

## The Entrepreneurial Culture Value Patterns and Business Practices of Small and Medium Enterprises in Sri Lanka Based on Selected Case Studies

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### Abstract

*Entrepreneurial cultural values of Small Medium Entrepreneurs play an important role in the development of entrepreneurship development. This paper is to study the entrepreneur value patterns and their business practices in Sri Lanka. This is a descriptive study and the analysis is qualitative based on Ten Textile and Jewelry Trades in the City of Colombo and for the data collection a structural questionnaire was administered and personal interviews were conducted.*

*It was found that the entrepreneurial cultural value system and their business practices are different from that of western entrepreneurs. The common business related practices found to be seen personalized leadership, centralized decision making, reluctant to delegate authority, informal recruitment policy, specific local market orientation, not using modern financial facilities and direct supervisions are based on their entrepreneurial values such as low initiatives, low risk tolerance, low level openness, medium level conflict tolerance and medium level supportiveness. However, the successful entrepreneurs' business practices such as benevolent authoritarian leadership, decentralized decision making, delegating authority to others, and expanding their local markets are highly influenced by their loyalty, medium openness, initiatives and risk tolerance and high conflict tolerance.*

*Besides the researcher has found that there is a link between the background factors and the value systems of entrepreneurs. Therefore it gives new idea for the future researchers.*

**Keywords:** *Small Medium Entrepreneurs, Culture, Value System, Business Practices*

### Introduction

It is clear that Small Medium Enterprises (SMEs) play a strategic role in developing economies in countries like Sri Lanka. According to the World Bank reports, the non-traditional exports such as fisheries products, gems and jewelries, textiles and garments, manufactured goods, petroleum products, exports and re-exports have expanded rapidly and presently accounts for about 82% of the total exports of Sri Lanka. In addition to this Statistical Department report indicates that, in the case of all Small Scale Industry organizations having over five employees, the employment figure is about 72% and their output is a decent 92.5%. On the whole their value is 93%.

This evidence proves that these SMEs have become a major asset in the economy of Sri Lanka. But a crucial question has risen in the process of advanced industrialization as to how will the SMEs in Asian countries adapt to the changing economic environment to maintain their higher productivity and competitiveness in global markets. The adaptation depends upon and influence by the level of flexibility and the characteristics of entrepreneur. Therefore it is very important to analyze the characteristics of Small and Medium Scale Enterprises and their business practices together with their managing practices.

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adaptation to the environment in SMEs that in the developing countries were failed to adapt according to the changing environment. In addition to that survival of SMEs also has become a significant issue. \*\* If they have not adapted (followed the so called developed management and business practices) that indicate the survival and slow development is a result of ineffectiveness of entrepreneurs' current practices. If those practices are based on their own values and beliefs system then probable conclusion is that those values and beliefs are not encouraging or supporting (negative influence) success of business activities. If they have followed those "successful practices" then the probable conclusion is that there is misfit of those practices in the local environment. This is an interesting aspect to be studied.

It is very obvious the business practices are different among the organizations and there is a difficulty to follow a common business practices. This difficulty may be influenced by various environmental factors including the culture.

There had been only a few studies to examine the entrepreneur cultural environment and entrepreneurship development. For example, Cochran (1965) found a culture that accords high status to entrepreneurs would promote entrepreneurship. Cooper (1973) identified that entrepreneurship is a function of 'conductive environment' which is characterized by culture that holds entrepreneurs in high status, availability of entrepreneurs role model, facilitating tax structure, availability of venture capital, availability of skilled manpower, availability of research and consultancy organizations, and a booming general economic condition. Mc Clland and Burnham (1976) found that a high need for power, a low need for affiliation, and an ability to discipline oneself are the characteristic features of the entrepreneurs. Shapero and sokol (1982) identified the situational and cultural factors influencing entrepreneurship as a life-path chances, perception of desirability, and perception of feasibility. Scheinberg and MacMillan (1988) found cross-cultural differences in the motivation to start a new business. To fill this

research gap the researchers try to study the cultural values of the entrepreneurs and their business practices.

Therefore the objective of the researchers is to examine the relationship between the entrepreneur Cultural values and Business practices and Managing practices of the entrepreneurs in the Sri Lankan Urban Sector. The following questions were planed to answer through this study by the researchers

- What business and managing practices are followed by these entrepreneurs?
- How have they developed their entrepreneur culture and what are their values?
- What relationship is there between their cultural values and business and managing practices?
- How do these successful entrepreneurs perform their business?

#### **Literature review**

Though Entrepreneurship could be defined in many ways, the Asian perspective describes "Entrepreneur is a person who undertakes, organizes, manages and assumes the risk of running an enterprise."

