

Impact of Sociocultural & Skill Related Factors for Success of Micro Entrepreneurs



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Microenterprise plays a crucial role in the economic development of any economy. The present study measures micro entrepreneurial success in terms of sociocultural and skill related factors of Indian micro entrepreneurs. A set of four dimensions like- education, prior experience, communication and leadership skills of micro entrepreneurs, is identified from prior research works. A survey is used to collect data of all four dimensions following its degree of influence of these dimensions on micro entrepreneurial success in Jharkhand state. Finally, a multiple regression analysis is carried out to examine the relationship between these four dimensions and micro-entrepreneurial success.

Keywords: Micro entrepreneurs, socio-cultural factors, skill related factors, success.

1. Introduction

The Micro, Small and Medium enterprises (MSMEs) play a pivotal part in the overall economic growth of India. It not only plays an important function in offering large scale employment opportunities at relatively lower cost than large industries. It also aids in the industrialization of rural and backward areas, thereby, decreasing regional imbalances. MSMEs are complementary to large industries as ancillary units and contribute enormously to the socioeconomic development of the country. MSMEs constitute more than 80% of the total number of industrial enterprises and supports industrial development in the country. MSMEs contribute nearly 45% to the manufacturing sector and about 40% to the Indian export sector. MSMEs contribution to the Indian GDP is approximately 8% and the sector has registered a growth pace of nearly 11%. (FICCI MSME Summit, 2012). According to the Final Report of the Fourth All India, Census of Micro, Small and Medium Enterprises published in 2006-07 of the number of enterprises registered, microenterprises alone is about 15 lakhs which is about 95% of the total MSME sector. The MSME generates about 93 lakhs employment of which microenterprises alone generate about 65 lakhs employment which is about 70% of the total MSME sector and the gross output of the MSME sector is around 7 crores of which microenterprises alone generate about 3 crores which is about 44% of the total MSME sector. MSME promotes the formation of micro and small enterprises in the country with the intention of creating self-employment and upgrading the skills of living and potential entrepreneurs.

According to the Micro, Small and Medium-Scale Enterprise Development Act (MSMED Act, 2006) of the Government of India, an enterprise is categorized under microenterprise if it has an investment up to Rs 25 lakhs in plant and machinery, excluding land and buildings, and Rs 10 lakhs in manufacturing and service rendering enterprises, respectively.

Small business success can be delineated in several ways by different scholars. Scholars like (Cooper, 1985; Hisrich, 1990; Krueger, 1993; Lussiers and Pfeifer, 2001) found that experience of an entrepreneur as a factor affecting business success. Masuo *et al.* (2001) said that small business success is normally specified in terms of economic or financial measures which include return on assets, profits, sales, employees and survival rates; and no financial measures, such as customer satisfaction, personal development and personal realization. Panda (2008) defined entrepreneurial success in terms of growth in sales turnover, growth in profit after tax and return on net worth over a period of five years. The present study measures entrepreneurial success in terms of business outlook. Business outlook has also been recognized in the existing literature as an important variable representing entrepreneurial success (Cooper and Dunkelberg, 1986; Chaganti *et al.*, 1995; and Ehigie and Umoren, 2003). Dafna (2008) suggested that entrepreneurs practice leadership skills that contribute to organizational changes and innovations in their business venture. Adejimola (2008) stressed the importance of developing communication skills and stated that entrepreneurs can achieve effective communication within and outside their enterprises by examining the purpose of communication. Abbasi *et al.* (2011) establish that communication skills are vital for entrepreneurship as it helps to compete in the marketplace.

The present study aims to measure micro entrepreneurial success in terms of sociocultural and skill related factors of Indian micro entrepreneurs. A set of four determinants like- education, prior experience, communication and leadership skills of micro-entrepreneurs, is identified from prior research works.

2. A Review of Related Literature

2.1 Education

The education of an entrepreneur has been used in a number of previous studies as one of the key factors that affect firm's performance and success. Education helps entrepreneurs making good judgments, best use of information, exploit

