

Influence of Owner/Manager Personal Characteristics on the Demand for Business Development Services by Micro and Small Enterprises: Perspectives from the Upper Echelons Theory

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Abstract

The importance of Micro and Small Enterprises (MSEs) in economic development has been documented for a long time mainly because of the potential of these enterprises for employment creation especially in developing countries. Despite the significant role played by MSEs, they face many challenges which constrain their survival and growth. One important aspect of MSEs is that these enterprises lack sufficient internal skills and experience to handle the challenges that negatively affect their development, which therefore necessitates the use of external business development services (BDS). Indeed, existing literature confirms that firms which use BDS experience superior performance compared to others which do not use. However, extant literature confirms low awareness and usage of BDS by many micro and small enterprises in developing countries. This paper reviews the Upper Echelons Theory and other important literature and then develops a conceptual framework to describe the influence of personal characteristics of firm owner/managers on the demand for business development services by MSEs. This study establishes awareness, age and education attainment as the key individual characteristics that drive demand for BDS by micro and small enterprises.

Keywords: Business Development Services, Micro and Small Enterprises, Personal Characteristics of Owner/Managers, Awareness of BDS, Age of Owner/Manager, Education Attainment, Length of Tenure in the Business, Purchase & Usage of BDS

1. Introduction

Worldwide, it is acknowledged that the growth and development of micro and small enterprises is crucial for the achievement of broad development objectives, including poverty alleviation, economic development and the promotion of more democratic and pluralist societies (Vandenburg, 2006). In most developing countries, small enterprises constitute a substantial percentage of firms and account for a significant proportion of people in employment. In Kenya, the role of micro and small enterprises in economic development has been given prominence by government and development agencies for a very long time (RoK, 2013; 2005; 1992).

Ngugi (2012) notes that the particular attention to MSEs given by the Kenya Government has been due to the economic impacts generated by these firms measured by their contribution to output, employment, income, investments, exports and other economic indicators.

Indeed, according to the Kenya Economic Survey Report of 2013, small firms consisting of micro, small and medium enterprises employed a total of 10,511.2 thousand persons in 2012 accounting for 82.52% of total recorded employment. Additionally, MSEs created 591.4 thousand new jobs in 2012 compared to 587.2 thousand jobs created in 2011 and this accounted for 89.7 per cent of all new jobs created (RoK, 2013). These figures underscore the prime importance of small enterprises in the Kenyan economy in terms of generation of employment opportunities especially for the youthful population and persons exiting from the modern sector of the economy and also by increasing competition and fostering innovation. Despite the significant role played by the MSEs, they face binding challenges that make it impractical for the enterprises to realize their full potential. These include poor access to markets and financial services, unfavorable policy, legal and regulatory environments, inadequate access to skills and technology, limited access to infrastructure, inadequate business skills and limited access to information (RoK, 2005).

Anecdotal information confirms that there is a low survival rate of MSEs and that most of these businesses are constantly threatened with failure, with statistics indicating that three out of five MSEs fail within the first year of operation (Ngugi 2013; Bowen, Morara & Mureithi, 2009; RoK, 2005). These grim statistics suggest that many MSE owner/managers would seek business development services to address some the challenges facing their enterprises. Indeed, extant literature carried out globally reveals that enterprises that utilize business development services effectively, experience a higher growth rate compared to others that do not use (Kamyabi & Devi, 2011). Information in Kenya reveals that there are a number of commercial BDS providers available to deliver services to MSEs (Meliyio & Makori, 2013). However, supplementary information available reveals that there is low awareness and usage of BDS by MSEs in Kenya and in many developing countries (Musara & Olawale, 2011; Mwirigi & Karugu, 2005).

Literature reviewed reveals that personal characteristics of MSE owner/managers is one of the key factors influencing the choice of these firms to use business development services (Everaert, Sarens & Rommel, 2006). This paper explores the influence of individual characteristics of firm owner/managers on the choices made by business enterprises using a theoretical framework based on the Upper Echelons Theory. Based on the theoretical framework and a review of other important literature, a conceptual framework is developed to explain the role of personal characteristics of MSE firm owner/managers on the demand for business development services.

