

# Do Antecedents influence Effectual Behaviour and Performance? - Evidence from Select Indian MSMEs Clusters



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**Purpose:** The purpose of this paper is to understand the effect of Entrepreneurial Antecedents on Effectual Behaviour of Entrepreneurs and Performance in the Context of Select Indian MSMEs Clusters.

**Design/Methodology/Approach** – The proposed framework is tested through analysis of a sample of 63 MSMEs of the Auto Component Cluster and Belgaum Foundry Clusters from India.

**Originality/Value** – The study enriches the importance of Antecedents of the Entrepreneurs in influencing Effectual Behaviour and Firm Performance in the context of an emerging economy and MSME Cluster Environment where studies are limited.

**Keywords:** MSMEs, Performance, Antecedents, Effectual Behaviour

## 1. Introduction

For firms, cooperation with others; bigger or not firms, both in horizontal and vertical networks, becomes a strategic alternative and allows them to make the most of the competitive advantages of their associated firms. If a large number of firms are involved, relationships can be created among them so as to form a compact network. These inter organisational networks normally develop in a specific geographical Location in the form of clusters.

Clusters are geographic concentrations of interconnected companies and institutions in a particular field. Clusters encompass an array of linked industries and other entities important to, competition. They include, for example, suppliers of specialized inputs such as components, machinery, and services, and providers of specialized infrastructure. Clusters also often extend downstream to channels and customers and laterally to manufacturers of complementary products and to companies in industries related by skills, technologies, or common inputs. Untangling the paradox of location in a global economy offers insights into how companies continually create competitive advantage. Finally, many clusters include governmental and other institutions—such as universities, standards-setting agencies, think tanks, vocational training providers, and trade associations—that provide specialized training, education, information, research, and technical support.

The main body of entrepreneurship research is based on the rational decision making models employed by neoclassical economics. For example, Drucker (1998) claims that most opportunities are discovered through a purposeful search process. Consistent with this approach, competitive advantage for emerging firms is conceptualized to be largely determined by competencies related to finding and exploiting opportunities and the resources controlled by the firm (e.g., Chandler & Jansen, 1992; Cooper, Gimeno- Gascon, & Woo, 1994). With the assumptions of neoclassical economics underpinning this predominant theoretical base, most entrepreneurship researchers have assumed that individuals engage in rational goal-driven behaviors when pursuing entrepreneurial opportunities (e.g., Bird, 1989). Thus, the predominant entrepreneurial decision model taught in many business schools is a goal-driven, deliberate model of decision making referred to by Sarasvathy (2001) as a causation model. Sarasvathy (2001), in contrast, argued that individuals also employ effectuation processes when pursuing entrepreneurial opportunities. When using effectuation processes, entrepreneurs start with a generalized aspiration and then attempt to satisfy that aspiration using the resources they have at their immediate disposal (i.e., who they are, what they know, and who they know). The overall objective is not clearly envisioned at the beginning, and those using effectuation processes remain flexible, take advantage of environmental contingencies as they arise, and learn as they go. Effectuation is relevant to the areas of entrepreneurship research and teaching because it questions the universal applicability of causation-based models of entrepreneurship (Stevenson & Gumpert, 1985) to the entrepreneurial process (Morris, Kuratko, & Covin, 2008). Thus, effectuation (Sarasvathy) represents a paradigmatic shift in the way that we understand entrepreneurship. Since the introduction of effectuation (Sarasvathy), however, only a few researchers have attempted to empirically model and test effectuation. This lack of research is surprising because effectuation suggests how individuals might act in situations in which the assumptions of causal strategy are not met and because effectuation research has the potential of making a significant contribution to the entrepreneurship literature.

## 2. Review of Literature

### Entrepreneurs and Antecedents

According to Burns (2011) Values, attitudes and behaviours impact the factors of antecedents. Contradiction to this Storey (1994), mentioned that those factors have no influence in entrepreneurial ventures. As per the study of Burns (2011), it was

found that Ethnicity, Social status, type of schooling, and personal behaviour have influences on the entrepreneurship. Chen et al. (1998) focussed on self-efficacy and commented that there is a high level of self-efficacy in prosperous entrepreneurs. Urban (2010) studied antecedents of entrepreneurship; he focused business regulations, culture, self, and entrepreneurial outcomes and identified important antecedents and results of venture creation. He also found that cultural values were connected to self-concept, perception, and nature. The study admits that there is no proper evidence regarding the link between culture and entrepreneurship.

