

## PERFORMANCE EXPECTATIONS AND EVALUATIONS IN BUSINESS START

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**Abstract.** Successful entrepreneurship represents the basis for the growth of national economy. In the scientific publications it is indicated that performance expectations influence business decisions such as investment decisions, product innovation particularly in small companies. The aim of this paper is to analyse performance expectations of entrepreneurs in business start, evaluate relations between performance expectations and entrepreneur's motivation to start business, success factors and barriers. Tasks of the current research: analysis of theoretical findings in scientific publications; evaluation of entrepreneur's views on business success and main influencing factors; analysis of entrepreneur's evaluations on performance expectations; application of multivariate statistical analysis for entrepreneur's evaluations on performance expectations. The results of empirical studies are compared with the research results in the USA, Canada and Mexico. Methods used in the research: analysis of scientific literature, survey of starting entrepreneurs (survey was conducted in October 2013 – February, 2014). For most of the statements evaluations in scale 1 – 5 were used – to compare with similar research results in other countries. The performance expectations criteria and performance evaluations criteria are used the same as in research in the USA, Canada and Mexico. For survey data analysis descriptive statistical analysis, cross tabulations, correlation analysis as well as the method of multivariate statistical analysis – factor analysis was applied. The main findings of the current research indicate that Latvian entrepreneurs rated their business level of success lower than Canadian, USA and Mexican entrepreneurs, personal satisfaction was the highest rated factor of analysed expectations of entrepreneurs in Latvia.

**Key words:** business start, performance expectations, performance evaluations, entrepreneurs.

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## **Introduction**

Successful entrepreneurship represents the basis for the growth of national economy. In the scientific publications there are theoretical findings and empirical confirmation that performance expectations influence business decisions such as investment decisions, product innovation particularly in small companies.

The small company success and ability to respond to customers' needs for radical product innovation has a positive influence on performance expectations (Verhees, et al., 2010).

The aim of this paper is to analyse performance expectations of entrepreneurs in business start stage, evaluate relations between performance expectations and entrepreneur's motivation to start business, business success factors and barriers. Tasks of the current research: analysis of theoretical findings in scientific publications; evaluation of entrepreneurs views on business success and main influencing factors; analysis of entrepreneur's evaluations on performance expectations; application of multivariate statistical analysis of entrepreneur's evaluations on performance expectations. The results of empirical studies are compared with the research results in USA, Canada and Mexico.

Research methods applied: analysis of scientific literature, survey of starting entrepreneurs (survey was conducted in October 2013 – February, 2014). In the questionnaire for most of the questions' it was used evaluation scale 1 – 5, this scale was used also in questionnaire in USA, Canada and Mexico. The performance expectations variables, performance evaluations variables, motivation variables, success factors and barriers were used the same as in research in USA, Canada and Mexico.

## **Theoretical background**

All entrepreneurs starting their business expect that it will be successful and that entrepreneur will benefit from the business, besides the personal motivation of entrepreneurs also the whole society is interested in successful entrepreneurship as the successful and efficient entrepreneurship represents the basis for the growth of the national economy. On mentioned above issues several specialised international research journals with respected international editorial boards are created which often are very popular by academic researchers. It is indicated in the numerous scientific publications that performance expectations influence business decisions such as investment decisions, product innovation particularly in small companies, including success factors and support implications where big role plays the founders personal background and experience as well as early problems encountered in running a business (Watson, et al., 1998). On agenda of real business persons as well as academic researchers often there are questions on start or not start business (Townsend, *et al.*, 2010), researchers are interested on issues on entrepreneur's mode to entry business as well as better choice: business take-over or new ventures start (Parker and van Praag, 2012) as well as on entrepreneur forecast performance in new firms (Cassar,

