

“The impact of motivation level of Small business owners on the financial performance of their firms”

With special reference to Gampaha District.

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Abstract

Successful small business activity is important for a healthy economy and can be a major source of job creation. While the concept of entrepreneurship has been around for quite some time, researchers continue to explore the factors that underlie small business financial performance. Specifically, researchers have sought to further examine why some small ventures are more successful than others. The motivation has gained the attention of researchers and practitioners alike. Practitioners have realized that employees can no longer be perceived as biological machines that are capable of leaving their feelings, norms, and attitudes at home when they go to work. Researchers are embracing the motivation because of its relationship with efficiency, productivity, sales, and revenues, quality of service, customer loyalty, employee recruitment and retention and employee commitment.

This study empirically examines the impact of motivation of small business owners on their financial performance. The results of the study showed that motivation is at high level and financial performance is at moderate level. The Pearson’s correlation analysis indicated that there is a strong positive correlation between motivation and financial performance. The regression analysis indicated that there is a positive impact between motivation and financial performance. The implication of the finding is high level of motivation positively correlate with financial performance.

Key words: Motivation, Financial performance.

1. Introduction

A large percentage of Sri Lankan population is living in rural areas, which consist of more than 75% percent of the island’s population. Small industries play a major role in the rural areas for creating an economic environment in which large firms flourish and contribute to export earnings.

The definition of small enterprise varies because of the diversity of small business. Every simple definition is subject to criticism. The definition of a small business is determined by the Department of Census and statistics according to number of employees. (Small businesses have less than 10 employees.) Researcher carried out this survey based on that definition of small business throughout the Gampaha District. The aim of any small business to startup their enterprise is to obtain profit there from. Thus, it is important to study the mindset of Sri Lankan small business owners. Successful small industries today are about how well motivate themselves and others.

“We are being judged by a new yardstick. It's not how smart you are but how you are smart! The technical skill or the business expertise that so often propelled people to the top is not the abilities that make you effective in inspiring people, in guiding people, in coaching, developing and motivating people.(Daniel Goleman (as cited in Deborah Mackin, 2006).

A proper financial performance provides a full range of accurate and reliable information to compare the actual performance of the company's activities through specific indicators are obtained from the actual performance and compare it either in specific percentages or specific targets and thus determine if there is any deviations.

Thus this study contributes to the field of Small scale industries by assessing the influence of motivation on financial performance with special reference to Gampaha District.

1.1 Research Problem:

Providing a better understanding of the role of motivation of small business owners on financial performance of their firms is a primary focus of this investigation. Because very little research on motivation has been conducted in the Small industries realm, this study provides insight on the significance of studying motivation in this field. This research investigation seeks to address relationship between motivation level of Small business owners and the financial performance of their firms. One form of Small industries success is addressed by this research as financial performance.

As such, this effort is to identify what is the impact of motivation level of Small business owners and the financial performance of their firms?

1.2 Research Objectives:

The followings are the objectives of the study:

- To determine the level of each motivation dimension (Achievement drive, Commitment, Initiative, and Optimism) of small business owners.
- To discover the level of financial performance of small business.

- To examine the relationship between motivation of Small business owners and financial performance of their firms.
- To explore the impact of motivation of Small business owners and financial performance of their firms.

2. Literature Review:

2.1 Motivation:

Motivation is one of the dimensions of emotional intelligence. Marshaling emotions to accomplish a goal is essential for paying attention, self motivation, mastery and for creativity. People with this skill are highly productive and effective at whatever they undertake.

According to Rajju et al (2011) motivation means enjoying challenge and stimulations, seeking out achievement, commitment, ability to take initiative, optimism, and being guided by personal preferences in choosing goals.

Motivation is evaluated with the help of four indicators: Achievement drive, Initiative, Optimism, and Commitment as indicated by Goleman (1998).