Carr and Sequeira (2007) studied the influence of prior family business influence in entrepreneurial intentions. To examine the effects, a set of regressions was performed by applying prior family business exposure as forecasted to be strongly related to entrepreneurial intentions.

Bolton and Thomson (2000) commented that *higher education may prevent entrepreneurship*.

According to Burns (2011), Age, Gender, Period of Experience, Marital status, Children's, and Past salary have a bearing on entrepreneurship. On the other hand *personal behaviour which is a part of the locus of control and entrepreneurs mind-set to achieve success, is more important than self-confidence*

The notable contribution made by Dolinsky, Caputo, Pasumarty and Quazi (1993): their study used a national longitudinal sample of women for finding the difference for beginning, remaining, and resuming self-employment by people of different educational backgrounds. The study reveals that *the possibility of beginning entrepreneurship increases with the increase of educational background*. The findings of this study also support the idea that there are fewer chances of less educated women to be an entrepreneur.

On the other hand Brush and Hisrich (1991) in their study on "Antecedent Influences on Women-owned Businesses", discussed the antecedents influences comprises of personal background, qualification and work experiences, knowledge, and expertise of women entrepreneurs and development of their enterprises.

The findings of this study unveil that business expertise, experience and personal factors influence the development of women-owned enterprises. The social environment which influences entrepreneurs is as follows: Family, Education, Ethnic group and Gender. Evans and Leighton (1990) investigated on "Some Empirical Aspects of Entrepreneurship", by selecting self-employment on the life cycle and the factors of self-employment incomes implementing data from the National Longitudinal Survey of Young Men (NLS) between 1966-1981 and the Current Population Surveys between 1968-1987 and *found that educational background impacts on entrepreneurship*.

#### **Characteristics of Industrial clusters—Geographical Proximity, Related Supported Industries, Labour Availability, Competition.**

Lin, Tung, and Huang (2006) elaborates the system dynamics methodologies to search the elements which affect the industrial cluster consequences, which is essential in defining the economic benefits of national and business advantage. This review of the literature finds fewer investigations that use system dynamics to find factors affecting the industrial cluster consequences. The competition in the global business atmosphere is not only between stand-alone companies and supply chains but also among the businesses in regional clusters. *The study creates a dynamic model of different elements of industrial cluster consequence through the causal loop diagram, which is also known as the cause-and-effect chain*.

Boschma, Eriksson, and Lindgren (2009) delved on the effect of expertise collection and labour flexibility on plant performance applying exceptional database which links characteristics of individuals to geographies of plants for the entire Swedish economy. It was found that a collection of connected proficiencies at the level of plant considerably increase development of the plants, compared to plant collections composed of either related or unrelated skill. The study analysed 101,093 jobs, which resulted that entries of expertise that are similar to the existing information of the plant are found to be positive for the performance of the plant, whereas the entries of new employees with the knowledge already existed in the plant had an adverse effect. *The analysis also illustrates that geographical proximity impacts the consequences of diverse skill entries*.

There are regions, where industrial conditions have influenced cluster formation. The studies of Porter (2007) have found that innovativeness of a nation makes it competitive in the business. On the other hand, a nation's innovative experience is based on three combinations of factors: (i) the strength of linkages between interconnected industries, (ii) common innovation infrastructure, and (iii) support of cluster-specific conditions. There are four determinants which are cluster-specific. According to the study of Porter (1999) on the topic "The New Challenge to America's Prosperity: Findings from the Innovation Index" *the first determinant was the fulfilment of positive input conditions, such as an adequate number of highly skilled human resources, would require primary research infrastructures such as universities, good quality information infrastructure and funds for investment purposes*.

The second determinant according to Porter (1999) was the rivalry and the context of the firm's strategy. *The firm's context was influenced by whether investment in innovation was motivated and whether there was a vigorous competition between the local rivals*.

The third determinant focused by Porter (1999) was the demand conditions. *He stated that when there is a demand from the local customers, the firms should be innovative and aggressive to face future demand*.