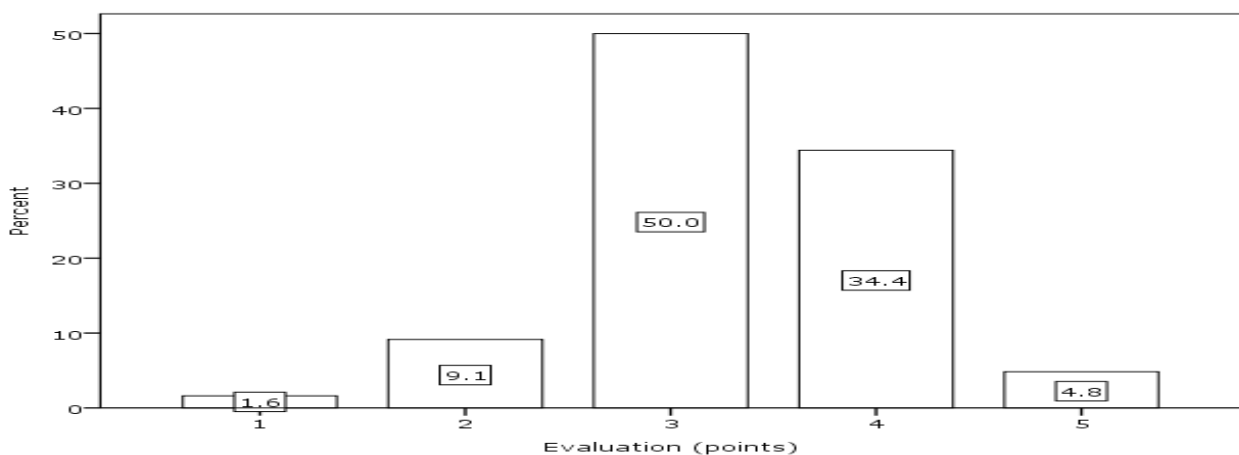
2014). Academic discussions are performed towards definition of business performance measurement system (Franco-Santos, et al., 2007). Question on creativeness in business start is a question often appearing on minds of business starters as well as academic researchers (Scott, 1999). Intellectual capital in many cases is an important aspect of business success extent to which IC assets are associated with new firm survival and growth. Results of researcher from Spain Inaki Pena suggest that the human capital of the entrepreneur (education, business experience and level of motivation), organizational capital (firm capacity to adapt quickly to changes and the ability to implement successful strategies), and relational capital (development of productive business networks and an immediate access to critical stakeholders) are important intangible assets, which seem to be related positively to new venture performance (Pena, 2002). Detailed analysis is performed in a country/national prospective, gender prospective, like why farm-based entrepreneurs start additional business activities (Alos, et al., 2003). Issues on business start-up and "pre-start" activity in the new venture creation dynamic - the pre-start framework identify how individuals progress towards start-up, and could be used as the basis to encourage individuals to move through each step towards engagement in business start-up. The research results on movement from step to step can also be used to assess overall levels of preparation for entrepreneurship within the wider population, and so has the potential to become as useful indicator of overall levels of entrepreneurial orientation (Atherton, 2007). More theoretical approaches to start-up issues are covered also in many other research, including decision theoretical approach (Czhwolka & Raith, 2012), relationship between quality management practices and performance in small businesses (Anderson, et al., 1999). More and more entrepreneurs are concerned on business activities influence on environment and apply "green approaches"- researchers Jodyanne Kirkwood and Sara Walton in their detailed research have found that so called ecopreneurs are those entrepreneurs who start for-profit businesses with strong green values and who sell green products or services (Kirkwood and Walton, 2010). They have stated that it is an emerging field where research is still in its infancy and more research is on a way. Research has been called for to understand the factors that motivate these ecopreneurs to start businesses - and that focus of the study - the mentioned above researchers compared the findings on entrepreneurial motivations with results of results published in scientific literature (Kirkwood and Walton, 2010). Researchers have applied different advanced research methods (Gruber, et al., 2010). Gender issues of entrepreneurs and relation to business performance in enterprise start-up indicate that some aspects are stronger for female entrepreneurs (Anna, et al., 2000) but on those issues more detailed and deeper research would be useful and could be on research agenda in the future for many researchers.

