

***RELATIONSHIP BETWEEN POWER
ORIENTATION AND SMALL ENTERPRISES
GROWTH***

***A STUDY ON SRI LANKAN
ENTREPRENEURS***

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Master of Science in Management

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Author's Declaration

The work described in this thesis was carried out by me under the supervision of Mr E. Dayaratna and a report on this has not been submitted in whole or in part to any university or any other institution for another Degree/Diploma.

A handwritten signature in black ink, appearing to read 'R. B. Gunaratna', with a long, sweeping horizontal line extending to the right.

R. B. Gunaratna

Certification

I hereby recommended that the thesis was prepared under my supervision by
R. B. Gunaratna (DPM/96/40)

Entitled

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Master of Science in Management



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Chapter 1

INTRODUCTION

1.1 BACKGROUND

Sri Lanka is a lower middle income nation with per capita income of US \$ 1,197 according to the 2005 annual report of the Central Bank of Sri Lanka. Economy demonstrated its resilience once again in 2005 by growing at a rate of 6 per cent, exceeding the expectations in the immediate aftermath of the tsunami disaster of 2004. The annual average inflation in 2005 was 11.6 percent and the balance of payments recorded a surplus of US dollars 501 million, strengthening actual resources and contributing to exchange rate stability.

The one of the central objectives of the government is to restore economic growth and thereby effectively eliminate poverty in Sri Lanka. An average of 4 to 6 percent GDP growth since independence has not been sufficient to provide full employment at acceptable income for all Sri Lankans. Much higher rate of economic growth will be needed to bring about the required improvements in opportunity and living standards. Therefore Economic growth needs to be accelerated further to at least 8 per cent to alleviate poverty, reduce unemployment and raise the standard of living on a sustainable basis.

In Sri Lanka around 80 percent of the population resides in the countryside and close to 40 Percent of the labor force is employed in the agricultural sector, between 25 to 39 percent of the population can be classified as poor, and nearly 90 percent of the poor residing in rural areas. Farmers cultivating small plots of land, with few off – farm sources of family income, and casual workers account for a large share of poor. More rapid growth in the agricultural and rural non – farm sectors will both directly and indirectly contribute to generating greater opportunities for employment and income growth in rural areas. In addition, by contributing to increased rural incomes this will build a strong foundation for consumer demand in rural areas, which could in turn stimulate growth in other economic sectors.

The unemployment rate declined to 7.7 percent in August 2005 from 8.3 percent in 2004, according to the figures of 2005 annual report of the Central Bank of Sri Lanka. This decline was due to the overall economic growth that prevailed during 2005, absorption of labor by the recovery from the tsunami devastation and implementation of the graduate employment programme. Youth Employment especially among the more educated, which has been a long - standing problem, eased to some extent, with implementation of the graduate employment, programme in the Public Sector in 2005. The unemployment rate of persons with GCE (O/L) and GCE (A/L) and higher qualifications recorded the higher declines among levels of education in 2005.

Small Scale Enterprises are an important source of employment in Sri Lanka and these enterprises account for nearly 90% of Industrial establishments and 70% of

employment in the manufacturing sector. As a developing country,. Small Enterprises have been identified as an important strategic sector for promoting growth and social development of Sri Lanka. Not only in developing economies but in developed countries like United States of America, United Kingdom, Germany, Japan etc; the small enterprises sector plays a major role in their economies. So in developing economies like India, Pakistan, Malaysia and many other South Asian countries have always considered, Small Enterprises sector as an important sector of the economy. It has been recognized as a major source of employment, income generation, poverty alleviation and regional development in Sri Lanka. Small Enterprises development efforts more important for the sustainable development of the Sri Lankan economy.

Most states today are encouraging entrepreneurship in their own countries. Entrepreneurship is being promoted to help alleviate the unemployment problem, to use local resources, overcome the problem of stagnation, to increase the competitiveness and growth of business and Industries. Even large and establish business enterprises are encouraging entrepreneurship in their own organizations in the hope that entrepreneurship will give their organizations a competitive edge and help them to develop new growth of businesses. Without the drive, energies and dedication of entrepreneurs, new business formation would never take place. Without the endless creation of new business, economy would stagnate. Therefore various attempts have been made to promote and develop entrepreneurship in different countries. These attempts are broadly classified into three broad approaches. These approaches are, by improving the business environment for entrepreneurs and other small business people,

by giving specific assistance to improve the competence of the entrepreneur or his enterprise and by making people in the population, more entrepreneurial. Entrepreneurship is the essence of free enterprise, because the birth of new businesses gives a market economy its vitality. New and emerging businesses create a very large proportion of innovative products, which transform the way we work and live and generate most of new jobs. The entrepreneurial way of life combines creativity, challenge, hard work and satisfaction. Entrepreneurship is a creative activity in much the same way as artistic or scientific creativity. An entrepreneur is like the artist or the scientist, conceive an idea out of his own imagination. Once the idea is born, he is faced with the challenge of translating that idea in to reality. To accomplish this, he puts in long and unremitting hours of work and takes financial risks. All these require a lot of energy and self – discipline. The successful entrepreneur enjoys a Position of Prestige in the community because of his many contributions to society, especially in terms of providing jobs to people and providing needed goods and services.

The entrepreneur keenly observes the environment in search of ideas and opportunities that can be turned into profit. Therefore it includes different entrepreneurial functions that entrepreneur does and these are perceives opportunities in the environment, takes risks to make use of these opportunities, mobilizes capital for a business, Introduce innovations, organize labor and Production, makes decisions, plans ahead, sells his products at a profit etc. There are qualities common among individuals who are willing to undertake entrepreneurial functions that make up the entrepreneurial Personality. Those qualities are, he takes moderate risks, he wants to take personal responsibility for

his own actions, he is self – confident, he likes to get concrete feedback on his own performance from others, he is achievement oriented etc.

