Entrepreneurial Growth Strategy in Small Businesses in India

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Abstract

In the human race, it is an intrinsic trait to grow but coming to the entrepreneur it is a need as well as compulsory for survival of the enterprise. The growth of small enterprises are mainly dependent of the experience or background coupled with the available resources of the promoter or entrepreneur. Also the growth depends on the nature of company as well as the strategic decisions taken by the entrepreneur. The vision backed by solid actions with strategic decisions are pertinent to the success of these enterprises. However the intensity of strong motivation of the entrepreneur plays a key role in success. In this paper the researcher has focused on understanding the inter relationships between various parameters like Entrepreneurial benevolence, Entrepreneurial Posture, Entrepreneurial Turbulence in detailed manner in the state of Andhra Pradesh of India. The researcher has used five hypotheses by taking an integrated view on all these aspects of small business management while explaining the growth strategy.

Key words: Entrepreneurial growth strategy, Entrepreneurial ambition, and Growth theory, Entrepreneurial benevolence, Entrepreneurial Posture, Entrepreneurial Turbulence.

Originality/value: The researcher of this paper was prepared based on the research conducted in a state called Andhra Pradesh in India to know the potential of entrepreneurial growth by using the strategies to implement successfully.

Introduction

It is very interesting to note that the growth of small organisations is influenced by three major factors namely the background, nature of the firm and the strategic decisions taken by the promoter or proprietor of the enterprise (Storey, 1994). The researcher after studying the literature has understood that any entrepreneur required to develop both strategic and tactical skills and abilities (Kuratko et al, 2001). Also, any venture has to be goal directed in order to face the uncertainties according to (Carland et al, 1984). In any enterprise it is common that the entrepreneur has to face some problems particularly in small firms. The major inconsistency in defining the small firms and inconstancies in the dimensions of growth, employment, profit, value edition, turnover, total assets and market share are the parameters suggested by O’Farrel and Hitchins (2002). The impact of environmental factors are very important for any firm but for small firms it is crucial for survival. There are two major environmental factors which are external and internal. The external environment deals with customers, competition, suppliers, taxation, market and government policies. It is wise to make use of external relations (Lechner and Dowling, 2003) and growth is a combination of environmental and leadership processes (Eisenhardt and Schoonhoven, 2002). This research in this paper is to expand upon past behavioral research by adding the resource based view of strategic behavior as a significant variable to the popular conceptualization model (Covin & Slevin, 1986, 1988) and by demonstrating that this revised model is valid. When evaluated relative to two hard measures of firm growth, the evidence shows resource based variables contribute to our understanding of entrepreneurial motivations towards firm growth. The researcher has started with a description of the entrepreneurship conceptualization and then develops the logic for adding resource acquisition actions of entrepreneurs as contributors to firm growth. Next, the results of a large survey of small business owners are reported. The paper concludes with confirmation of its expectations that resource acquisition is an important component of entrepreneurial behavior.
Review of Literature

The available abundance of both anecdotal and empirical evidence espousing a positive relationship between entrepreneurship and performance has led many to view entrepreneurship as intrinsically beneficial. This research could enrich in terms of improved conceptualizations, empirical study and modeling (Barrett and Weinstein (1999). However, the beliefs may have resulted in numerous managers experiencing pressure from stakeholders to engage in higher levels of entrepreneurial activities (Wiklund, 1999), possibly to the detriment of the firm.

If entrepreneurial orientation does influence firm performance, such influence is through the small business owner. Thus, this research suggests the following hypothesis:

**H1:** A small business owner's entrepreneurial orientation has a positive influence on the small firm's rate of growth.

**H2:** A small business owner's knowledge of environmental turbulence has a positive influence on entrepreneurial posture

**H3:** A small business owner's perception of environmental benevolence had a positive effect on entrepreneurial posture with employment growth

**H4:** A small business owner's resource acquisition self-efficacy will have a positive influence on his or her entrepreneurial orientation.

**H5:** A small business owner's resource acquisition self-efficacy will be positively associated with his or her perception of environmental benevolence.