Values are the determinant of the behavior of a person and the culture of the society. Kuckhone (1951) define value is a conception, explicit or implicit, .... of the desirable which influences the selection of available modes, means and ends of action'. They serve as standards or criteria to guide not only action but also judgment, choice, attitude, evaluation, argument, exhortation, rationalization and one might add attribution of causality. Laverne (1972) described that cultural values are shared assumptions of what is right, good or important. These cultural values are different in societies and it may change over a period of time. Abbas J.A, Chaoming Liu, Yu Kai, Cheng and He wei, MalaSinha and Chakraborty have discussed the business value of different countries. (Hentry S.R.K and Durganand, S : 1999 ).

These work values are very important to the management practices and business practices of an organization. Sekhar (1999:24) said that

we can convert values into rules of behavior that can then be described as ethics. Hence Small and medium enterprises are owner manager the owners ethical values become the determinants of successfulness of business.

In Sri Lanka, there were very few studies conducted on culture and management. It is noticed that, Nanayakkara (1999) studied the Sri Lankan culture and society and discussed the elements of the socio-cultural system inclusive of the family, caste, ethnicity, class, religion and education and noted the philosophical foundations of the Sri Lankan culture and society. According to their explanation of culture and behavior matrix, they stated that there is a relationship between cultural behavior and management process.

In a Small and medium enterprises as owner is a manager, the owners values are the determinants of their organizational culture. Therefore the researcher considered this organizational culture as the entrepreneur's culture.

Even though there is no definite type of entrepreneurial culture, it can be identified based on the values of organizations. According to, Jeeffray, Sonnenfeld (1997) found Member Identity, Individual Initiatives, Management Support, Communication Pattern, Control ,Risk Tolerance, Reward Criteria, Conflict Tolerance ,Means-end Orientation and Open System Focus as the major variables in an organizational culture.

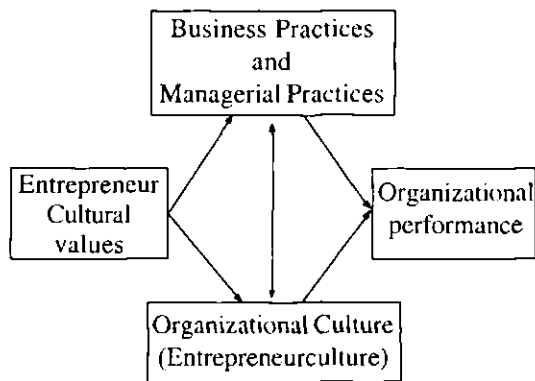
Most of these features were categorized in a different way by the Harrison. Therefore the researcher found that although there are many types of culture explained by the different authors most of the characteristics are interrelated. Harrison, R (1972) used four types of Organizational culture (earlier works by Harrison-1972, and Handy (1978 and 1985). Such as a role culture, an achievement culture, power cultures and support culture. Steven (1986) studied the following four major Managing Practices of entrepreneurs in established companies. They are: Organizing (activities and relationships), Planning (for the days ahead), controlling (what is going on) and

Leading (classic sub topic of managing). The aforesaid practices are not in common in all these entrepreneurs. Bjorn (2000) stated in his culture based interpretation of management of small medium enterprises, in western (America) and Eastern (overseas Chinese) where he noted the similarities and differences among these managing practices.

**Methodology**

To study the above problems, the researchers selected only ten Small and Medium Jewelry Enterprises in the City of Colombo and the basic methodology been the case studies. The information collected through the interviews of ten SMEs used to reinforce the specific cultural issues. For the study the researchers used the following conceptual model.

**Figure1: Conceptualization model**



Source: Developed by researchers

**Discussion**

**Performance of the entrepreneurs**

The factors selected by the researcher for Entrepreneur Performance are Period of Survival in Business, Business Expansion and Sales Trends in Business.

**Table: 1 The level of Entrepreneurs Performance**

| High | Medium | Low | Total |
|------|--------|-----|-------|
| 6    | 2      | 2   | 10    |

Source: Case study

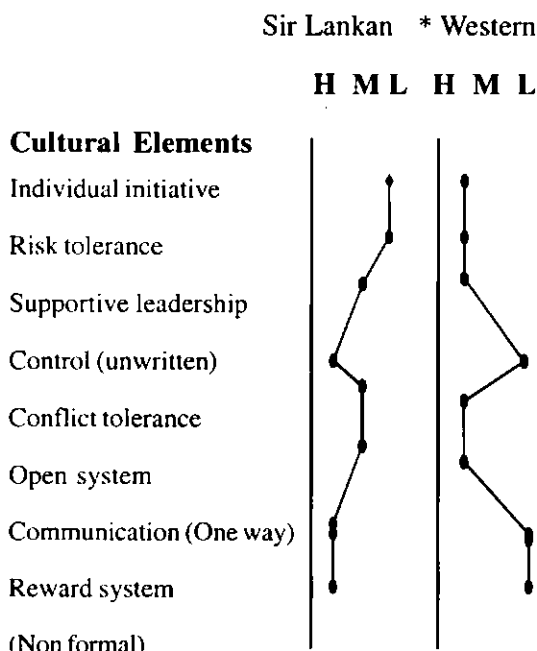
The above table indicates that the level of performance of selected SMEs.