## Research results and discussion

The survey of starting entrepreneurs was conducted by interviewing entrepreneurs in their business start phase from October 2013 to February 2014. In the empirical research were used survey realised in web, by telephone and paper version of the questionnaire. For most of the statements evaluations were in five-point Likert scale. The same evaluation scales were used in Canada, USA and Mexico.

For survey data processing was used descriptive statistical analysis, cross tabulations, correlation analysis as well as factor analysis. Business success was measured using the five-point evaluation scale. The evaluation 1 would rate as unsuccessful, 2 as below average, 3 as average, 4 as very successful, 5 as extremely successful.

Most of small entrepreneurs evaluated their business successes as average successful or very successful, approximately 50% of entrepreneurs evaluated business success as average successful, approximately 34% as very successful but 5% as extremely successful. Only approximately 1.6% of entrepreneurs evaluated their business as unsuccessful and 9% – as below average successful (see Figure 1).



**Source: author construction based on entrepreneurs survey conducted in October 2013 - February 2014 (n=209), evaluation scale 1 – 5, where 1 – unsuccessful; 5 – extremely successful**

Fig. 1. **Entrepreneur evaluations of business success**

The majority of entrepreneurs evaluated business success as rather successful (mode 3), half of entrepreneurs evaluated business success as average successful or below average successful (median 3), and arithmetic mean evaluations of entrepreneurs was 3.3. The evaluations were quite homogenous (standard deviation 0.8, coefficient of variation 24%). The main statistical indicators are reflected in Table 1.

Table 1

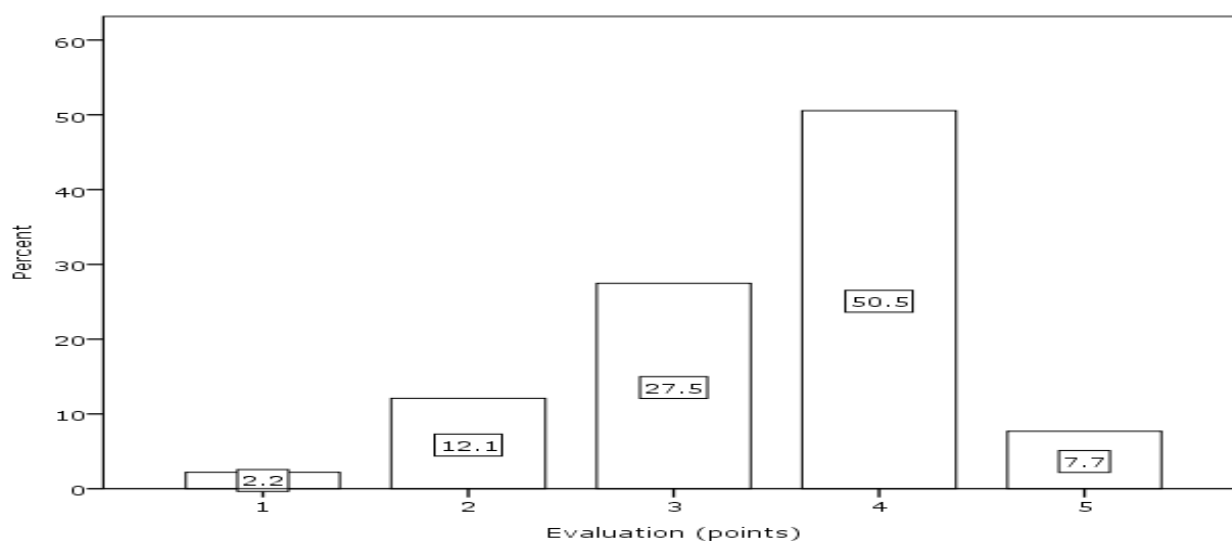
**Main statistical indicators on entrepreneur evaluations of business successes**

