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Procedia Economics and Finance 4 (2012) 373 – 383

Procedia Economics and Finance

www.elsevier.com/locate/procedia

International Conference on Small and Medium Enterprises Development with a Theme "Innovation and Sustainability in SME Development" (ICSMED 2012)

Conceptual framework of factors affecting SME development: Mediating factors on the relationship of entrepreneur traits and SME performance

Ignas G. Sidik[a]*

[a]*Prasetiya Mulya Business School, Jl. RA Kartini, Jakarta 12430, Indonesia*

Abstract

Only a small fraction of SMEs are successful in achieving exceptional performance and sustainable growth, The literature shows that there is still a gap for effective ways to increase the size of that fraction. This paper aims to contribute in filling the gap by identifying factors affecting SME performance and, hence, their development; and to develop a conceptual framework explaining their relationships. The literature reveals that although there is positive relationship between entrepreneur traits and firm performance in the context of SMEs, the relationship is still inconclusive; suggesting that there are intervening constructs between the two constructs. Field observations and literature reviews suggest five second-order constructs serving mediating roles between entrepreneur traits and firm performance that may clarify the relationship, i.e., (1) innovative performance, (2) innovative capacity, (3) organizational search, (4) market orientation, and (5) entrepreneurial orientation. Although the relationships among the seven constructs have been extensively studied in the extant literature, this paper is one of the few efforts, if any, in investigating the seven constructs in a comprehensive framework as a basis for further studies. If empirically supported, the proposed framework may provide an effective alternative in assisting entrepreneurs and SMEs' owners to develop their firms more effectively.

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***Keywords*: SME; entrepreneur traits; firm performance; innovative performance; organizational search; innovativecapability; entrepreneurial orientation; market orientation**

* Corresponding author. Tel. +62 21 750 00463
Email address: sidik@pmbs.ac.id.

2212-5671 © 2012 The Authors. Published by Elsevier Ltd.
Selection and peer-review under responsibility of Parahyangan Catholic University.
doi:10.1016/S2212-5671(12)00351-6

1. Introduction

By number, the majority of the SMEs population is the subsistence firms and small firms. Very few of those small firms can reach the medium size which, eventually, a portion of them have the potential to further develop into large firms depending upon the founders and the entrepreneurs of those firms (Nichter and Goldmark, 2009).

One of the main differences between SMEs and large organization is the dominance of the entrepreneurs or the owners in the SMEs' organization and management (Miller and Toulouse, 1986a, 1986b). Altough there is evidence that there is positive relationship between an SME's entrepreneur(s) -or owner(s)- and the firm performance, the constructs that play important roles between the two are not yet clarified.

The purpose of this paper is to identify some of the antecedents of SME performance that affect SMEs development, and to investigate the relationships among those antecedents. Therefore, this paper develops a conceptual framework for explaining the roles of mediating constructs between the entrepreneur and the SME performance.

Literature revealed five constructs that may mediate the relationship between entrepreneur traits and firm performance, i.e., entrepreneurial orientation, market orientation, organizational search, innovative capacity, and innovative performance. This paper's contribution is in integrating those constructs into a comprehensive conceptual framework to enable a better understanding of the "what's" and the "how's" in efforts for fostering SMEs growth and development.

The remainder of this paper will be organized as follows. First, a brief description of the conceptual framework will be introduced. Then, concise literature reviews of each of the seven constructs will be presented followed by relevant hypotheses. In total, eleven hypotheses on the relationships among those seven constructs will be generated. Finally, implications for further studies will be described.

2. The proposed conceptual framework

This framework is developed based on a broad literature review to identify constructs that are significant in explaining SMEs' performance. The literature review identifies five key constructs that may mediate the relationship between entrepreneur traits and firm performance, i.e., (1) entrepreneurial orientation, (2) market orientation, (3) organizational search, (4) innovative capacity, and (5) innovative performance. Although each of the seven constructs, as well as the relationships among some of those constructs, have been studied intensively in the extant literature, the proposed conceptual framework maybe one of the few, if any, efforts to consolidate those constructs in a single framework.

The proposed conceptual framework is shown in Fig. 1. The exogenous construct is the entrepreneurial traits while the ultimate endogenous construct is SMEs performance. All the other constructs are endogenous.

3. Literature review and hypotheses development

3.1. Firm performance

Firm performance (FP) is usually measured as financial and nonfinancial performance measures. Financial performance comprises of financial efficiency measures such as return on investment and return on equity, and profit measures such as return on sales and net profit margin (Li, Huang, and Tsai, 2010).

Nonfinancial measures include customer satisfaction, sales growth, employee's growth, and market share. Some of the nonfinancial mesures are end performance measures such as market share and share growth, while some of them may serve as leading indicators of end-result financial performance.

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