2. Theoretical Framework

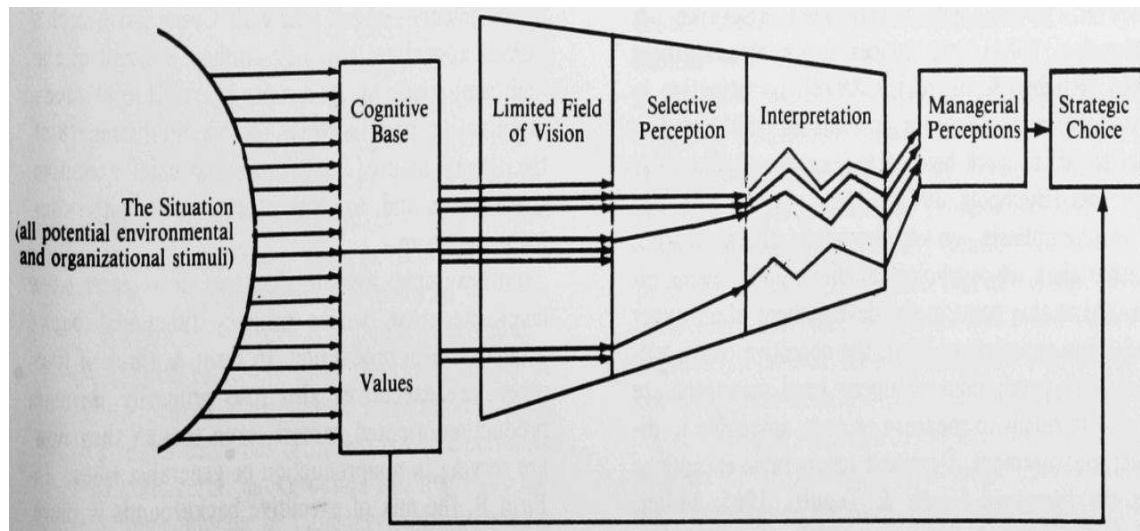
2.1 The Upper Echelons Theory

Hambrick & Mason (1984) are credited with developing The Upper Echelons Theory (UET). UET asserts that organizational outcomes, strategic choices and performance levels are partially predicted by managerial background characteristics. At the centre of the UET is the view that organizational outcomes; both strategies and effectiveness, are reflections of the values and cognitive bases of the powerful actors in the organization (Hambrick, 2007). The outlook taken by this theory is that the top management and executives of any organization matter. Accordingly, choices made by top management of an organization formally and informally, reflect the idiosyncrasies of these decision makers. As Hambrick & Mason (1984) argued, each decision maker brings his or her own set of “*givens*” to an administrative situation and these givens reflect the decision maker’s cognitive base: knowledge or assumptions about future events; knowledge of alternatives and knowledge of consequences attached to alternatives (Ibid, 2007).

Nielsen (2010) contends that complex decisions in a firm are not always based on rational processes but are largely the outcome of behavioral factors such as bounded rationality, multiple and conflicting goals and varying aspiration levels. Bounded rationality is the idea that informationally complex and uncertain situations are not objectively “*knowable*” but, rather are merely interpretable (Kinuu, Murgor, Ongeti, Letting & Aosa, 2012). As summarized In Figure 1, the situation a strategic decision maker faces is complex and made up of far more phenomena than he or she can possibly comprehend and therefore the decision maker brings a cognitive base and values to a decision, which creates a screen between the situation and his/her eventual perception of it (Hambrick & Mason, 1984).

Strategic decision making under bounded rationality can take a perceptual process conceptualized by taking a sequential view (Hambrick, 2007). First, the manager's field of vision is restricted which poses a limitation on their perceptions. Second, the manager's perceptions are limited further because they selectively perceive only what is included in their field of vision. Finally, information selected for processing is interpreted through a filter woven by one's cognitive base and values. The manager's eventual perception of the situation combines with his values to provide the basis for strategic choice (Kinuu *et al.*, 2012).