2.1.1 Achievement drive:

Personality trait characterized by an enduring and consistent concern with setting and meeting high standards of achievement. This need is influenced by internal drive for action (intrinsic motivation), and the pressure exerted by the expectations of others (extrinsic motivation). Measured by thematic appreciation tests, need for achievement motivates an individual to succeed in competition, and to excel in activities important to him or her.

2.1.2. Initiative:

An individual's action that begins a process, often done without direct managerial influence. For example, an employee might take the initiative to come up with a new product or service that the company could offer.

2.1.3. Optimism:

Optimism is one of the competencies central to "Choose Yourself." By employing a habit of optimism, people recognize that they have a choice, which is an essential part of taking ownership of their behavior

2.1.4. Commitment:

Making a commitment involves dedicating yourself to something, like a person or a cause. Before you make a commitment, think carefully. A commitment obligates you to do something.

2.2 Financial Performance:

Previous research studies have concluded that some traditional measures are not appropriate when studying Small business because of enormous and erratic growth rates, or small starting capital (e.g., Walsh & White, 1981). Thus, conventional financial measures of performance (e.g., ROI and ROA) may also have inherent challenges. Additionally, objective measures such as survival or breakeven points are often difficult because of the need for a longitudinal sample design.

Financial firm success is measured in broad categories of growth and business volume. The three items used to measure growth include the following: (1) perceived growth in market share; (2) change in cash flow; and (3) sales growth. The three items used to measure business volume include (1) earnings, (2) sales, and (3) net worth (Chandler & Hanks, 1993). The evaluation of psychometric properties from previous investigations indicates that these scales are valid and reliable for research involving financial entrepreneurial firm success (e.g., Chandler & Hanks, 1993). Chandler and Hanks (1993) used confirmatory factor analysis and all coefficient alphas met or exceeded the .70 recommended for research purposes (Nunnally & Bernstein, 1994). Specifically, the coefficient alpha for the growth scale was .72, and .81 was the coefficient alpha for the business volume scale.

3. Methods

3.1. Sampling Design

The study was conducted among the small business owners in Gampaha District. A sample of 100 small business owners was chosen, who carried small business in Gampaha District. The technique of stratified random sampling was used for the study. The study was based on the primary data collected by administering a questionnaire on the sample.

The questionnaire was developed for the study purpose by incorporating the Emotional intelligence (EI) proposed by Goleman (1998). Further the models proposed by Bar-On (1997) and Dulewicz and Higgs (2000) also were employed to develop the questionnaire. The opinions of the respondents with regard to each statement were evaluated on a five-point Likert scale ranging from „strongly disagree“ to „strongly agree“.

3.2 Methods of Data Analysis and Evaluation

3.2.1 Univariate Analysis

Univariate analysis was used to identify the level of each single variable of this study. The following criteria were used to evaluate the results.

Table 1: Decision Criteria for Univariate Analysis

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Range	Decision attributes
$1.0 < X_i \leq 2.5$	Low level
$2.5 < X_i \leq 3.5$	Moderate level
$3.5 < X_i \leq 5.0$	High level

(Source: developed for research purpose)

3.2.2 Bivariate analysis

Bivariate analysis was made to determine, whether there is any relationship between, Motivation and Financial performance.

3.2.2.1. Correlation Analysis:

The Correlation Analysis was used to measure the magnitude and the direction of the relationship between two variables (Gupta, 1971; Field, 2000). The Correlation Coefficient, denoted by “r” was the measure of the closeness of the relationship between two variables.

1. The value “r” lies between -1 and +1.
2. The magnitude of “r” indicates the strength of the linear relationship while the sign indicates the direction.
3. The value of “r” close to zero means that the linear association is very weak.
4. An observed high correlation between two variables does not indicate any cause and effect relationship, i.e., it may be caused by the influence of another (third) variable.

3.2.2.2. Simple regression Analysis:

The Simple Regression Analysis was used in this research to determine the functional relationship between a Dependent Variable and an Independent Variable (a predictor) for the purpose of prediction and making other inferences (Gupta, 1971; Mason, Lind, & Marchal, 1999; Field, 2000).