The researchers like, O’ Farrell and Hitchins (2002) in their paper ‘Alternative Theories of Small Firm Growth – A critical review’ made a comprehensive analysis of various approaches to growth in small organisations. They concluded that the industrial economics literature primarily focuses on large organisations. As the nature and scale of impediments to growth of small organisations are different the authors emphasised to search for other conceptual frameworks. They analysed the growth model theory (Churchill and Lewis, 1983) which describes that the small entrepreneurial organisations progress in stages from inception to maturity. Each stage can be explained with the help of typical characteristics of entrepreneur, resources, and other variables. Major criticism of theory is on account of the heuristic classification with least focus on the process. The model implicitly assumes that small organisations either grow or fail. There can be fast or slow growing organisations. The model does not explain the condition of the early stages which might have significant influence on growth. It is also not clear whether there is sequence attached to growth or some organisations can skip some intermediate stages. The other criticisms are about the parameters of growth and the context of regional economies. The authors expressed that the model is based on the wisdom based symptoms and have failed to explain the growth processes. This finding was reported to be robust across several measures of competition. The research is evident on this account. It was found that the strategic model of growth O’ Farrell and Hitchins (2002) analysed the strategic management perspective. Referring research papers they explained that there are two environments in which an organisation carries out business. External environment deals with suppliers, customers, and competition, taxation, market and government policies. The internal environment consists of the personal and leadership factors of the entrepreneur, resources, etc. High growth firms make use of external relations (Lechner and Dowling, 2003) and growth is a combination of environmental and leadership processes. Similar conclusions were drawn by Chan and Foster (2001) after a study of small businesses in Hong Kong and by Kelmar and Wingham (1995). The latter listed 47 growth strategies reported in various research works and classified them into 12 categories. They concluded that a combination of external and internal variables supports growth of small organizations. The organisations establish relationship with the external environment to progress. Therefore there is a strong need to study and understand the environmental factors before setting up any enterprise. Without having thorough knowledge on personality, and motivational aspects of entrepreneurs it is very difficult to cope up in today’s turbulent economic conditions. A systematic nation-wide study was conducted in UK to inquire about the ‘performance and problems of small manufacturing firms’. Entrepreneurship as a process has also been explained by many researchers. But the strategic management literature is biased towards the size and does not address growth aspects of entrepreneurial ventures not necessarily growing in size. Such
literatures do not relate the strategic growth management capabilities of the small entrepreneurs with growth. There is a gap in associating the critical factors for success of small organisations such as ownership, management styles, etc with growth. Although we have access to some literature based on the research work done in USA and Europe but the factors affecting growth or success of small organisations vary from country to country (Wijewardena and Cooray, 1995).

We have found that anywhere in the world the entrepreneurial process involves evaluating opportunities given the resources required (Birley, 1985). These decisions are not only based on the resources he currently has, but are also based on whether or not he or she has a high level of self-efficacy with respect to his or her ability to gather the required resources. To support the above research we have understood that the self-efficacy is the process by which people weigh, integrate and evaluate information about their capabilities and then regulate their choice and behavior accordingly (Bandura, Adams, Hardy & Howell, 1980). The information considered by the small business owner comes directly from the small business owner's environment. As a result, the small business owner's resource acquisition self-efficacy should be related to his or her perception of abundance of the resources in the environment. More specifically, the more the small business owner believes that resources are abundant and available in the environment, the more secure the owner should be about his or her ability to acquire resources. Therefore, it should be expected that:

**Theoretical Model of Growth Strategy of a Small Business**

To have a strong foundation on the theoretical base for discussion, here we presented an paper ‘In Search of a Comparative Framework: Small-scale Entrepreneurs in Asia and Europe’ authored by Carol Upadhya and Mario Rutten (1997). The authors classified the entrepreneurship related studies into two major categories – cultural and structural. The cultural perspective was inspired by Max Weber’s Protestant ethic thesis of 1976 and 1978 emphasising cultural embedding of capitalise development and the ideological motivation for rational profit-seeking among early European capitalists. Many of these small scale organisations link with large ones through sub-contracting relations. These small organisations also develop various kinds of linkages among themselves. Most studies conclude that social network is central to the working of small organisations.

**Vision towards growth & attitude of the entrepreneurs**

Vision is of fundamental importance in defining the basis of a system. It is a projection, an image of projected into the future of the place the entrepreneur wants his/her product to occupy eventually on the market. This also deals with the kind of enterprise needed to reach such position. It provides a guiding framework to reach there. The framework attracts, stimulates and motivates the people working with the entrepreneur. In this way the team feel motivated and eager to work hard to realise the vision. Vision offers a point of reference to the entrepreneur around which the entrepreneur assimilates information. Entrepreneurial intention is communicated and displayed by vision. This is also reinforcing the core set of values. Hence clarity of vision is important to venture success. Small business entrepreneurs can focus largely on visionary management which provides the reflection framework for effectiveness of all tasks to enable concrete action to take place. Emerging visions are formed around the ideas and concepts of the products or services imagined by the entrepreneur. The single emerging vision which the entrepreneur wants to pursue becomes the central vision. This also aims at providing the big picture for strategy planning. (Filion, 2002; Bird and Jelinek, 2002)

**Research Methodology**

We have conducted this research for this study was a cross sectional, mailed, self-administered questionnaire. Dillman's (1978) Total Design Method (TDM) was chosen as the foundation of the survey instrument design and mail implementation.
Sample Selection
We have defined that a small business owner as "an individual who runs a business with 100 or fewer employees on a day to day basis and has an ownership interest in that business." The frame chosen for this final study was three large chambers of commerce in Andhra Pradesh. These chambers had a combined membership of approximately 2000 members out of which 100 members was selected by using convenience sampling method due their availability.

