The Entrepreneur`s Mental Capacity and Firm Performance

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Entrepreneur, mental capacity, mental alertness, stable mind, firm performance

Abstract
Although, studies on entrepreneurial factors are abundant, however, certain factors still deserve further attention. As a result, this study investigates the influence of entrepreneurs' mental capacity on the firm performance. Based on this, a cross-sectional study of questionnaire survey research design was conducted and data was generated from 182 entrepreneurs of small firms in both manufacturing and service industries. The questionnaires were distributed through drop-off and pick procedure of data collection. Overall, the findings indicate that there is a significant relationship between entrepreneurs' mental capacity and firm performance. It further indicates that entrepreneurs' mental capacity dimensions which include business handling, resolve business issues, stable mind, mental alertness, sound decisions, maturity, and self ability, control and management also influence firm performance. Based on the findings, the study highlights the theoretical and practical implications including the limitations and the suggestions for future study.

Introduction
The economic role of the entrepreneurs particularly in the areas of economic development, employment generation, new venture start creation, wealth creation and reviving old businesses are dated back to the time of Cantillon (1755), Say (1821) and Schumpeter (1934) who believed that entrepreneurs are agents of economic development and transformation. Recently, Rebecca & Benjamin (2009), acknowledged the strategic role of entrepreneurs as agents of economic transformation which is noticeable in wealth and job creation, and promotion of indigenous entrepreneurship and entrepreneurial culture. The activities of the entrepreneurs are also visible in the promotion of small and medium enterprises (SME) which consequently affect the socio-politico-economic life of the people. This sector accounts for about 88% of the small scale industries while 12% is credited to the medium industries in Malaysia. In Singapore alone, SMEs absorbs half of the working population and consequently contributed about a third of the total value-added, forming 92% of their total number of the industrial establishments which include manufacturing, commercial and service sectors (Chea, 2009). Rebecca & Benjamin (2009) reported that the small and medium scale firms have been increasing to the extent that they account for about 70% of the industrial employment while the agricultural sector tends to absorb more 60% of the county’s workforce. Okpara & Wynn (2007) affirmed that SMEs contributes about 20% to 45% full employment and equally contributes about 30% to 50% to rural income which are mostly house-hold. Akande & Òjokuku (2008) noted that SMEs has greatly contributed in the creation of jobs, innovation and to economic growths which has been given a global acknowledgement and recognition.

However, despite the above, authors have observed that certain factors such as entrepreneurs` mental capacity are required to play significant role so as to enable the entrepreneurs effectively and successfully perform their economic roles and achieve better firm performance.
performance (Ogundele & Abiola, 2012; Lucky, Adebayo & Bakar, 2012). Therefore, the importance of entrepreneurs' mental capacity is very crucial to the firm performance. In this view, authors such as Arowomole (2000); Meredith, Nelson & Neck (1991) have affirmed the role of entrepreneurs' mental capacity to the success of the firm, noting that mental capacity would assist the entrepreneurs to develop a way of viewing experience and business opportunities in a healthy manner while providing them with the outstanding mental alertness and ability to decide fast and to exercise self-control. On the influence of entrepreneurs' mental capacity on the firm performance, the studies by Lucky (2011); Lucky & Minai (2011); Ogundele (2007); Ogundele & Abiola (2012) have linked entrepreneurs' mental capacity with the firm performance, however, these studies only considered entrepreneurs' mental capacity as a "lump-sum" that is, dimensional variable and not as an independent variable on its own. These could affect the extent to which this variable could predict firm performance. Hence, may not provide an adequate understanding on how entrepreneurs' mental capacity affects firm performance. This therefore suggests that there is a need to consider mental capacity as an independent variable as doing so will improve our understanding on the extent to which mental capacity on its own could predict firm performance. Apart from this, Lucky Adebayo & Bakar (2011); Man, Lau & Chan (2002) have argued that investigation on success factors as well as firm performance still deserves further attention particularly in the study of entrepreneurship and business management. In view of this, this study investigates the influence of entrepreneurs' mental capacity on the firm performance.

**Literature review**

**Entrepreneurs' mental capacity and firm performance**

Mental capacity is simply described as the ability to take up a challenge and venture into entrepreneurial activities (Arowomole, 2000). It is concerned with the ability of an individual to handle entrepreneurial and business situations with maturity and a stable heart. Thus, it involves putting a situation under control. This is very important to both potential and existing entrepreneurs as well as any business owner (Lucky, 2011). Therefore, achieving a commendable firm's performance requires individuals with a stable and mature mental capacity.