Lastly, the fourth determinant according to Porter (1999) was the condition of the similar and supportive industries. *He asserted that industry clusters and integrated business had a competitive advantage*. Further, Debresson (1996) studied that according to what innovation came into being from normal economic activities and stated that in spite of the economic conditions, time needed to permit the innovative agents and innovative actors to intensify their business movements. Certain innovative agents like government policy and wealth may need time duration to attain certain objectives.

Marshall(2003) holds that advantages of clusters can be achieved from the partnership of firms, as competition was natural. On the other hand, present theories of clusters focus mainly on actions taken together. The study emphasises on the differences between the method of competition and cooperation in the clusters, by analysing various similar literature. The differences have enhanced the applications for the type and measure of public policy.

Dew et al. (2008) suggested a behavioural theory of the entrepreneurial firm, where they have introduced new undertakings from the researches of entrepreneurial expertise to create a structure of a model of entrepreneurial firms behaviour, which stresses on invention of new markets by modifying present realities, instead of continuing with the existing markets. They state that the decisions makers function under the course of the “design” but not on “discovery”. They stress on inventions instead of exploring in existing opportunities, thus they manage and convert their situations.

Additionally, a meta-analysis by Read and Song (2007) investigated by meta-analysis and created notable linkage among three core effectual elements, *such as means-orientation, stakeholder partnering and contingency leveraging and new business.*

Dew et al. (2006) continued the analysis on entrepreneurial expertise and assured that efficient entrepreneurs proved notable dissimilarities in comparison to control groups, and they also *encouraged the concept that factors of effectuation are essential despite personality characteristics.*

Subsequently, Harmeling et al. (2004); Sarasvathy and Kotha (2001) and Harting (2004) conducted investigations and revealed that the effectual decision making logic was found in many past events of new ventures.

Sarasvathy et al (2003) stated that the founders of "Ben and Jerry's" launched an ice-cream shop, with no big investment; the reason was only that they knew how to prepare icecream simply. It was their initial knowledge which helped them to start the business. They had no money to pay their stakeholders; instead, they paid them with coupons for free ice cream. Ben and Jerry launched a new idea of starting abusiness, they introduced their company with the knowledge of who they were, what they knew and whom they knew, and they created a network of faithful stakeholders interested to cooperate them in their business.

According to Dew et al, Sarasvathy's analysis of effectuation was pursued by many similar types of research on effectuation. Dew (2003) highlighted new market formation, influenced the procedure model of effectuation, adopting historical and interview data.

The study conducted by Sarasvathy and Kotha (2001) state that in the effectual decision model, entrepreneur give emphasis on, “what we can do”, starting with a what is there in hand and aims to invent new products with the present things The founders of the popular ice cream brand "Ben and Jerry's", were successful in their venture, have used non-forecasting plans such as the means-driven principle to create new corner which was successful and profit oriented (Sarasvathy et. al., 2003).

### 3. Research and Sampling Methods

The present research uses exploratory and descriptive research design using survey method. Descriptive research is marked by a clear statement of the problem, specific hypothesis and detailed information needs (Malhotra, 1999). The study uses survey based research method using structured Interview Schedule.

**Geographical Scope of the Study:** The present study was conducted in two select cities of Karnataka where the two Industrial Clusters are located.

1. Hubli- Hubli-Dharwad Auto Component Cluster
2. Belgaum- Belgaum Foundry Cluster

**In the context of this Research Entrepreneurial Firms are Defined as-**Single Owner Managed Firms with the ability to identify and exploit opportunities in this changing environment that engage in product innovation, undertake somewhat risky ventures, and are among the first to come up with proactive innovations.

**Table 1.1** Showing the Population of the Cluster

Type of Cluster	Micro Enterprises	Small Enterprise	Medium Enterprise	Total
HDAC	22	20	4	46
BFC	21	26	9	56
<b>Total</b>	43	46	13	<b>102</b>

(Source: Primary Data. List of Firms obtained from both cluster offices)

#### Sampling Technique

**Sampling Frame:** sampling frame was developed from single source. Cluster Authorities of Hubli-Dharwad Auto Component Cluster and Belgaum Foundry Cluster.

**Stratified Random Sampling Technique:** The list of MSMEs was collected from both Cluster offices. After collecting the list, the entrepreneurs were contacted over telephone and entrepreneurial firms identified in the cluster, The Total Population of both clusters is 137 and out of 137 Total Firms, Total no of Entrepreneurial Firms are 102. Based on this Data, three stratum were selected such as Micro, Small and Medium Enterprises. In the Present Study, the final sample size is 64.