Non-Recursive Path Model
The standardized parameter estimates and levels of significance are presented. The magnitude of the zero order correlations among the variables are low to moderate suggesting that multi-co-linearity among the variables used in this study is negligible. Keep in mind that the path model analysis was run twice, once with employment growth as the ultimate dependent variable and once with sales growth as the ultimate dependent variable. The indices of fit for the two models are reported in Table 1. The x2 statistics are not significant, which indicates a good fit. Furthermore, the values for GFI, NFI and NFI2 are above .90, which is within the range commonly associated with the good fit (Muliak, et. al., 1989). Hence, both models can be said to fit the data.

The use of Environmental Turbulence
Environmental turbulence was operationalized using a seven item, seven point Likert scale.

The use of Environmental Posture & Turbulence
Moderated regression analysis was used to test Hypothesis 2 and examine the hypothesized interaction effect of entrepreneurial posture and environmental turbulence. Although LISREL can be used to examine interaction and contingency relationships, it was not used in this study for three main reasons. One, interaction effects are rarely tested using LISREL. Two, to test the interaction effect, LISREL mimics multiple regression techniques (Hayduk, 1987). Three, the main purpose of the study is to examine a system of relations between the perception of resource availability, entrepreneurial behavior and growth; so the interaction effect is not central to the study.

The use of Environmental Benevolence
Drawing from the literature, perceived environmental benevolence is operationalized as a two-item instrument using a five point Likert scale response measure. It measures the small business owner's perception about how receptive the environment seems. The first item measures the owner's perception of industry growth rate (e.g., Dess & Beard, 1984). The second item measures the owner's perception of the extent to which the providers of financial capital are interested in businesses like the respondents. The two environmental benevolence items were answered and analyzed by five experts who agreed that the items have face and content validity.

Analysis of the results
Examination of the Hypothesis Using Structural Equation Analysis:
Hypothesis 1-The parameter estimates for the models that represented the link between entrepreneurial orientation and small firm growth were significant and in the hypothesized direction. Entrepreneurial orientation had a positive effect on firm growth as measured by both employment growth (b = .17, p <.01) and sales growth as the dependent variable (b = .17, p <.01). The hypothesis was supported. As a result, it can be said that entrepreneurial behavior does have a positive influence on small firm growth. This is consistent with the previous research.

Hypothesis 2: Moderated regression analysis indicates there is a moderator effect when the addition of the environmental turbulence and the interaction terms of turbulence and entrepreneurial posture to the regression equation increase the F-value, indicating increased power of the regression equation. As shown in Table 2, this did not happen with either dependent variable. The results of this moderated regression analysis suggest that small firm growth, as measured by employment and sales growth, is not jointly determined by the interaction of entrepreneurial posture and environmental turbulence.

Hypothesis 3: A small business owner's perception of environmental benevolence had a positive effect on entrepreneurial posture with employment growth (g = .27, p <.01) and with sales growth as the ultimate dependent variable (g = .22, p <.01). Therefore, the hypothesis was supported. As a result, it
can be said that a small business owner's perception of environmental benevolence does have a positive influence on his or her entrepreneurial orientation.

Hypothesis 4: The results of this analysis were positive but not as strong. With both employment and sales growth as dependent variables, resource acquisition self-efficacy was found to have a positive influence on the entrepreneurial orientation of the owner at the \( p < .10 \) level (\( g = .10, p < .10 \)) and the causal direction is as hypothesized. Hayduk (1987) maintains that unless there is some other and perhaps theoretical reason beyond the mere level of significance, the model should not be reconfigured and/or the links dropped. Therefore, a small business owner's resource acquisition self-efficacy does have a positive influence on the entrepreneurial orientation of his or her firm.

Hypothesis 5: The parameter estimates for the link between the small business owner's perception of environmental benevolence and the small business owner's resource acquisition self-efficacy were significant with both employment growth (\( f = .19, p < .01 \)) and sales growth (\( f = .18, p < .01 \)) as ultimate dependent variables. As a result, it can be said that a small business owner's perception of resource abundance in the environment is positively associated with his or her perceived ability to acquire resources.

**Conclusion**

First, we have concluded that the entrepreneurial orientation of the small firm owner has a positive impact or not on the rate of growth of the firm was examined by Hypothesis-1. The results of the analysis support this hypothesis. Thus, firm growth is an appropriate measure of firm performance, especially if broader economic issues are considered.

