



## The impact of socio-economic factors on small business success

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### Abstract

Small enterprises play a vital role in economic development as they can provide the economy with efficiency, innovation, competition and employment. Entrepreneurs are responsible for the success of their businesses and have to face up with definite challenges in doing so. To know what constitute critical determinants of small business success data were collected from 60 randomly selected respondents in the Dera Ismail Khan district, Khyber Pakhtunkhawa, Pakistan, who were administered with structured questionnaires. Regression analyses of the findings showed the positive and significant impact factors of investment, entrepreneurial experience, business profile and culture with  $R^2=0.638$  and  $F= 11.222$ . The provision of ample opportunities to develop skills for business enhancement is suggested as the rational way forward.

**Keywords:** business culture, business enhancement, business skills, investment, small enterprise, success factors

### Introduction

Based on [www.wikipedia.org](http://www.wikipedia.org) a small business is a business which is privately owned and operated, with a small number of employees and relatively low volume of sales. Small businesses are common in many countries, depending on the economic system in operation. Typical examples include: convenience stores, bakery shops, hairdressers, tradesmen, lawyers, accountants, restaurants, photographers, etc. A common definition provided by the Small and Medium Industries Development Corporation (SMIDEC) which defines SMEs according to two main factors, annual sales turnover and number of full time workers. According to this definition small business is one which has Between 5 & 19 employees and annual sales turnover Between RM200, 000 & less than RM 10million. Small business can provide the economy with efficiency, innovation, competition and job growth. Entrepreneurs are responsible for the promotion of enterprises and businesses and cause economic development as they infuse dynamism in economic activity within their territory; manage organizational and technical change; and also promote the innovation and learning culture on such environment Entrepreneurship is accepted as a driving force behind the economic and social development of countries But this depend upon the formal and informal attributes associated with the entrepreneurs. Therefore objective of this paper is to see determinants of business success in such an economy like Dera Ismail Khan.

Dera Ismail Khan is the southern most district of Khyber Pakhtunkhawa (Pakistan) bounded on the north by Tank and Lakki Marwat districts, on the east by Mianwali and Bhakkar districts and on the south by Dera Ghazi Khan district of Punjab. On its west is the Tribal Areas adjoining DIKhan district, South Waziristan Agency and Tank district. Dera Ismail Khan occupies an area of 7,326 squares Only 15 per cent of population lives in four urban centers, the rest 85 per cent lives in 344 rural localities. Total population of the district was 1,018,796 (2007 census). The average annual growth rate was 3.26 percent during this period. Overall literacy rate of the district is just 31.3 percent (2007 census). But in urban area literacy rate is 61%. There is one doctor for every 4,736 persons and one nurse for 21,038 people.

Agriculture is the major economic activity in the district. Most part of the district is a dry. Mostly urban people seek jobs in Govt for their livings. Those who do business they are not skillful. They lack managerial skills, had no knowledge of modern business techniques. They had inadequate promotional activities or use available promotional facilities improperly. Socio-cultural and physical infrastructure is not well developed to support them. Disturbed political situation of the city is also a major hurdle in the way of investment. Quality assurance of the product can be acceptable in the market. At present local market has low demand due to the low purchasing power of the customer. Although government has given subsidies to promote investment, yet it has not given any attention to awareness and training programs for business class. Electricity is the only source of energy in D.I.Khan which is very costly and causes high cost.