No.	Statistical indicators	Values of statistical indicators
1.	Mean	3.3
2.	Median	3
3.	Mode	3
4.	Standard Deviation	0.8
5.	Minimum	1
6.	Maximum	5

*Source: author calculations based on entrepreneurs survey conducted in October 2013 - February 2014 (n=209), evaluation scale 1 – 5, where 1 – unsuccessful; 5 – extremely successful*

Latvian entrepreneurs rated their success lower than Mexican, Canadian, USA (means, standard deviations – Mexico 3.4, 0.8; Canada 3.8, 0.8; USA 3.7, 0.7).

The satisfaction with business successes entrepreneur's evaluated higher than business successes. About 58% of entrepreneurs were very satisfied or extremely satisfied with business success, 28% – somewhat dissatisfied but approximately 14% dissatisfied or very dissatisfied (see Figure 2). The evaluation scale used for assessment of satisfaction with business success was: 1 as very dissatisfied, 2 as dissatisfied, 3 as somewhat dissatisfied, 4 as very satisfied, 5 as extremely satisfied.



*Source: author construction based on entrepreneurs survey conducted in October 2013 - February 2014 (n=209), evaluation scale 1 – 5, where 1 – very dissatisfied; 5 – extremely satisfied*

**Fig. 2. Entrepreneur evaluations of satisfying with business success**

The biggest share of entrepreneurs evaluated satisfaction with business success on a very high level (mode 4), half of entrepreneurs as very satisfied or extremely satisfied (median 4), arithmetic mean evaluations of entrepreneurs was 3.5. The evaluations were homogeneous (characterised by standard deviation 0.9, coefficient of variation 26%). The main statistical indicators of entrepreneur's evaluations with business success are reflected in Table 2.

Table 2

**Main statistical indicators on entrepreneur evaluations of satisfaction with business success**

<b>No.</b>	<b>Statistical indicators</b>	<b>Values of statistical indicators</b>
1.	Mean	3.5
2.	Median	4
3.	Mode	4
4.	Standard Deviation	0.9
5.	Minimum	1
6.	Maximum	5

**Source: author calculations based on entrepreneurs survey conducted in October 2013 - February 2014 (n=209), evaluation scale 1 - 5, where 1 - very dissatisfied; 5 - extremely satisfied**

Latvian respondents rated their satisfaction with business success lower than Mexican, Canadian and USA respondents (means, standard deviations - Mexico 3.6, 0.9; Canada 3.9, 0.9; USA 3.7, 0.9)

The performance expectations were measured by six variables. The evaluation 1 would rate as unimportant, 2 as not very important, 3 as almost important, 4 as very important and 5 as extremely important. The personal satisfaction was the highest rated aspect of starting entrepreneur - most of starting entrepreneurs evaluated personal satisfaction as very important (mode 4), half of entrepreneurs as very important or extremely important (median 4), arithmetic mean of the entrepreneur evaluations 4.4 and no one of starting entrepreneurs has given the lowest evaluation. The evaluations were quite homogeneous (standard deviation 0.7, coefficient of variation 15.9%). The second higher evaluated aspect of performance expectation was financial returns - profits and sales (median - 4.3, mode - 4, arithmetic mean - 4.3) and no one of starting entrepreneurs has given the lowest evaluation, the evaluations were quite homogeneous (standard deviation 0.7, coefficient of variation 16.3%). Main statistical indicators of entrepreneur evaluations of performance expectation variables are in Table 3.

