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## Entrepreneurial behaviour and firm performance of Ethiopian tour operators

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## English Summary

In developing countries, entrepreneurship is often seen as one of the solutions for economic development through job creation in the private sector. However, the studies on the impact of entrepreneurship in developing countries have not shown any comprehensive analyses of the effect different types of entrepreneurial opportunities have on poverty alleviation (Alvarez and Barney 2014). Vermeire and Bruton (2016: 1) argue that our theoretical understandings of entrepreneurial opportunities in resource constrained contexts such as sub-Saharan Africa "remains largely limited to those opportunities that can be created or discovered in developed market economies".

Despite the fact that firm performance is a highly relevant topic for poverty alleviation in developing countries, few studies have investigated the nature and types of entrepreneurial behaviour and their eventual impact on firm performance. Researchers emphasize that entrepreneurship research in developing countries needs to better understand the "job creation and economic growth potential of different types of entrepreneurial opportunities" (Alvarez and Barney 2014: 160). This also adds new insights and knowledge to entrepreneurship literature by fine-tuning existing opportunity theories from developed economies (Bruton *et al* 2008). Hence, the general aim of this PhD study is to investigate the entrepreneurial behaviour of small business owners in a developing country context in their opportunity identification and exploitation process and the implications of such behaviour on the eventual firm performance.

This PhD thesis draws on empirical evidence from small tourism firms in an African context and aims to narrow the existing research gaps in entrepreneurship literature by providing answers to two main research questions: 1) *What does the entrepreneurial behaviour of small business owners look like when starting-up new businesses in a developing country context?* and

2) *What effect does the entrepreneurial behaviour of small business owners have on the subsequent performance of their new businesses in a developing country context?* Thus, the PhD study extends the scope of opportunity research into the domains of entrepreneurial behaviour and firm performance.

This empirical research has been conducted in the context of a developing country (Ethiopia) where entrepreneurial culture is limited due to social, cultural, economic and political factors. Entrepreneurial activities are recent phenomena in Ethiopia. Only since 1991 has Ethiopia begun moving towards a market economy. As the main focus of this study is concerned (i.e. tour operating firms), there was only a single state owned firm (i.e. the National Tour Operation) before 1991. The findings are, therefore, based on primary data collected from 220 respondents who own and manage tour operating firms in an uncertain and dynamic entrepreneurial context. The main findings are interconnected and arranged sequentially: those in Chapter 2, 3 and 4 are based on data collected from 102 respondents during the first round field visit. The findings in Chapter 5 are based on data collected from 118 respondents during the second round field study. Nonetheless, the actual number of the interviewed tour operators is less than 220 due to an overlap between the groups of respondents interviewed during the first survey (n=102) and the second survey (n=118) even though data were collected from 220 respondents,

Chapter 2 covers the ongoing debate on the dichotomous nature of discovery and creation concepts by providing an answer to the question: *Is it possible to distinguish discovery behaviour and creation behaviour among small business owners in a developing country context?*” The research reveals that there is a measurable distinction between discovery behaviour and creation behaviour in this developing country context. In order to collect the data, a new scale was developed by using the conceptual descriptions of

Alvarez and Barney (2007) regarding the seven entrepreneurial actions for discovery and creation concepts as proxies. We modified and used their statements to provide 47 valid and reliable items.

Chapter 3 determines which particular entrepreneurial behaviour is applied by small business owners to identify new opportunities: *Which entrepreneurial behaviour is more applied by small business owners in a developing country: creation or discovery?* Decision-making, strategy and finance are shown to be largely driven by creation behaviour rather than discovery behaviour. However, they apply more discovery behaviour than creation behaviour in their human resource practices. In a nutshell, small business owners in this developing country apply both types of entrepreneurial behaviour even though creation behaviour is more common.

Chapter 4 determines whether one type of entrepreneurial behaviour leads to a higher firm performance than the other by providing an answer to the research question: *Which entrepreneurial behaviour of small business owners leads to a higher firm performance in a developing country context: creation or discovery?* To answer this question, we compared creation behaviour against discovery behaviour to test the eventual impact of creation behaviour on four firm performance measures (i.e. sales, employment, profit and assets). This PhD study shows that creation behaviour results in a higher increase in sales, profit and assets, but not in employment. The answer is, therefore, that creation behaviour eventually leads to a higher firm performance (though not fully) than discovery behaviour in this developing country context. Notwithstanding the overall higher effect on eventual performances of small firms founded and owned by entrepreneurs with mainly creation behaviour, there is no significant difference between the separate effects of each of the entrepreneurial actions under creation behaviour and discovery behaviour on eventual firm performance.