Figure 1: Strategic Choices under Conditions of Bounded Rationality



Source: Hambrick & Mason, 1984

2.2 Upper Echelons Theory and the Demand for Business Development Services by Micro & Small Enterprises

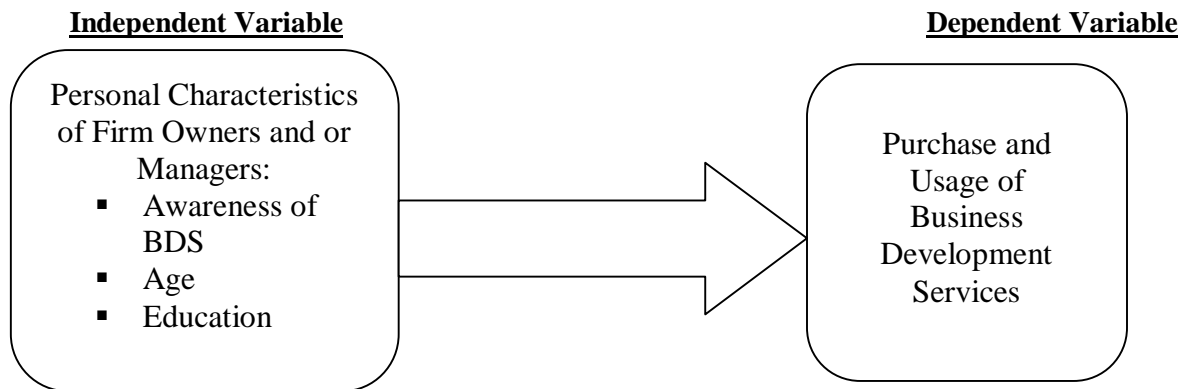
The publication of the influential work of Hambrick & Mason (1984) on the upper echelons theory heralded the interest amongst researchers on the study of how the human side of managers, such as their backgrounds and psychological characteristics, influenced the decisions they made (Nielsen, 2010). The upper echelons theory suggested that the personal characteristics; age, tenure in the organization, education, social-economic extraction and financial position of the firm owner/manager had a strong influence on the direction and performance of a business. The foundation of this theory was that executives' experience, values and personalities greatly influenced their interpretations of situations they faced and in turn the choices they made (Irungu, 2007). Nielsen (2010) revealed that the type of education of the business owner/manager had a significant impact on the decision making process. The education background indicated the individual's knowledge and skills. Kinuu *et al.* (2012) indicated that formal education was positively related to receptivity to innovation. In essence, academic qualifications translated to more creative solutions hence affected decision making positively (Irungu, 2007). Bolo, Muchemi & Ogutu (2011) contended that younger managers were likely to have received their education more recently than older managers, and therefore their technical knowledge should be more superior to older managers. In addition, younger managers are more willing to take risks than older ones.

Everaert, *et al.* (2006) provided that for many MSE business owners/managers they were expected to wear many hats within their enterprises (operation, marketing, HR managers and chief executive officer). In addition, they were responsible for payroll, legal and statutory compliance, customer satisfaction and staff motivation. In essence, though many small firm owner/managers were fully aware of the product and service markets they operated in, they may not have been trained in all technical matters and were therefore inclined to consult outside sources (Marriott & Marriott, 2000). Devi & Samujh (2010) aver that the individual characteristics of business owner/managers drive demand for business advice. For that reason, the extent to which owner managers are aware of business advice and their personal characteristics of age and education attainment have been identified as key drivers of demand for business development services by micro and small enterprises. Accordingly, a positive relationship is established between the personal characteristics of MSE owner/managers and the demand for business development services by micro and small enterprises. This relationship is articulated in the conceptual framework developed below.

2.3 Conceptual Framework

The conceptual framework presented in figure 2 captures the relationships between the independent variable, personal characteristics of MSE owner/managers and the dependent variable, demand for business development services. The conceptual framework suggests relationships between the independent variable, represented by awareness, age, education attainment and length of tenure in the business of the firm owner/manager and the dependent variable, represented by purchase and usage of BDS.

Figure 2: Conceptual Framework Model



3.0 Review of Important Literature

3.1 Awareness of BDS

Previous studies reviewed have shown that MSEs make limited use of business development services. Yusoff, Yaacob & Ibrahim (2010) in their study of usage of business advisory services in Malaysia established that there was limited utilization of business advisory services sponsored by the government. Indeed, this study found that only 15% to 20% of MSEs made use of these services, with low awareness being attributed as the main factor influencing poor usage. This finding was supported by the findings of (Foziah & Sudin, 2006) which pointed out that the low utilization of business advisory services amongst MSEs was due to low awareness and the mismatch of the services provided in terms of content and entrepreneurial factors. In their study of demand for business development services in the Palestinian territory (Makhol & Odwan, 2006) established that demand for BDS was linked to the extent to which owner/managers of enterprises were aware of the existence and importance of those services.