Second, the entrepreneurial orientation and firm growth are moderated by environmental conditions or not was examined by Hypothesis-2. However, the results of our analysis did not support the existence of a moderating effect. This current research is the only study to use moderated regression to examine both the hostile-benevolent and dynamic-stability dimensions of the environment as a moderating effect on entrepreneurial orientation and firm growth. Therefore, it is probable that there is no effect. This is an area that needs further investigation.

Third, to test the effect of a small business owner's perception of environmental benevolence on his or her entrepreneurial orientation the Hypothesis-3 was used. These results supported this conclusion. In fact the magnitude of this support was quite strong with employment growth as the dependent variable (\( g = .27, p < .01 \)) and with sales growth as the dependent variable (\( g = .22, p < .01 \)). These results suggest that if a small business owner sees his or her environment as accepting and abundant with resources, the owner is more likely to have his or her firm be proactive, innovative and risk-oriented.

Fourth, to test whether or not a small business owner's resource acquisition self-efficacy had a positive impact on his or her firm's entrepreneurial orientation the Hypothesis-4 was used. The hypothesis is confirmed at the 0.10 level of statistical significant suggesting that resource acquisition self-efficacy does have a positive impact. In the established small firm, the owners likely have established relationships with banking institutions. In addition as stated by some of the respondents, small businesses are often self-financed by using the retained earnings of the firm. Therefore, the acquisition of financial resources may be less of a concern for the small business owner. Therefore, an entrepreneur who believes she or he could acquire financial resources would be expected to have a high level of resource acquisition self-efficacy and to be more entrepreneurially oriented. These findings, then, are not inconsistent for established small firm owners and it remains to further test entrepreneurs to adequately reveal the hypothesized relationship.

Fifth, to test whether the two components of perceived resource availability (i.e., a small business owner's perception of benevolence and a small business owner's resource acquisition self-efficacy) were positively associated the Hypothesis-5 was used. The result supported this hypothesis. In fact the magnitude of this support was quite strong with employment growth as the dependent variable (\( f = .19, p < .01 \)) and with sales growth as the ultimate variable. (\( f = .18, p < .01 \)). This indicates a small business owner's resource acquisition self-efficacy is related to his or her perception of environmental benevolence. More specifically, the more a small business owner believes that resources are abundant and available in the environment, the more the owner believes s/he can acquire them.

Therefore, we
felt that after this research, there is a strong need for further research on the above models at Andhra Pradesh as well as other states in India.

References

### Annexure

#### Table-01

Fit Indices for the Non-Recursive Entrepreneurial Model

<table>
<thead>
<tr>
<th>Model</th>
<th>Dependent Variable</th>
<th>Chi-Squared</th>
<th>GFI</th>
<th>NFI</th>
<th>NFI2</th>
</tr>
</thead>
<tbody>
<tr>
<td>M1</td>
<td>Employment Growth</td>
<td>1.85</td>
<td>.997</td>
<td>.961</td>
<td>1.00</td>
</tr>
<tr>
<td>M2</td>
<td>Sales Growth</td>
<td>2.17</td>
<td>.996</td>
<td>.904</td>
<td>.992</td>
</tr>
</tbody>
</table>

GFI=goodness of fit index, NFI= normed-fit index, NFI2=adjusted normed-fit index

#### Table-02

Moderated Regression Analysis of Entrepreneurial Orientation, Environmental Turbulence and Their Interaction with Employment Growth and Sales Growth as Dependent Variables

<table>
<thead>
<tr>
<th>Variables includes</th>
<th>Employment Growth</th>
<th>Sales Growth</th>
<th>F-value for the equation</th>
<th>F-value for the equation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cumulative R-squared</td>
<td>Regression Coefficients</td>
<td>R-squared</td>
<td>Regression Coefficients</td>
</tr>
<tr>
<td>Entrepreneurial posture</td>
<td>0.028</td>
<td>26.9</td>
<td>8.522***</td>
<td>0.014</td>
</tr>
<tr>
<td>Entrepreneurial posture &amp; Environmental Turbulence</td>
<td>0.032</td>
<td>30.67</td>
<td>4.44**</td>
<td>0.018</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-8.94</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entrepreneurial posture &amp; Environmental Turbulence Posture X Turbulence</td>
<td>0.033</td>
<td>5.11</td>
<td>3.07*</td>
<td>0.018</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12.69</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>-5.07</td>
<td></td>
<td></td>
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</tbody>
</table>

Un-standardized regression coefficients are reported because, unlike standardized regression coefficients, they are not affected by the changes in the points of origin of the two main variables (Entrepreneurial posture & Environmental Turbulence). See Covin & Selvin(1988) for details. (ns= not significant. *= p<.05; **= p<.01; ***= p<.001)