Based on this, Meredith, Nelson & Neck (1991) asserted that entrepreneurs are mature individuals who have developed a way of viewing experience in a healthy manner. Thus, a healthy entrepreneur is that who has the right mentality. Güll & Sarah (2006) presented a framework which was proposed by Hood & Young (1993) showing the importance of mental capacity, it consists of four primary areas including mentality where successful entrepreneurs/business owners should develop. Arowomole (2000) noted that entrepreneur's mental capacity involves the capacity for self management which embodies high level of intelligence, outstanding mental alertness and ability to decide fast and to exercise self-control. Accordingly, Ogundele (2007) asserts that right mental attitude towards work is extremely important. Thus, successful entrepreneurs enjoy their work and are totally dedicated to what they are doing. The positive mental attitude turns their jobs into exciting, interesting and rewarding work. In line with this, Meredith, Nelson & Neck (1991) noted that the attitude of successful entrepreneurs is the ability to make good decisions which is a product of the mental capacity of the entrepreneur and consequently reflects in both the entrepreneur and firm performance. In other words, a positive mental attitude leads to mental capacity and mental capacity brings sound decisions and thus manifest in the entrepreneurial performance.
The study conducted by Ogundele & Abiola (2012) on the entrepreneurship and national development in Nigeria offered a conceptual framework which stressed on the need for entrepreneurs to possess a healthy physical makeup as well as mental capacity. They noted that entrepreneur’s mental capacity will assist them to identify profitable business opportunities and as well make them to improve their performance in their entrepreneurial activities. They further noted that a deficient entrepreneur is unhealthy and this could affect his business performance. Thus, entrepreneurs who lack healthy mental capacity may not perform well in their business activities. Kennan (2012) noted that it is an entrepreneurs' mental capacity that makes them to adequately organize all the factors of production to achieve their profit or gain. For example, he pointed out that it is the mental capacity that makes the entrepreneurs to "perform tasks and invent new products, successfully operate the organization, and produce goods and services needed by the people. Young (2012) observed that it is the entrepreneur’s mental and emotional capacity that assists them to become entrepreneurs. He noted mental capacity affects entrepreneur’s commitment and responsibility which then reflect in their performance. Another study Lucky & Minai (2011) on the factors that affect firm performance found that entrepreneurs' mental capacity influence firm performance. The studies provided frameworks which among others included mental capacity of the entrepreneurs and how it affects their entrepreneurial performance. However, these studies highlighted above failed to give specific attention to entrepreneurs' mental capacity as they all considered it as sub-variable rather than independent variable. Thus, they did not examine mental capacity as a variable instead they examined it as a dimensional variable which was included in the main variable under investigation. This therefore provided a guidepost for further inquiry in this study present study.

Firm performance

Trkman (2009) noted that performance measure is indispensable for firms because it helps them to ascertain the success or failure of the firm and also acts as an indicator to achieve sustainable improvement in firm and business activities. Accordingly, Murphy, Trailer and Hill, (1996) argued that “accurate performance measurement is critical to understanding new venture and firm success and failure. Furthermore, firm performance measurement has been viewed in two major dimensions: the financial and non-financial. Thus, researchers are divided on which of these firm measurements best measure performance. In this case, some of the authors (Venkatraman &Ramanujam, 1986; Murphy et al., 1996; Panigyrakis &Theodoridis, 2007) argued that financial measures of small firm performance are the best indicator of performance (Murphy et al., 1996). This may be due to the fact that the financial measure such as profitability seems to cover the overall objective of many firms in which small firms are not left out. Indeed, financial measure is the primary measure of a firm success and performance. Within the context of small firms and entrepreneurship development, Murphy et al., (1996) argued that financial measures of small firms seem to be commonly and widely used. In this case, they argued that in the academic field entrepreneurship, financial indicators seem to gain the upper hand when discussing performance. This may be due to the ease with which it can be used in ranking and judging how a firm is performing in its business operations or activities. The financial measure of performance includes; profit and growth. On the other hand, the non-financial measure of performance which is equally referred to as operational measure is also used in measuring firm’s performance (Murphy et al., 1996; Panigyrakis &Theodoridis, 2007). For instance, Ittner & Larcker (2003) argued that non-financial performance measure helps managers and owners to ascertain the progress of the business, although, it has been proved to be difficult to manipulate
unlike the financial measure. Campbell, (2007) asserted that non-financial measure seems to complement the financial measure in determining firm’s overall performance and success.