Chapter 5 examines the eventual difference in firm performance due to the different behaviour entrepreneurs employ in their decision-making logic: *Which decision-making logics of small business owners leads to a higher firm performance in a developing country: causation or effectuation?* The results are mixed: the causation behaviour in early-stage decision-making results in a higher change in employment size, whereas effectual behaviour results in higher financial performance (i.e. sales, profit and assets). Nonetheless, not all of the four principles of effectuation predicted financial performance. For instance, the principle of pre-commitment results in an increase in all the three financial performance indicators (sales, profit and assets) and the principle of affordable loss results in an increase in profit, whereas the principles of experimentation and flexibility have no effect on financial performance. This PhD study shows that causation is positively related to a non-financial performance measure, whereas effectuation is positively related to financial performance measures even though the overall effect of its dimensions vary in their separate effects on sales, profit and assets increase.

Based on the findings of the first two empirical chapters, the answer to the first question: *What does the entrepreneurial behaviour of small business owners look like when starting-up new businesses in a developing country context?* is that both discovery and creation behaviour can be distinguished. Creation is the predominantly applied behaviour in at least three of small business owners' entrepreneurial actions (i.e. decision making, strategy and finance) while discovery is predominantly applied in only one action (human resource practices). The results of the next two empirical chapters in answering the second research question: *What effect does the entrepreneurial behaviour of small business owners have on the subsequent performance of their new businesses?* show that the impact of different entrepreneurial behaviour varies using financial and non-financial performance measures. Creation and effectual behaviour have a

positive impact on financial performance measures (sales, profit and assets), contributing to personal wealth creation among small business owners in developing countries, but have no significant impact on employment size change. On the other hand, causation behaviour is positively related to non-financial performance measure (i.e., an increase in employment size), but not with financial performance measures. This PhD study concludes that both causation and effectuation have varied implications on firm performance. In other words, unlike the findings of other research in Western contexts, a strong empirical support is not found to claim that effectuation is superior to causation in outcomes such as firm performance in an African context.

In general, this PhD study makes more contributions, from both practical and theoretical perspectives, to the field of entrepreneurship. In its theoretical implications, the PhD thesis contributes to the field of entrepreneurship in three ways: addition to the literature about entrepreneurship research in developing countries, fine-tuning ongoing theoretical debates in the entrepreneurship field and developing and validating new scales to measure early-stages entrepreneurial behaviour.

The first theoretical contribution of the PhD thesis is the addition of a new data set from a developing country to the increasing volume of literature on entrepreneurship, entrepreneurial behaviour of small business owners, determinants of firm performance and regional economic development. It also confirms the applicability of Western theories about small-scale entrepreneurs in a developing country context. For instance, it has shown that the creation behaviour of entrepreneurs is relevant and prevalent in at least one developing country, contrary to many previous studies which highlighted discovery behaviour for entrepreneurial opportunities. Further, it confirms the wider application of the scale of Chandler *et al* (2011) for measuring causation and effectuation globally.

The second theoretical contribution of this PhD thesis is by fine-tuning ongoing theoretical debates in the entrepreneurship field about entrepreneurial opportunity identification behaviour (e.g. are discovery and creation behaviour dichotomous, or do they exist along a continuum line?). Having proved a distinction between discovery and creation behaviour, the contribution of this PhD study is to narrow the ongoing debate on the nature and form of opportunity identification behaviour of entrepreneurs. Current debates also focus on the implications of entrepreneurial behaviour for the eventual performance of new businesses. This PhD thesis shows that creation behaviour stimulates sales, leading to increase in profit and assets even though it has no effect on employment. Likewise, effectuation aggregately contributes to a better financial performance. The findings about creation and effectuation on financial performance add to the current discussion about the link among dominant opportunity theories such as effectuation, bricolage and creation (Welter *et al* 2016). The results of this PhD study are therefore timely, given the recent attention this subject has received in the literature.

The third theoretical contribution of this PhD thesis is by operationalizing the concepts of opportunity related processes such as discovery and creation behaviour. The developed and validated items in this PhD thesis serve as a stepping stone to better develop and validate scales for measurement of the early stages of entrepreneurial endeavours. It is hoped that in the future, with further validation, this operationalized scale can be employed more widely to measure opportunity identification behaviour of entrepreneurs.

In its practical implications, the PhD study is relevant for policy-makers in Ethiopia and other African countries in designing their entrepreneurship-based development strategies aimed at achieving economic development through job and wealth creation. This is because several of the findings of this PhD thesis have relevance for the management of entrepreneurial training and

support. For instance, this PhD thesis has shown that small business owners employ creation behaviour widely in decision-making, strategy and finance and that creation behaviour results in a higher firm performance in terms of sales, profit and assets. Therefore, the provision of entrepreneurial trainings in decision-making, strategy and finance activities, through enhancing the creation behaviour in start-ups, will eventually result in higher firm performance. The entrepreneurial behaviour of Ethiopian tour operators and determinants of the performance of their newly established business described here may also apply to other hospitality and tourism sectors such as hotels and souvenir shops. In addition, the findings of the PhD thesis can be extensively used to promote the market potential of the tourism sector of Ethiopia and in the design and issue of protective measures such as rules and regulations to sustain the competitiveness of small businesses.