The entrepreneur does not merely perceive ideas as opportunities but also calculates the risks involved in implementing these ideas. Risk denotes uncertainty or chance. When a business is described as risky, it means that the outcomes of this business is uncertain. In other words, there is a chance. That the business may fail as there is that it may succeed. Entrepreneurs are known to be individuals who are not afraid to take risks. However, they like to take only “calculated risks”. The tendency of entrepreneurs to prefer moderate risks is accompanied by a strong desire to be the one responsible for out comes or results. Entrepreneurs are well – known for being a very self – confident lot. They tend to believe that they can do better than what other people or what the circumstances suggest can do. The entrepreneur wants and seeks concrete feedback as to how well he is doing whether good or bad. Without such knowledge of results, he finds it difficult to go on. Entrepreneurs are people who accomplish things and they are achievement oriented.

Sometimes question arises, where do entrepreneurs come from? Why did / how do people eventually become entrepreneurs? Are entrepreneurs born or made? We shall trace the origin of entrepreneurs in terms of their life experience within the family and culture where they belong. Are entrepreneurs born or made? In other words, are entrepreneurial qualities already, present in the child when he is born perhaps as inherited characteristics from his parents or are these qualities developed through life.

There was a time when it was believed that entrepreneurs were born rather than made. Nowadays, however, there is enough evidence to show that entrepreneurial qualities can be developed in training, exposure to certain culture values relating to work and industry etc. "Entrepreneurship" is a subject which the many western and eastern researchers have done studies, in the last few decades, and among them are Max Weber, Schumpeter, Peter Drucker, David McClelland etc.

D. McClelland (1961) adopted a psychological approach, and tried to explain parallel behaviors between highly achievement oriented (n – Ach) individuals and entrepreneurs. The need for achievement has been identified as an important motivator, at his work by McClelland. Most of the entrepreneur development training modules used in Sri Lanka are based on the McClelland approach. There are number of institutions engaged in conducting entrepreneur development programmes with the objective of creating and developing entrepreneurs in order to assist the economic development in Sri Lanka. "Achievement motivation" is one of the inputs in these programmes which is aimed at stimulating achievement thinking among entrepreneurs. It is expected that these process will accelerate the entrepreneur initiative achievement and growth, upon successful completion of these training programmes. A process adopting a psychological approach D. McClelland (1961) tried to explain parallel behaviors between highly achievement oriented (n – Ach) individuals and entrepreneurs. McClelland's efforts revealed that it is possible to influence economic growth in a community through an intensive short – term training programmes which is

aimed at producing a group of entrepreneurs whose motivations to achieve are highly aroused.

According to the McClelland, individuals with high need for power generally seek positions of leadership. They have been found business managers but not business founders. In terms of entrepreneurship McClelland identified the critical motive as the need for achievement (Individualistic approach) $n - Ach$ describes the pervading concern to do well to strive for excellence sake rather than for rewards of gain, recognition or prestige. The need for power ($n - Pow$) describes the desire to control, influence or have impact on others. The need for affiliation ($n - Aff$) describes the desire to establish maintain or renew effective relationships with others.

1.2 PROBLEM

Above all three motives may exist together in a person, but one is usually the dominant motive for most of his actions particularly in the choice of carrier where he finds fulfillment. According to the achievement motivation techniques, entrepreneurs have high need for achievement than non entrepreneurs and need for achievement ($n - Ach$) drives people to become entrepreneurs. McClelland describes that individuals with high need for power generally seek positions of leadership and they have been found business managers but not business founders.

The term “entrepreneur” and “Owner-manager” are often used to describe somebody who is engaged in the management of a small business. The term “owner- manager”, commonly used to describe those involved in running a small business. It encapsulates a condition which is typical of many small firms the predominant role of the owner as manager. The majority of small business is very small.

In the most of the small enterprises in Sri Lanka entrepreneurs act as managers of their enterprises and it could be clearly defined as a owner- manager characteristic. Therefore these entrepreneurs not only the owner of the enterprises but also do the activities relate to the production, human resources, marketing, finance and act as a manager of their enterprises.

In this context research will address following problem.

Does the entrepreneur's power orientation affect the growth of an enterprise?

1.3 RESEARCH OBJECTIVES

To examine the above problem the research focus on the following objectives.

- To identify personal power orientation factors of entrepreneurs.
- To identify how power orientation factors lead for enterprises growth.
- To identify how power orientation relate to success of enterprises.
- To identify how modern management techniques effect for enterprises growth.

1.4 HYPOTHESIS

In the research, it is planned to identify relationship between entrepreneur's power orientation and success of enterprises.

(a) H_0 - Null Hypothesis

There is a relationship between enterprise growth and power oriented variables.

(b) H_1 - Alternative Hypothesis

There is no relationship, between enterprise growth and power oriented variables.

1.5 SIGNIFICANCE OF THE RESEARCH

The small enterprises sector plays a vital role in developing national economy of any country. Today, small enterprises have been identified as an important strategic sector for promoting growth, improving quality of life and it has also been recognized as a major source of employment, income generation, poverty alleviation and regional development in Sri Lanka. Therefore small enterprises development efforts more important for the sustainable development of Sri Lanka economy. Not only that, small enterprises help to develop and widen the entrepreneur culture within the country. Therefore it is important to identify the factors relate to success of small enterprises, as well as related problems, for the benefit of entrepreneurs in the country.