The arguments above indicate that one set of firm performance measurement may not be sufficient enough to measure firm performance, therefore, there is a need to adopt both financial and non-financial performance measure as suggested by Venkatraman & Ramanujam (1986) and Panigyrakis & Theodoridis (2007). They asserted that it is very important to adopt both financial and non-financial indicators in measuring firm performance since it may offer a broader perspective of measuring performance and thus, tend to clarify the relationship between financial and non-financial aspects of firm performance under investigation. Accordingly, Murphy et al., (1996) suggested that researchers in both small firm and entrepreneurship field should always consider multiple dimensions of both financial and non-financial methods of measuring small firms’ performance in order to arrive at a better measurement. Justifying these further, Dimitratos, Lioukas & Carter (2004) argued that due to the arguments about small firm performance measurement, in which researchers have taken different stands, authors should use and justify at least two different dimensions of firm performance which they argued to be both financial and non-financial measures. In line with the above arguments and considering the uniqueness of the small firms, using a single dimension of firm performance might not give a better result. Hence, this study adopts both financial and non-financial objective measurement of profitability and growth of small firm performance. Muhammad (2009) concurred that these two indicators of financial and non-financial measures seem to be important to firms.

In line with the above arguments and coupled with the proposed research framework, the study advanced the following hypothesis and sub-hypotheses below;

Hypothesis 1: There is a significant relationship between entrepreneurs' mental capacity and firm performance.

H1a: There is a significant relationship between business handling and firm performance.
H1b: There is a significant relationship between resolving business issues and firm performance.
H1c: There is a significant relationship between stable mind and firm performance.
H1d: There is a significant relationship between mental alertness and firm performance.
H1e: There is a significant relationship between sound decisions and firm performance.
H1f: There is a significant relationship between maturity and firm performance.
H1g: There is a significant relationship between self ability, control and management and firm performance.

Methodology
Sampling

The study is a cross-sectional study of the questionnaire survey approach with a simple random sampling where the entrepreneurs of small firms in Lagos State were selected as the targeted population of this study. The sample respondents in this study include the
entrepreneurs who did register with the Lagos State Government. The respondents were identified through the Lagos State business directory obtained through the Lagos Stage Government website. A list of 4225 small firms was sorted out from the main lists. However, a simple random sampling was used to select 300 small firms comprising of the entrepreneurs that participated in this study. A total of 230 completed questionnaires were returned filled, thus, giving 77% response rate of the total sample. However, the returned completed questionnaires were further reduced to a total sample of 201 (67%) for the fact that some of the returned questionnaires were not properly filled and as such were not used for this study. Again, the sample was further reduced to 182 during the treatment of outliers and normality. Therefore, the actual sample used in this study for the analyses was 182 which gave a response rate of 61%.

Measurement of variables

To measure the variables, the study adopted the primary data collection questionnaire survey technique to achieve its objective. The questionnaire consists of two (2) sections; the profile of the respondents including the firms while the second section comprises questions on the entrepreneurs' mental capacity and firm performance. All variables in the study were measured using a five-point Likert scale ranging from 1=strongly disagree to 5=strongly agree was used to measure the extent to which respondents agree or disagree to each of the statements. Entrepreneur’s mental capacity was measured using eight (8) items while the firm performance was measured with five (5) items. The five (5) items were adapted from the various works of authors such as Francisco & Yi-Wen (2006); Shradha, Mukherjee & Sharan (2005) and Murphy et al., (1996).

Data analysis

Descriptive analysis

To summarise the profile of the respondents as well as that of the firms, a descriptive analysis was conducted. Table 4.1 below shows the descriptive analysis result of the respondents. The result indicates that about 16% of the respondents are 30 years and below, the majority of them are between the ages of 31 and 50 representing 73%, while about 12% of them are 55 years and above. For the experience, the result indicates that approximately 36% of the respondents have 10 years experience; the majority of them have 11 to 24 years experience representing 51% while only 13% of them have 25 years and above experience. The result further shows that approximately 15% of the respondents' businesses are located in the Lagos Mainland, the majority of their business is located in the greater Lagos representing about 82% while only 3% of them have their business located in the Lagos Islands. Also, information regarding the business sector of the respondents indicates that approximately 54% of the businesses included in the study are from the manufacturing sector while about 46% of the businesses are from the service sector.
Reliability and correlation analysis result

A reliability test as well as correlation analysis was also conducted on the instrument. The results are shown in table 4.2 below. The result represents the means, internal reliability value (Cronbach’s), and the correlations among variables. The Cronbach alpha result indicates .75 for the business handling, .76 for resolving business issues, .75 for stable mind, .75 for mental alertness, .74 for sound decisions, .74 for maturity, .74 for self ability, control and management while .82 for firm performance. The correlation analysis which was used to confirm the hypotheses shows that all hypotheses formulated in this study were all confirmed. Therefore, provided an opportunity for all the hypotheses to be further tested using the regression analysis.

