, M., T. Beck & A. Demirguc-Kunt (2007). Small and Medium Enterprises across the Globe. *Small Business Economics*, 29(4), 415-434.
- Back, P. (2005). Explaining financial difficulties based on previous payment behavior, management background variables and financial ratios. *European Accounting Review*, 14(15), 839-868.
- Bernstein, S., J. Lerner, M. Sorensen & P. Stromberg (2010). Private Equity and Industry Performance. *Harvard Business School working paper*, 10-045, 1-48.
- Brav, A. & P.A. Gompers (1997). Myth or Reality? The Long-Run Underperformance of Initial Public Offerings: Evidence from Venture and Nonventure Capital-Backed Companies. *The Journal of Finance*, 52(5), 1791-1821.
- Bruton, G.D., I. Filatotchev, S. Chahine & M. Wright (2010). Governance, Ownership Structure and Performance of IPO Firms: the Impact of Different Types of Private Equity Investors and Institutional Environments. *Strategic Management Journal*, 31(5), 491-509.
- Chen, S.S., K.W. Ho, C. Lee & G. Yeo (2002). Wealth Effects of Private Equity Placements: Evidence from Singapore. *The Financial Review*, 37(2), 165-183.
- Chun, R. (2005). Corporate reputation: Meaning and measurement. *International Journal of Management Reviews*, 7(2), 91-109.
- Del Junco, J., & J. Brás-dos-Santos (2009). How different are the entrepreneurs in the European Union internal market? - An exploratory cross-cultural analysis of German, Italian and Spanish entrepreneurs. *Journal of International Entrepreneurship*, 7(2): 135-162.
- Dell'Acqua, A., L.L. Etro, E. Teti & P. Barbalace (2012). Market value and corporate debt: the 2006–2010 international evidence. *Applied Financial Economics*, 23(6), 495-504.
- Diller, C. & C. Kaserer (2009). What Drives Private Equity Returns? Fund Inflows, Skilled GPs, and/or Risk? *European Financial Management*, 15(3), 643-675.
- Dmitry, K., O. Kristie & L. David (2012). International entrepreneurship, venture capital networks, and reinvestment decisions. *Journal of International Entrepreneurship*, 10(1), 1-24.
- Gossens, L., S. Manigart & L. Meuleman (2008). The Change in Ownership After a Buyout: Impact on Performance. *Journal of Private Equity*, 12(1), 31-41.
- Gregory, B.T., M.W. Rutherford, S. Oswald & L. Gardiner (2005). An Empirical Investigation of the Growth Cycle Theory of Small Firm Financing. *Journal of Small Business Management*, 43(4), 382-392.
- Ivan, B. (1989). Financial Performance of Leveraged Buyouts: An Empirical Analysis. *Journal of Business Venturing*, 4(4), 263-280.
- Ivanov, V.I. & F. Xie (2010). Do Corporate Venture Capitalists Add Value to Start-Up Firms? Evidence from IPOs and Acquisitions of VC-Backed Companies. *Financial Management*, 39(1), 129-152.
- Jelic, R. & M. Wright (2011). Exits, Performance, and Late Stage Private Equity: the Case of UK Management Buyouts. *European Financial Management*, 17(3), 560-593.

- Kaiser, K. & C. Westarp (2010) Value Creation in the Private Equity and Venture Capital Industry. *INSEAD working paper*, 19, 1-66.
- Kaplan, S. & P. Stromberg (2009). Leveraged Buyouts and Private Equity. *Journal of Economic Perspectives*, 23(1), 121-146.
- Kontinen, T. & A. Ojala (2011). Social capital in relation to the foreign market entry and post-entry operations of family SMEs. *Journal of International Entrepreneurship*, 9(2), 133-151.
- Lerner, J., M. Sorensen & P. Stromberg (2011). Private Equity and Long-Run Investment: The Case of Innovation. *The Journal of Finance*, 66(2), 445-477.
- Leslie, P. & P. Oyer (2009). Managerial Incentives and Value Creation: Evidence from Private Equity, *working paper*, EFA 2009 Bergen Meetings Paper, 1-47.
- Levis, M. (2011). The Performance of Private Equity-Backed IPOs. *Financial Management*, 40(1), 253-277.
- Lu, J.W. & P.B. Beamish (2006). SME internationalization and performance: Growth vs. profitability. *Journal of International Entrepreneurship*, 4(1), 27-48.
- Matthews, G., M. Bye, & J. Howland (2009). Operational Improvement: The Key to Value Creation in Private Equity. *Journal of Applied Corporate Finance*, 21(3), 21-27.
- Petroni, A. (1999). Mapping the Diffusion of Advanced Risk Management Practices Among Italian Small- and Medium-Sized Firms. *Risk Management & Insurance Review*, 2(3), 125-140.
- PwC (2008). The Economic Impact of Private Equity and Venture Capital in Italy. PricewaterhouseCoopers, 1-23.
- Revest, V. & A. Sapio (2012). Financing technology-based small firms in Europe: what do we know? *Small Business Economics*, 39(1), 179-205.
- Teti, E. & F. Perrini (2013). The role of institutional investors on the governance of SMEs: Evidence from an Italian Perspective. *European Journal of International Management*, 7, forthcoming.
- Viviani, D., M. Giorgino & R. Steri (2008), Private Equity-Backed IPOs and Long-Run Market Performance Analysis of Italian Firms. *Journal of Private Equity*, 11(3), 50-60.
- Wang, Y. & M. Campbell (2010). Do Bankruptcy Models Really Have Predictive Ability? Evidence using China Publicly Listed Companies. *International Management Review*, 6(2), 77-82.
- Wilson, N., M. Wright, D.S. Siegel & L. Scholes (2012). Private Equity Portfolio Company Performance During The Global Recession. *Journal of Corporate Finance*, 18(1), 193-205.
- Wood, G. & M. Wright (2009). Private equity: A review and synthesis. *International Journal of Management Reviews*, 11(4), 361-380.
- Wright, M.K. Amess, K., C. Weir & S. Girma (2009). Private Equity and Corporate Governance: Retrospect and Prospect. *Corporate Governance: An International Review*, 17(3), 353-357.
- Wright, M., A. Lockett, S. Pruthi, S. Manigart, H. Sapienza, P. Desbrieres & U. Hommel (2004). Venture Capital Investors, Capital Markets, Valuation and Information: US, Europe and Asia. *Journal of International Entrepreneurship*, 2(4), 305-326.