## Literature review

Small business success has been defined in a variety of scope by different scholars for example Paige and Littrell (2002), defined small business by intrinsic criteria including freedom and independence, controlling a person's own future, and being one's own boss and extrinsic outcomes including financial returns, personal income, and wealth. Masuo et al. (2001) told that small business success is usually defined in terms of economic or financial measures which include return on assets, sales, profits, employees and survival rates; and no financial measures, such as customer satisfaction, personal development and personal realization. Determinants of business success also vary in nature. For example, Kraut and Grambsch (1987); Kallerberg and Leicht (1991) found size of investment and access to capital (Cooper, 1985; Hisrich, 1990; Krueger, 1993; Lussiers and Pfeifer, 2001; Raman, 2004; Panda, 2008) found experience of entrepreneur as factors affecting business success. Meng & Liang (1996) found no impact of experience on business success. Hisrich, 1990; Kallerberg and Leicht, 1991; Krueger, 1993 Rowe et al. 1993; Lussiers and Pfeifer, 2001; Masuo et al., 2001; Thapa, 2007; Indarti and Langenverg, 2008; found that the education has positive effect on business success. Minniti and Bygrave (2003) have stated that people with more education are not necessarily more entrepreneurial. Kraut and Grambsch (1987), Hisrich (1990) Kallerberg and Leicht, (1991), Krueger (1993), Rowe et al, (1993), Masuo et al, (2001) found that age and support networks have positive contributions in business. Zimmerrer and Scarborough (1998) pointed out that most of entrepreneurs in the United States start business during their 30s and 40s, many researchers founded that there is no limit of age for their entrepreneurial aspirations. Age difference at the start of business seems to have no association to business success. According to Staw (1991), at the start of any business age is not a key factor, but with enough training and preparation, the earlier someone starts business the better. Staw (1991) also notes that age is related to business success if it includes both sequential age and entrepreneurial age. This means that the older an entrepreneur is, the more experiences in business he has. Age thus implies wide experience. Kallerberg and Leicht (1991), Rowe et al,(1993); Masuo et al, (2001); Rose et. al. (2006) has stated that the success of the business depends on skills, and training. Cooper (1985), Green and Pryde (1989), Raman (2004) found that motivational factors such as initiatives, third party assistance, encouragement by family and friends, skill and economic conditions leads to the success of the entrepreneurs. Swunney and Runyan (2007) state that generating income and creating job for them, prop up from family and friends are the foremost factors for motivating the people to become successful entrepreneurs.

Rogoff et al. (2004) found that internal factors such as size and years in business, the ability to magnetize financing, marketing and human resource and external factors such as sales tax rates, infrastructure, market condition, business opportunity, and availability of resources, economic conditions, competition, and government regulation are determinants of business success. The importance of government support to small business success is reported in a number of studies. For example Yusuf (1995), Sarder, et al, (1997) found in their research work that the firms getting support services like financing, training, technical, extension and consultancy, information etc from the public or private agencies showed significant raise in sales, employment and productivity. On the opposing, some other

studies like Mambula (2004) found that government support was minor to small business success. Location of business also effect business success (Kraut & Grambsch, 1987; Kallerberg & Leicht, 1991).

## Methodology

Primary data from 60 businessmen who were randomly selected using stratified sampling technique and had more than Rs500000/- investment and at least five employee was collected with the help of structured questionnaire A five-point Likert scale was used in questionnaire on different attributes (innovativeness, business knowledge, hard work, strong financial resources, product competitiveness and business networking. Government assistance, training and extension services, marketing, moral support, technical assistance, infrastructure, and business-related policies etc) regarding business profile, skill, socio cultural environment and business environment and Govt policies. Regression impact was seen on average profit per month for knowing success ness of business. ANOVA test was also applied to know impact of group differences.

### *Modeling*

The General Linear Model is commonly estimated using ordinary least square has become one of the most widely used analytic techniques in social sciences (Cleary & Angel, 1984). Most of the statistics used in social sciences are based on linear models, which means trying to fit a straight line to data collected. Ordinary least square is used to predict a function that relates dependent variable (Y) to one or more independent variables ( $x_1, x_2, x_3 \dots x_n$ ). It uses linear function that can be expressed as

$$Y = a + bX_i + e_i$$

Where

- a : Constant
- b : Slope of line
- $X_i$  : Independents variables
- $e_i$  : Error term

Hence to assess contribution of different determinants in business successness Linear Regression Model was expressed as follow:

$Y$  (Average profit per month) = a (constant) +  $X_1$  (Age) +  $X_2$  (Education) +  $X_3$  (Experience) +  $X_4$  (Business profile) +  $X_5$ (Skill) +  $X_6$  (Socio cultural factors) +  $X_7$ (Business environment and Govt policies) +  $X_8$  (Investment) +  $e_i$  (Error term)

## Analysis and interpretation

Estimation of the business success using original variables showed moderate to strong multicollinearity among the independent variables (Table 1).