Bliss & Polutnik (2001) in their study of MSEs' demand for business development services in Bosnia and Herzegovina found that there was a very high correlation (0.93) between awareness of BDS and its use. This study revealed that there was a high degree of awareness for a wide range of consulting services with the most being aware of marketing related consulting services (99.2%) and the fewest respondents knowing about business development/strategy services (77.5%). In terms of usage statistics, usage of marketing related consulting services was highest at (66.2%) while usage for business development/strategy stood at 30%. Smallbone, Xiao & Xu (2008) established that approximately four out five businesses had at least one area of support need requiring business development assistance. This study found that many of these support needs of MSEs remained unfulfilled, with the study revealing that "between 20 per cent and 40 per cent of the firms identified in the study indentifying a BDS need were unaware of where to go to access the services required". These findings disclosed that awareness of BDS was very closely related to the use of business services. Pradeep (2008) confirmed that many MSEs failed to use BDS due to the firms' owner/managers' lack of awareness of the existence of such services.

3.2 Age of Owner/Manager

Existing literature identifies an association between the age of firm owner managers and organizational decision making. For example, managerial youth is associated with ability to attempt novel ideas, the unprecedented and taking risks. On the other hand, older managers are found to have better ability to integrate information in making decisions and tendencies to seek more information, to evaluate information accurately and to take longer to make decisions (Kinuu, *et al.* 2012).

This may be so since some cognitive abilities such as learning ability, reasoning and memory also diminish with age. Managerial youth appears to be associated with corporate growth, while volatility of sales and earnings is linked with managerial youth (Bolo, *et al.* 2011).

GTZ (2003) observed BDS usage patterns related to the age of firm owner/managers. Observations from this study established that managers younger than 30 years used BDS at a higher rate (45%) than managers aged between 30-40 years (41%). However, usage rates were much lower at 16% for managers over 55 years. This study attributed usage rates to the level of education, since education was closely correlated to age, with younger managers tending to be better educated and therefore more likely that age group differences in BDS usage would primarily reflect different education levels. A study conducted by (Jay and Schaper, 2003) established a contradictory view that the older the age of the business owner/manager, the more the owner sought the advice from those who are knowledgeable in business.

3.3 Education of Owner/Manager

The upper echelons theory suggested that the education attainment of firm owner/managers had a strong influence in the decision making, direction and performance of a business (Hambrick & Mason, 1984). Nishi, Anne & Jana (2007) revealed that the level of education of firm owner/manager had a statistically significant impact on the decision making process. This was because, to a certain degree, the educational background indicated a person's knowledge and skill base. The education background was therefore expected to influence the demand for business advice. Bennett & Robson (1999) established that BDS usage rate was associated with the level of education of the firm owner/manager. This study established that university educated owner/managers used BDS substantially more often and also several types of BDS and equally spent almost double on BDS than owner/managers with lesser education levels.

4.0 Conclusion

The decisions and actions of owner/managers of MSE are very important to the future direction and performance of their organizations. These individuals are human beings subject to perceptions and subjectiveness which influences their decision making. Accordingly their individual characteristics influence their judgment and assessments of situations and ultimately their success as managers. As a consequence, their resolve to use business development services in their business is influenced by their individual awareness level, age and education attainment.

4.1 Future Research Suggestions

The Upper Echelons Theory also identifies a number of broad individual characteristics not within the purview of this paper which are important in influencing decisions made by firm owner managers. For example, the manager socio-economic background has been identified as influencing decisions made such as choice to use BDS. In essence, firms whose owner managers come from disproportionately lower social economic backgrounds will tend to pursue strategies of acquisition and unrelated diversification and such firms will experience greater growth and profit variability than will firms whose top managers come from higher socio-economic groups. It would also be important to establish the performance of firms and type of decisions made by firms managed by their owners and firms run by non-owners.

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