**H1:** there is a significant relationship between entrepreneurs' mental capacity and firm performance.

**H1a:** there is a significant relationship between business handling and firm performance ($p<.05$).

**H1b:** there is a significant relationship between resolving business issues and firm performance ($p<.01$).

**H1c:** there is a significant relationship between stable mind and firm performance ($p<.01$).

**H1d:** there is a significant relationship between mental alertness and firm performance ($p<.01$).

**H1e:** there is a significant relationship between sound decisions and firm performance ($p<.01$).

**H1f:** there is a significant relationship between maturity and firm performance ($p<.01$).

**H1g:** there is a significant relationship between self ability, control and management and firm performance ($p<.01$).
The multiple regression analysis result

To further test for the relationship indicated in the hypotheses as well as the research framework, a multiple regression analysis was conducted. The significant values of each analysis conducted indicate the significance of the hypothesis. For the construct, entrepreneur mental capacity (which comprises of the seven items as a whole) was able to explain significantly 10.8% ($\beta = .33$, $p<.05$) of the variance in firm performance. For the individual dimensions, business handling explained significantly 2.7% ($\beta = .14$, $p<0.028$) variance in firm performance. Accordingly, resolving business issues explained 4.5% ($\beta = .19$, $p<.05$) variance in firm performance; stable mind explained 6.6% ($\beta = .22$, $p<.05$) variance in firm performance, mental alertness explained 3.3% ($\beta = .16$, $p<.05$) variance in firm performance, also sound decisions explained 12.6% ($\beta = .29$, $p<.05$) variance in firm performance, maturity explained only 8% ($\beta = .23$, $p<.05$) while self ability, control and management explained 5.4% 4.5% ($\beta = .19$, $p<.05$) variance in firm performance.

### Table 4.4. Cronbach's Alphas, means, standard deviations and correlations of the variables (N=182)

<table>
<thead>
<tr>
<th>S/N</th>
<th>Variables</th>
<th>$\alpha$</th>
<th>M</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Business handling</td>
<td>.75</td>
<td>4.46</td>
<td>.64</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Resolve business issues</td>
<td>.76</td>
<td>4.32</td>
<td>.79</td>
<td>.547**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Stable mind</td>
<td>.75</td>
<td>4.36</td>
<td>.74</td>
<td>.409**</td>
<td>.385**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Mental alertness</td>
<td>.75</td>
<td>4.36</td>
<td>.79</td>
<td>.509**</td>
<td>.365**</td>
<td>.465**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Sound decisions</td>
<td>.74</td>
<td>4.30</td>
<td>.73</td>
<td>.390**</td>
<td>.371**</td>
<td>.475**</td>
<td>.580**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Maturity</td>
<td>.74</td>
<td>4.30</td>
<td>.73</td>
<td>.464**</td>
<td>.400**</td>
<td>.516**</td>
<td>.473**</td>
<td>.587**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Self ability, contrl. &amp; mgt.</td>
<td>.74</td>
<td>4.29</td>
<td>.66</td>
<td>.397**</td>
<td>.438**</td>
<td>.405**</td>
<td>.458**</td>
<td>.547**</td>
<td>.561**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Firm Performance</td>
<td>.82</td>
<td>.52</td>
<td>.18</td>
<td>.163*</td>
<td>.212**</td>
<td>.257**</td>
<td>.182*</td>
<td>.355**</td>
<td>.283**</td>
<td>.233**</td>
<td>1</td>
</tr>
</tbody>
</table>