Table 3

**Entrepreneur evaluations of performance expectations, main statistical indicators**

No	Performance expectation variables	Mean	Median	Mode	Standard Deviation	Minimum	Maximum
1.	Financial returns - profits and sales	4.3	4	5	0.7	2	5
2.	Money drawn from the business	3.9	4	4	0.9	1	5
3.	Achieving work-family balance	4.1	4	4	0.9	1	5
4.	Reaching personal or organisation goals	4.2	4	4	0.7	2	5
5.	Being recognized by clients	3.9	4	4	0.9	1	5
6.	Personal satisfaction	4.4	4	5	0.7	2	5

**Source: author calculations based on entrepreneurs survey conducted in October 2013 - February 2014 (n=209), evaluation scale 1 - 5, where 1 - unimportant; 5 - extremely important**

The data of the Table 3 indicate that starting entrepreneurs made their evaluations which cover almost all evaluation scale as a result average evaluations were high with rather small variability indicators. Surprisingly - the difference was bigger in Latvia on "personal satisfaction" which indicated the highest importance of this aspect for starting entrepreneurs (with arithmetic mean 4.4, mode 5 and median 4 and with standard deviation 0.7). For starting entrepreneurs aspects of "money drawn from the business" and "being recognised by the clients" in Latvia had the lowest average evaluations (arithmetic mean 3.9, mode 4, median 4). The starting entrepreneurs had rather similar views as the indicators of variability were relatively low (for both statements standard deviation 0.9). The performance expectations' evaluation of respondents of Latvia, Canadian, USA and Mexico were similar. Canadian and USA respondents have evaluated higher the performance expectations - financial returns - profits and sales but Mexican respondents - reaching personal or organisation goals. Personal satisfaction was the second highest rated factor of respondents in Canadian, USA and Mexico.

For identifying the key performance expectations factors and determining the mutual statistical relations of the factors was used multivariate statistical analysis - factor analysis. The six initial factors (personal satisfaction, reaching personal or organisation goals, being recognised by clients, money from the business, financial returns - profits and sales, achieving work - family balance) are chosen for the factor analysis. As a result of the factor analysis the initial six factors through three iterations (by using the Varimax rotation with Kaiser normalization converted in 3 iterations) are grouped in two complex factors. The results of factor analysis are included in Table 4.

Table 4

**Entrepreneurs Performance expectations factor analysis**  
(complex factor matrix after rotation)

No.	Performance expectation variables	Factors	
		F1	F2
1.	Personal satisfaction	0.779	-0.044
2.	Reaching personal or organisation goals	0.723	0.184
3.	Being recognized by clients	0.649	0.171
4.	Money drawn from the business	-0.134	0.822
5.	Financial returns - profits and sales	0.195	0.675
6.	Achieving work-family balance	0.297	0.557

Extraction Method: Principal Component Analysis  
Rotation Method: Varimax with Kaiser Normalization  
Rotation converged in 3 iterations

**Source: author calculations based on entrepreneurs survey conducted in October 2013 - February 2014 (n=209), evaluation scale 1 – 5, where 1 – unimportant; 5 – extremely important**

The interpretation of the identified complex factors with regard to the indicators with which the initial indicators have relatively high burdens (respective coefficients of correlation between the complex factors and initial factors):

1) Complex factor F1 – personal and organisation goals. The factor has relatively high burdens on the following indicators: personal satisfaction, reaching personal or organisation goals, being recognized by clients;

2) Complex factor F2 – financial returns and achieving work-family balance. The factor has relatively high burdens on the following indicators: money drawn from the business, financial returns - profits and sales, achieving work-family balance.