The Simple Regression Analysis was made to determine the functional relationship between the following set of a Dependent Variable (DV) and an Independent Variable (IV).

1. The relationship between a Dependent Variable and an Independent Variable (a predictor)
2. The strength of the relationship
3. Statistical significance of the relationship

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4.Data Analysis

4.1 Levels of Motivation and Financial Performance Dimensions

Motivation is evaluated with the help of four indicators: Achievement drive, Initiative, Optimism, and Commitment as indicated by Goleman (1998). Similarly financial performance is evaluated by growth (Sales value, Assets value), business volume (Earnings, Net worth) as proposed by (Chandler & Hanks, 1993). Table 2 indicates the average values of the indicators for each variable of Motivation dimensions and financial performance and table 3 indicates the summary details of the independent and dependent variables.

Table 2: Levels of MIS and Employee Performance Dimensions

Dimension	Indicators	Mean	Standard Deviation
Motivation	Achievement drive	4.08	1.308
	Initiative	4.00	1.214
	Optimism	3.91	1.190
	Commitment	3.24	1.280
Growth	Sales value	3.17	0.933
	Assets value	2.86	0.876
Business volume	Earnings	3.19	0.929
	Net worth	3.09	1.093

Source: Survey Data

The summary of the motivation as well as the overall score of financial Performance are depicted in Table 3.

Table 3: Summary Measures of Motivation and Financial Performance

Variables/Dimensions	Mean	Standard Deviation
Motivation	3.8075	1.04019
Financial Performance	3.071	0.8239
Growth	3.015	0.8332
Business Volume	3.140	0.9510

Source: Survey Data

4.2 Correlation Analysis:

Pearson (r) correlation coefficient was computed to test the direction and strength of relationships that exist among the study variables. Table 4 below presents the results of correlation analysis. Further it has been revealed that all dimensions of MIS have strong positive relationship with employee performance.

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Table 4: Correlation between Motivation and Financial Performance

Variables/Dimensions	Financial Performance
Motivation	0.664

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

Source: Survey Data

4.3 Multiple Regression Analysis:

The results from the multiple regression analysis are shown in the table below.

Table 5: Impact of Motivation on Financial Performance

Variables/Dimensions	Regression Coefficients
Motivation	R Square
	0.441
	a- Constant
	1.086
	b- value
	0.523

**Significant at 5 per cent level (p<0.05)

Source: Survey Data

5. Results and Discussion:

5.1 Level of Motivation and Financial Performance:

Motivation is evaluated under four dimensions: Achievement drive, Initiative, Optimism and Commitment. All the dimensions of Motivation have a higher level of attribute (mean values of Achievement drive, Initiative, Optimism and Commitment are 4.08, 4.00, 3.91, and 3.24 respectively) (Table 2). Among these dimensions, „Achievement drive“ has a comparatively higher level of attribute, while Commitment has a lower level of attribute. According to the table 3 mean value of the motivation is 3.8075. According to this it can be concluded that it is at high level of motivation of small business owners.

Similarly, financial performance (dependent variable) is evaluated under two dimensions: Growth and Business Volume. All the dimensions of financial performance have a moderate level of attribute (mean values of Growth and Business Volume are 3.015 and 3.130 respectively) (Table 3). Similarly, growth is measured by two indicators: Sales value and Assets value. All the indicators of growth have a moderate level of attribute (mean values of Sales value and Assets value are 3.17, 2.86 respectively) Also, all indicators of business volume have moderate level of attribute (mean values of Earnings, Net worth are 3.19 and 3.09 respectively) (Table 2).

5.2 Relationship between Motivation and Financial Performance:

It is observed from Table 5 that correlation is significant at 0.01 levels (2-tailed). The r-value between motivation and financial performance is 0.664. This value fall in the range of $r = 0.5$ to 1.0 or $r = -0.5$ to -1.0 , indicating that there is a strong positive correlation between motivation and financial performance.