**Table 1. Regression impact of following independent variables on dependent variable average profit per month**

Model	R	R Square	Adjusted R Square	F	Sig.
1	.799	.638	.581	11.222	.000
Independent Variables	Un-standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-34.668	17.096		-2.028	.048
Age	-.280	.267	-.158	-1.050	.299
Education	.355	.365	.090	.973	.335
Experience	1.052	.290	.547	3.628	.001
Business profile	1.781	.465	.411	3.833	.000
Skill	.427	.298	.144	1.435	.157
Culture	-.629	.237	-.246	-2.655	.011
Business environment	-.357	.389	-.089	-.917	.363
Investment	.004	.001	.329	3.382	.001

The large value of F-statistics shows that the explanatory variables included in the model collectively had significant impact on profit. The high R<sup>2</sup> and Adjusted-R<sup>2</sup> values suggest that 80 percent variations in the profit were explained by the explanatory variables included in the model. The coefficient for experience, business profile, culture and investment was positive and significant below 5 percent level and suggests that experience, business profile, culture and investment affected profit positively. One percent increase in experience, business profile, culture and investment increased profit about 80% percent. Remaining explanatory variables i.e age, education, skill, and business environment had no significant impact on profit. Same results can be seen in Table 2 on, experience and investment using ANOVA.

**Table 2. Impact of following explanatory variables on profit using ANOVA**

Variable	Levels	Sum of Squares	df	Mean Square	F	Sig
Investment	Between Groups	5728.425	2	2864.212	21.983	.000
	Within Groups	7426.509	57	130.290		
	Total	13154.933	59			
Age	Between Groups	2.489	1	2.489	.011	.917
	Within Groups	13152.444	58	226.766		
	Total	13154.933	59			
Experience	Between Groups	3277.344	2	1638.672	9.456	.000
	Within Groups	9877.589	57	173.291		
	Total	13154.933	59			
Education	Between Groups	1844.600	2	922.300	4.648	.013
	Within Groups	11310.333	57	198.427		
	Total	13154.933	59			

However higher education level also had positive and significant impact on profit. Descriptive statistics in Table 3 shows that 70% respondents were educated above secondary level. Fifty three percent had entrepreneurial experience of 11 years to 20 years. Forty percent had investment between 1 million and 2 million.

**Table 3. Descriptive statistics**

Variables	Attributes	F	%age
Age	Below 20 Years	0	0
	21-40 years	42	70.0
	Above 40 years	18	30.0
Education	Below primary level	4	6.7
	Between primary and secondary levels	14	23.3
	More than secondary level	42	70.0
Experience	1-10 Years	14	23.3
	11-20 Years	32	53.3
	21-above	14	23.3
Investment	Up to Rs 1million	22	36.7
	Between Rs 1million and Rs 2million	24	40.0
	Above Rs 2million	14	23.3

Strong and positive correlation can be seen in Table 4 between profit and experience, business profile, investment.

**Table 4. Correlation between explanatory variables on profit**

Variables	Age	Education	Experience	Business profile	Skill	Culture	Business environment	Investment
Profit	.224	.054	.432**	.465**	.376**	-.021	-.014	.547**
Sig. (2-tailed)	.085	.681	.001	.000	.003	.874	.913	.000

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

\* . Correlation is significant at the 0.05 level (2-tailed).

## Conclusion

Major cause behind this was non availability of advisory services from where businessmen could develop business skill among them. Businessmen were doing business on the basis of their experiences in those business profiles (Nature of goods) which were either sold more frequently or had much profit per unit and were according to existing culture. Businessmen were not more initiative in bringing positively change in the existing culture and could not motivate customers well or adopt promotional activities effectively in order to enhance sale. Businessmen were also not able to do SWOT analysis well on and hence could not manage their business as it should be. Higher general education enabled businessmen to understand business world but due to lack of business back ground they could not understand business world technically. However collectively all explanatory variables had significant impact on profit and revealed findings that rejected null hypothesis and confirmed that all explanatory variables used in the model were very important for success ness of business. At the end it is suggested that Govt should provide opportunities to businessmen for developing skill to promote their businesses.

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