Note, $n=182$, *$p<.05$, **$p<.01$

### Table 4.5 Multiple Regression Analysis Summary for Entrepreneurs' Mental Capacity

<table>
<thead>
<tr>
<th>Variables</th>
<th>$R^2$</th>
<th>Adjusted $R^2$</th>
<th>F</th>
<th>Beta</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entreprene. mental cap.</td>
<td>.108</td>
<td>.103</td>
<td>21.732</td>
<td>.33</td>
<td>4.66</td>
<td>.000***</td>
</tr>
<tr>
<td>Business handling</td>
<td>.027</td>
<td>.021</td>
<td>4.925</td>
<td>.14</td>
<td>2.22</td>
<td>.028***</td>
</tr>
<tr>
<td>Resolving bus. issues</td>
<td>.045</td>
<td>.040</td>
<td>8.470</td>
<td>.19</td>
<td>2.91</td>
<td>.004***</td>
</tr>
<tr>
<td>Stable mind</td>
<td>.066</td>
<td>.061</td>
<td>12.735</td>
<td>.22</td>
<td>3.569</td>
<td>.000**</td>
</tr>
<tr>
<td>Mental alertness</td>
<td>.033</td>
<td>.028</td>
<td>6.165</td>
<td>.16</td>
<td>2.483</td>
<td>.014*</td>
</tr>
<tr>
<td>Sound decisions</td>
<td>.126</td>
<td>.121</td>
<td>26.011</td>
<td>.29</td>
<td>5.100</td>
<td>.000***</td>
</tr>
<tr>
<td>Maturity</td>
<td>.080</td>
<td>.075</td>
<td>15.707</td>
<td>.23</td>
<td>3.217</td>
<td>.000***</td>
</tr>
<tr>
<td>Self ability, ctrl &amp; Mgt.</td>
<td>.054</td>
<td>.049</td>
<td>10.352</td>
<td>.19</td>
<td>3.217</td>
<td>.028***</td>
</tr>
</tbody>
</table>

**$p<0.05$, ***$p<0.001$, Sig = Significant, NS = Not Significant**

### Discussion and conclusions

The major purpose of this study is to examine the effect of entrepreneurs' mental capacity on the firm performance. The importance of entrepreneurs mental capacity has been highlighted by previous studies Ogundele (2007); Ogendele & Abiola (2012). To test for the hypothesis, a regression analysis was conducted and the findings show that in overall that entrepreneurs' mental capacity significantly predicts firm performance. This finding supports the previous findings by Ogundele (2007); Ogendele & Abiola (2012) and Lucky (2011). These
studies affirmed that mental capacity is a significant factor in predicting firm performance. The findings further suggest that entrepreneurs with sound mental capacity will achieve better firm performance than entrepreneurs with unhealthy mental capacity. The result implies that entrepreneurs with healthy mental capacity will perform better than the entrepreneur with unhealthy mental capacity.

Furthermore, the result of the regression analysis further demonstrates that entrepreneurs with healthy mental capacity will:

- effectively handle business issue;
- resolve business issues;
- have a stable mind to recognise profitable business
- have mental alertness to recognise profitable business;
- make sound decisions and judgments towards achieving firm performance;
- show adequate maturity in handling business transactions; and
- have self ability, control and management to effectively operate the business for better performance.

The results further suggest that when an entrepreneur possesses the healthy mental capacity, he will have the ability to handle situations with maturity and stable mind, view experience in a healthy manner and these will assist him to exhibit a high level of intelligence, outstanding mental alertness and ability to decide fast and to exercise self-control over the business/firm activities which will later reflect in the firm performance. Therefore, entrepreneurs must first and foremost possess the required mental capacity to enable him take up the challenges to venture into entrepreneurial activities. This mental capacity when possess will assist him to achieve the desired success. Finally, a positive mental attitude leads to mental capacity and mental capacity brings sound decisions and thus manifest in the entrepreneurial or firm performance.

**Limitation of the study and direction for future study**

The results presented in this study should be interpreted based on two major limitations as no research, without its own limitations. First, the study only adopted a questionnaire survey approach to elucidate date from the respondents. Many researchers or school of thought believed that the questionnaire survey approach is not scientific enough to provide better empirical result in any research as such may also influence the findings obtained in this study. Therefore, subsequent studies should adopt a more in-depth approach in order to provide the entrepreneurs an opportunity to air their views on how mental capacity can contribute to their firm performance.

Second, the study only focused on two key sectors which are manufacturing and service sectors. Therefore, it is the believe of the researchers that this would limit the findings of this study. As a result, the study suggests that further studies in this domain should consider other sectors such as trading and distribution sectors as they also play significant roles in the economy. Finally, researchers should endeavour to look into treating some dimensional variables as an independent variable as doing so may also provide a useful result and insight.

**Conclusion**

In conclusion, the study has provided additional insight into the effect of specific entrepreneurial factors on the firm performance. The empirical evidence obtained from this study demonstrates that entrepreneurs’ mental capacity can predict firm performance as posited by psychological theory of entrepreneurship (McClelland, 1967). Based on the findings, the study concludes that entrepreneurs' mental capacity is a significant variable that influences firm performance.

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performance. That entrepreneur’s mental capacity will assist the entrepreneurs in handing their businesses effectively, resolve business issues, have a stable mind, take sound decisions, show high level of maturity in business and finally, display self ability, control and management. Therefore, the findings of this study will be very useful for the entrepreneurs, policy makers and researchers as the output could be a guideline for making rich decisions regarding entrepreneurial policies and programmes while it will be a guidepost for the next round of inquiry for the researchers attempting to understand more about the entrepreneur’s mental capacity.

References