opportunities well; all contributing to firm growth, development and success. Cooper (1981) found that education is one of the antecedents that lead to the decision to start an enterprise which ultimately put an impact on performance and success. Danneels (2008) said that the education of entrepreneurs tends to be a path to business success as formal education can add to the 'absorptive capacity' of owners such as confidence, psychology, knowledge and skills. Bates (1990) stated that the educational level of the owner is certainly and somewhat related to the firm's longevity, which is an indicator of success. Box *et al.* (1993) indicated that there is a positively associated relationship between high education levels of entrepreneurs and performance of manufacturing firms in Oklahoma. Storey (1994) said the level of education acquired by the business owner may no doubt be an end in itself, but it can likewise boost the entrepreneur's motivation and ability to use a number of skills that are useful in managing enterprises. Yusuf (1995) reports that one of the success factors in small businesses was the education levels of the owner, who can help firms to survive and manage in a complex environment and can, maintain the line profitable. Riyanti (2004) identified age, education, experience, innovative behaviour and work satisfaction as some of the important factors influencing the success of small-scale entrepreneurs in Indonesia. Casson (1982c) said that the combination of knowledge and prior-qualifications can help to improve the confidence of owner/managers. The managers' skills and competencies are linked to job success.

2.2 Prior Working Experience

Experience gives specific knowledge and skills to entrepreneurs. Experience from past and present work can offer both general and specific knowledge and skills, including management, teamwork, sales, cooperation and industrialization. Yusuf (1995) had pointed out that previous experience of entrepreneurs is an unmatched factor that can be a source of sustainable competitive advantage and also for better functioning of firms. According to Schiller and Crewson (1997) the dominant predictors of success for women entrepreneurs are industry experience and years of self-employment. According to Harada (2003) that an entrepreneur's previous knowledge of the market, previous experience in the industry and related business experience all have a positive effect on turnover, supporting (Aldrich and Martinez, 2001) found that a certain amount of prior knowledge is required for success, either through training, experience or through formal education (Simpson *et al.*, 2004). Box *et al.* (1993) in their study of 300 manufacturing firms in Tulsa (USA) found that prior start-up and years of experience of entrepreneurs were significantly correlated with performance. Working experience in management is one of the success factors for firms (Schutjens and Wever, 2000). It can therefore be concluded that longer experience of entrepreneurs can expect to impact firm performance.

2.3 Leadership Skill

Leadership is often defined as a process through which power is used to direct and coordinate the activities of group members to meet a goal (Yukl and Van, 1992; and Yukl, 2006). Leadership essentially involves a relationship of mutual loyalty between a leader and a group of followers in reaching of a collective goal. Effective leaders are able to recognize outstanding group performances like- the founding and growing of successful entrepreneurial firms. Successful entrepreneurs must have a clear mission, purpose and values to be divvied up and sold to others (Thompson, 1999) and are good leaders (Cutting and Kouzmin, 2000). Jong and Hartog (2007) observed that leadership is a pertinent skill factor that contributes significantly to business success.

2.4 Communication Skill

Communication is also viewed as an all important skill of entrepreneurs. According to Montagno *et al.* (1986), suggested that communication concept must be regarded as a multidimensional which has some aspects that are regarded as important like an entrepreneurs should be able to discuss, explain, market and sell their good or service. It is also important to be able to interact effectively with their business team. Also, entrepreneurs need to be able to express themselves clearly both verbally and in writing.

3. Data and Methodology

The population for this study includes the MSMEs registered with the District Industries Centre (DIC) Ranchi. However, a list comprising only 101 microenterprises was obtained from the DIC Ranchi. The simple random sampling procedure was adopted to select the microenterprises for collecting data as it was not economical to survey all enterprises. A sample size of 80 of the finite population of 101 microenterprises was computed at 5% confidence interval, allowing 95% level of precision. A primary survey was conducted by administering a questionnaire to the owners of the sample enterprises (101) in Ranchi by randomly selecting them from the list of DIC. The questionnaire was administered to them through face to-face interview after taking prior appointments.

Survey Instrument

A questionnaire was constructed to meet the research objectives addressed in the study. The questionnaire contains questions on sociocultural and skill related factors. A set of four dimensions, namely, education, prior experience, communication and leadership skills of an entrepreneur were identified from prior research works and preliminary interviews with experts. The response to each question is supposed to reflect the degree of influence of a dimension on micro entrepreneurial success. The question has five response categories ranging from 'very low' to 'very high'. The reliability of the developed questionnaire

was tested by deploying the statistical test Cronbach's alpha to the responses received from 80 respondents selected randomly. The Cronbach's alpha was found to be 0.646 that is considered as a good sign of reliability of the questionnaire (Santosh, 1999).

The present study performs multiple regression analysis to examine the relationship between the factors like education, prior experience, communication and leadership skills and micro entrepreneurial success.