In this study, the researcher's focus is mainly on "value base" to disclose as to what extent

the entrepreneurs exhibit their behaviour. To identify their culture in business the following values were considered: Individual Initiatives, Risk Tolerance, Support Management, Conflict Tolerance, Reward Systems, Communication Patterns, Open Systems and Control Systems. Have they maintained the same patterns of Value Systems in their organisations?

The findings of the sample show clearly that the general value patterns of these entrepreneurs are different from that of their western counterparts. Nature of business values based on their background is compared thus:

**Figure 2: Differences between the Sri Lankan and American Entrepreneurs**



(Based on survey data based on information provided by different studies)

The above chart clearly proves that these entrepreneurs have different business value patterns and their supportive leadership is their most important and crucial instrument to promote success. Do these different value patterns create different entrepreneur cultures, business practices and managing practices among the Eastern and Western entrepreneurs?

When groups of people live and work together for a longer period, the inclination is to form

and share certain collective beliefs and values that are right within them and according to such beliefs they establish their own behavioral patterns. The formation of culture in the organisation depends on the style of leadership and it was found that, in most of the SMEs the owner is the manager. So, it is the owner who creates the Enterprise Culture which is called the Entrepreneur Culture.

The researchers have identified the facts that power culture plays an important role in one's success and leads others as to what they should do. Medium level support culture, low level achievement culture and role culture are much common among most of the businessmen. It can be proved that, the performance of the entrepreneurs may not be determined by the value system alone, but by the way they translate their values into practice, whether they practice in the same way and how their practices deviate from the western entrepreneurs.

In this competitive world of globalization, one requires high quality products and services with less cost, which leads to more adaptability and modification in behavior. This prefers less power distance and high achievement culture. The successes of these entrepreneurs rely on a mixture of high power, medium support and achievement culture, which totally differs from western cultural values. However the personal background of these entrepreneurs established a certain type of culture, which is highly matched with their socio cultural environment which gives them success. Therefore one should know whether the personal background of an entrepreneur plays a major role in his success over other factors. Such could be studied in the future.

The researchers have noticed that some of these values such as loyalty, honesty, family kin-ship, harmony, and high power distance are closely associated with their human resource management practices. Especially they followed informal recruitments and unwritten job descriptions to maintain loyal, honesty and obedient workers in their organizations.

It is found that most of the business values are correlated with marketing practices and cope up successfully with periodic market recessions. Certain entrepreneurs are very kind and honest and high value in quality. Their minds are always wide open to build a close relationship with their customers. Experienced entrepreneurs those who prefer values for example competitive and aggressive risk taking propensity and open system, are much reorganized on expanding their market and they face the competitive environment successfully.

The researcher found that although the entrepreneurs have similar values their practices are different. Because of these dissimilarities some are successful and some are not. It could be observed that the managerial skills, experience and knowledge are playing an important role in their business success.

It was observed that, most of the entrepreneurs who deal with medium level initiatives, medium level risk tolerates and medium level open systems do not believe in planning and are vacant of long term objectives. When faced with simple situations their decisions are particularized, but when highly complex situations arise and need analytical decisions they seek the assistance of family members or senior employees or both.

The researcher identified the fact that the selected entrepreneur's values affect their organizing practices. The case analysis has proved that except a few entrepreneurs, the rest are much reluctant to delegate authority and positions generalized rather than specialized and as such reflect their high value on medium individual initiatives, risk tolerance, open system and high power distance.

As said their leadership is highly centralized and particularized, but to some extent it could be identified as benevolent authoritarian.

The high power distance and tight control make the entrepreneurs demand duty from their employees in an informal way. As controlling

practices are based on loyalty most of the key positions are held by family members and it is they who personally supervise, conduct and control all business activities. The most common belief in these selected entrepreneurs is that, *the key to success is controlling*. Hence they maintain both tight control and power distance.

It was also noticed that some entrepreneurs have distinctive strategies due to their personal background.. However it was noticed that all values are deep and stable in their establishments and cultural and religious traditions which are strongly alive in their minds.

### **Conclusion**

The secret behind the successful entrepreneur is his supportive leadership, tight control, one way communication and rewards based on loyalty and performance. These entrepreneurs have shown more power distance, medium level people orientation and risk tolerance, and low levels in legality over their counterparts and the value patterns of these entrepreneurs in Sri Lanka are different from western entrepreneurs as the Sri Lankans prefer high power distance and tight control through their informal rules and regulations. Therefore it is clearly seen that cultural values of these Sri Lankan Entrepreneurs and Modern Management are not compatible. Therefore entrepreneur behaviour can be defined differently in different cultural context.

It can be concluded in relation to business practices most of the entrepreneurs are having values which support authoritarian leadership and power culture. As a result most of their management practices are very much closer to traditional management practices. Although some of the modern business practices were identified among high perform entrepreneurs, they too continue the same practices which are need to maintain the authoritarian leadership and power culture.

However it was noticed that personal background of the entrepreneur could play an important and major role in the success of his business over every other factor and such

could be discussed in a future research.

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