**Table 1.2** Showing Sample Size of the Cluster

Type of Cluster	Micro Enterprises	Small Enterprise	Medium Enterprise	Total
HDAC	14	16	2	32
BFC	7	18	7	32
<b>Total</b>	21	34	9	<b>64</b>

The study has been carried out using both primary and secondary data. The primary data was collected from respondents through the Structured Interview Schedule. The secondary data was collected through websites, books and journals etc. The Data is collected from 64 Entrepreneurs of Entrepreneurial MSME firms of HDAC and BFC

**Research Instrument: Structured Interview Schedule:** The Interview Schedule has two main divisions. The first division covers demographic details of the respondents and the second division covers specific questions related to the Questions on Antecedents of Entrepreneur, Questions on Cluster Characteristics, and Questions on Effectual Behaviour. (Please Refer Annexure – I)

**Statistical Tools used for the Analysis:** A multi-method data analysis was used on the collected data. Appropriate statistical techniques were used to analyse the data. The focus of the analysis was on the Evaluating Impact of Antecedents on Effectual Behaviour and Firm Performance. SPSS based data analysis was carried out, and a host of quantitative techniques were used, which include Linear Regression in testing out hypotheses.

H<sub>0</sub>: There is no significant association between Antecedents of the entrepreneur and Effectual Behaviour

**Data Analysis:** The descriptive summary covers Correlation and Regression Analysis

Descriptive Statistics			
	Mean	Std. Deviation	N
EFF	4.0000	.25400	63
ANTCEDENTS	3.4286	.53019	63
CC	3.5556	.75728	63
TTLSCR	3.8889	1.48227	63
TNECR	2.7937	1.68637	63

Correlations						
		EFF	ANTCEDENTS	CC	TTLSCR	TNECR
Pearson Correlation	EFF	1.000	-.120	.084	.171	.000
	ANTCEDENTS	-.120	1.000	.201	.246	.299
	CC	.084	.201	1.000	.329	.218
	TTLSCR	.171	.246	.329	1.000	.771
	TNECR	.000	.299	.218	.771	1.000
Sig. (1-tailed)	EFF	.	.175	.257	.090	.500
	ANTCEDENTS	.175	.	.057	.026	.009
	CC	.257	.057	.	.004	.043
	TTLSCR	.090	.026	.004	.	.000
	TNECR	.500	.009	.043	.000	.

Model Summary										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.302 <sup>a</sup>	.091	.029	.25033	.091	1.458	4	58	.227	1.979
a. Predictors: (Constant), TNECR, CC, ANTCEDENTS, TTLSCR										
b. Dependent Variable: EFF										

Coefficients						
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	4.035	.239		16.849	.000
	ANTCEDENTS	-.069	.064	-.144	-1.089	.281
	CC	.013	.045	.039	.288	.774
	TTLSCR	.071	.035	.413	2.030	.047
	TNECR	-.043	.030	-.284	-1.417	.162

a. Dependent Variable: EFF

The Regression Model to predict bound on Educational Cluster Characteristics Firm and is Not a good fit with p-value (0.227) and  $r=0.302$

The Regression Model for has Effectual Behaviour Positive Coefficients for Cluster Characteristics and Performance Variables, whereas Antecedents is found to be negative.

The Effectual Behaviour of MSME Entrepreneurs under study is influenced by various antecedent like Industry Experience, Educational Qualification, Family Support and Friends Support.

**Effectual Behaviour = 4.035-0.069(Antecedents) +0.013(Cluster Characteristics) +0.071(Current Sales)-0.043(Current No of Employees)**

#### 4. Conclusion

An industrial cluster plays a critical role in promoting the performance of firms in developing countries by allowing for shared production networks and stimulating Micro, Small and Medium Entrepreneurs. The present research focused on Manufacturing Units of Micro, Small and Medium Enterprises of Auto-component cluster and Belgaum foundry clusters. Cluster Characteristics includes geographical variables, related support industries; labour availability and Competition. In case of Antecedents like Industry Experience, Educational Qualifications, Family members support and Friends Support, Entrepreneurs Industry Experience plays negative impact on Effectual Behaviour, The Effectual Behaviour has variables starting with means, Affordable loss, Strategic Flexibility, Partnership and Controlling the Future.

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