The following regression model was used:

$$\text{Entrepreneurial Success} = \alpha + \beta_1 (\text{Education}) + \beta_2 (\text{Prior experience}) + \beta_3 (\text{Communication}) + \beta_4 (\text{Leadership}) + \varepsilon_1$$

Thus, the four factors like education, prior experience, communication and leadership skills are considered as independent variables and micro entrepreneurial success (measured as chance of success of enterprises on a 5-point rating scale) as the dependent variable.

4. Results and Discussion

The problem of multicollinearity needs to be dealt in multiple regression analysis, i.e., regression coefficients become less reliable as the degree of correlation between the independent variables increases. Table 1 shows the estimation of the business success using original variables showed moderately correlated among the independent variables.

Table 1 Correlation Coefficient of Socio-Cultural and Skill-Related Factors Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.166	.595		-.278	.782
	Edu	.463	.073	.588	6.378	.000
	Exp	-.179	.171	-.084	-1.046	.299
	Comm	.260	.134	.170	1.939	.056
	Leadership	.122	.118	.088	1.038	.303

a. Dependent Variable: Success

Table 2 represents the regression results. The value of Durbin-Watson statistic for the regression indicates that the residuals do not suffer from serial autocorrelation at 1% significance level. The large value of F-statistics in Table 3 shows that the explanatory variables included in the model collectively had significant impact on success.

Table 2 Regression Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.748 ^a	.560	.536	.64331	2.458

a. Predictors: (Constant), Leadership, Exp, Comm, Edu

b. Dependent Variable: Success

Table 3 Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	39.449	4	9.862	23.830	.000 ^b
	Residual	31.039	75	.414		
	Total	70.487	79			

The positive coefficient of leadership skill signifies that it positively affects micro entrepreneurial success. The result is in line with the finding that leadership skills can lead to organizational changes and innovations in business ventures (Dafna, 2008). The finding is in line of Choubey, Sinha and Pattanayak (2013) as they say that high leadership skill are likely to become more successful in running their enterprises. Similarly, the positive coefficient of communication indicates that the more is the communication skill of an entrepreneur the greater is the micro entrepreneurial success. Thus, the ability to communicate and convince the customers leads to successful running of enterprise. This is in line with the findings of Abbasi *et al.* (2011), who pointed out that communication skills are important to compete in market as an entrepreneur. This finding is in line of Choubey, Sinha and Pattanayak (2013) as they pointed out that entrepreneurs possessing effective communication shall enhance the chance of micro entrepreneurial success. Further, the positive coefficient of education signifies that it positively affects micro entrepreneurial success. This is in line with the findings of Thapa (2007) who said that secondary or above level

of education of an entrepreneur have effective influence in the household income. The household income can be increased by becoming successful entrepreneur or by making the business success.

Surprisingly, prior experience of an entrepreneur shows a negative but insignificant coefficient which implies that prior experience is negatively associated with micro entrepreneurial success. Thus, it can be attributed that for the entrepreneurs in Jharkhand, prior experience of an entrepreneur is not enough to lead to micro entrepreneurial success.

5. Conclusion

This study contributes to the literature by identifying the various sociocultural and skill related factors, which may influence the micro entrepreneurial longevity and success in the socioeconomic and cultural setting of the state of Jharkhand. The study identifies four key sociocultural and skill related factors, namely, leadership skills, communication skills, education and prior experience, that affect micro entrepreneurial success. The findings suggest that entrepreneurs having higher education and effective communication skill are likely to become more successful in running their enterprise. Similarly, it is also observed that micro entrepreneurs possessing leadership skill shall enhance the chance of micro entrepreneurial success. On the other hand, the findings suggest that prior experience is not enough for micro entrepreneurial success. Thus, it is clear that micro entrepreneurial success depends on external skills of entrepreneurs and therefore adequate training on skill development should be imparted in the Jharkhand region for entrepreneurship development. Thus, the present study has important implications for the entrepreneurs as well as policy makers.

The study has laid groundwork to explore the potential determinants affecting the success of microenterprises in Jharkhand, on which a more detailed evaluation can be made. There have been suggestions during the study that possessing certain skill sets does impact micro entrepreneurial success side by side education is also required. The list of factors considered for the study may not be exhaustive and hence can be further improved by including some more sociocultural, psychological and business attributes that influence micro entrepreneurial success. Further work is required to incorporate various new variables to better reflect the sociocultural, psychological traits, business and skill aspects. This will help to develop new relationships for the successful running of microenterprises in Jharkhand.

6. Reference

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