5.3 Impact of Motivation on Financial Performance:

This analysis shows that motivation significantly contributes to financial performance. These predictions have been significant at p-value of 5% ($p < 0.05$). The r value (coefficient of correlation) indicates 0.664 of strong positive relationship between motivation and financial performance which is greater than 0.5 ($r = 0.664$, $p < 0.01$). As indicated by R Square, 44% of the variance of financial performance is explained by motivation. This suggests that motivation has significantly explained 44% of the variance of financial performance (Table 5).

6. Conclusion, Recommendation and Implications:

6.1 Conclusion

Successful small business activity is important for a healthy economy and can be a major source of job creation. Therefore, it is essential to discover the impact of motivation on financial performance with respect to Gampaha district.

The research problems of this study are how motivation has impacts on financial performance and whether there is any significant relationship between motivation and financial performance. These problems have been addressed through the findings. It was implied that motivation has positive impact on financial performance. Further, motivation explains 44% variation in financial performance.

The results of the study showed that motivation is at high level and financial performance is at moderate level. The results of the correlation analysis indicated that there is a strong positive correlation between motivation and financial performance. The implication of the finding is high level of motivation positively correlate with financial performance. Therefore, it is very important for the small business owners to pay attention on motivation level of owners and their employees that would be beneficial to achieve organizational goals and objectives.

6.2 Recommendation:

Based on this research study we can conclude that at the time of having high level of motivation, this lead to increase financial performance, Based on the above conclusion, following recommendations can be made to provide guidelines to improve motivation level. Every small business owners should focus to the following questions and be with emotional intelligence skills, who am I? Small business owners need to take honest stock of them.

What's my impact on the team? Identify inability or unwillingness to play well with others. Do a periodic team assessment among the small business owners. As well as focus to provide following guidelines to their employees such as Guide small business owners to pursue information to reduce uncertainty and find ways to do better. Create working culture which is ready to make sacrifices to meet larger organizational goals. Create working culture which values feelings, emotions and perspectives of others. Give timely coaching and offer assignments that challenge and foster other's skills.

Government organizations have to provide skills training to small business owners. At the time of giving motivation type of training in a particular time frame, it will not work out, because emotions are differ person to person and its daily changing, so this type of training have to provide in a regular basis.

Organizations can Provides workshops, Seminars, Social skills training, Team effectiveness programs, Career development and planning seminars to small business owners with objective information on their motivation. And also Government organizations have to provide financial supports for small scale entrepreneurs to enhance their financial position.

6.3 Future Research and Implications:

Future researchers should pay attention on the role of motivation in the Public Service. Although a substantial amount of research has been conducted on the role of motivation in private business, there is a lack of research examining motivation in the public service sector.

As considerable controversy still exists on the differences between the motivation levels of men and women, experience, education and age level future research could explore other demographic characteristics as well. Besides the differences between those factors, researchers could explore differences in, ethnicity, number of employee, industry, and venture size. As with any investigation, future research should also be conducted to replicate the findings of this investigation. When additional analyses are conducted investigators should consider using other statistical techniques, such as hierarchical regression or structural equation modeling to further validate the results. Finally, additional research is necessary to explore other potential mediating and moderating variables.

Contributions from this study may also be of high utility for educators. Currently, many entrepreneurship courses emphasize entrepreneurial management and planning skills, but overlook entrepreneurial skills like emotional control, creativity, and relational abilities. The skills taught tend to be technical, lacking attention to cognition and belief systems of the entrepreneur (Kickul & D'Intino, 2005). Support for the research questions in this study would confirm the key motivation skills and allow small business owners to launch successful businesses in a competitive, global climate.

The results of the study provide insight for individuals with entrepreneurial aspirations, Academic institutions, as well as government and financial entities that provide resources to small business ventures. The research provides particularly important information to practicing small business owners designing their organizational strategies to ensure growth, profitability, and organizational success. This dissertation contributes to a better understanding of motivation on financial performance of small business and encourages additional research to be conducted on the role of motivation in various occupational contexts.

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