The correlation analysis has shown – there were relationships between performance expectations considered as important by entrepreneurs and several motivation variables to engage in business. The positive significant correlations are between performance expectation variable "Personal satisfaction" and motivation variables "For my own satisfaction" (Spearman correlation coefficient  $r = 0.419$ ;  $p = 0.00$ ) and "Have fun" ( $r = 0.421$ ;  $p = 0.00$ ); performance expectation variable "Reaching personal or organisation goals" and motivation variable "For my own satisfaction" ( $r = 0.345$ ;  $p = 0.00$ ); performance expectation variable "Being recognized by clients" and motivation variable "Gain public recognition" ( $r = 0.444$ ;  $p = 0.00$ ); performance expectation variable "Financial returns - profits and sales" and motivation variable "Increase sales and profits" ( $r = 0.394$ ;  $p = 0.00$ ); performance expectation variable "Achieving work-family balance" and motivation variables "Be closer to my family" ( $r = 0.498$ ;  $p = 0.00$ ) and "Provide jobs for family" ( $r = 0.311$ ;  $p = 0.00$ ) The relations between the entrepreneurs performance expectations and their motives also were found in Canadian, USA and Mexico.



For assessment factors influencing business success and barriers, the evaluation 1 would rate as unimportant, 2 as not very important, 3 as medium important, 4 as very important and 5 as extremely important.

As the main factors, influencing business success, entrepreneurs mentioned: good client service, honesty reputation, charisma and friendliness with clients, good management abilities. Factor "good client service" as extremely important were evaluated by half of respondents (median 5), most of respondents gave evaluation extremely important (mode 5), arithmetic mean – 4.6, the evaluations were quite homogeneous (standard deviation 0.7, coefficient of variation 14%) which indicates that views of entrepreneurs do not differ on great extent. The evaluations of factors honesty reputation, charisma and friendliness with clients; good management abilities were similar.

As the main barriers entrepreneurs mentioned: unreliable employees (median – 4, mode – 5, arithmetic mean – 4, standard deviation 1.2), complex and confusing tax system (median – 4, mode – 5, arithmetic mean – 3.8, standard deviation 1.2), weak economy (median – 4, mode – 4, arithmetic mean – 3.7, standard deviation 1.1), availability of long-term financial capital (median – 4, mode – 4, arithmetic mean – 3.7, standard deviation 1), too much state interference/bureaucracy (median – 4, mode – 5, arithmetic mean – 3.7, std. deviation 1.2), availability of short-term capital (median – 4, mode – 4, arithmetic mean – 3.6, standard deviation 1). The analysis of empirical results indicate that in Latvia entrepreneurs starting their business have alike expectations of business development as it is mentioned and stressed in scientific publications and in general do not differ in comparison with the situation in other countries.

## **Conclusions, proposals, recommendations**

1. The expectations of entrepreneurs for business start are very similar world-wide what is recognised in scientific publications as well as empirical research in different countries, including in Latvia and do not differ in comparison with the situation in many other countries.
2. Highest evaluations of business performance expectations starting entrepreneurs from Latvia gave for personal satisfaction; then followed by financial returns – profits and sales. Nobody from starting entrepreneurs gave the lowest evaluation for both higher evaluated aspects of business performance expectations, the evaluations are quite homogenous as the indicators of variability are relatively small.
3. Starting entrepreneurs from Latvia gave lowest evaluations of business performance expectations to "money drawn from the business" and "being recognized by clients" which are lower than in other countries.
4. The business start performance expectations by entrepreneurs measured by six variables were personal satisfaction, financial returns - profits and sales, reaching personal or organisation goals, achieving work-family balance, money drawn from the

- business, being recognized by clients.
5. Starting entrepreneurs in Latvia gave their evaluations of business success covering almost all evaluation scale. Average evaluations were high with rather small indicators of variability.
  6. Multivariate statistical analysis - factor analysis has indicated that the identified complex factors have relatively high burdens with the initial indicators: Complex factor F1 – personal and organisation goals has relatively high burdens on the following indicators: personal satisfaction, reaching personal or organisation goals, being recognized by clients; Complex factor F2 – financial returns and achieving work-family balance has relatively high burdens on the following indicators: money drawn from the business, financial returns - profits and sales, achieving work-family balance.
  7. Correlation analysis of different motivating factors of starting business persons has shown – there were statistically significant relationships with high probability between performance expectations considered as important by entrepreneurs and several motivation variables to engage in business.

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