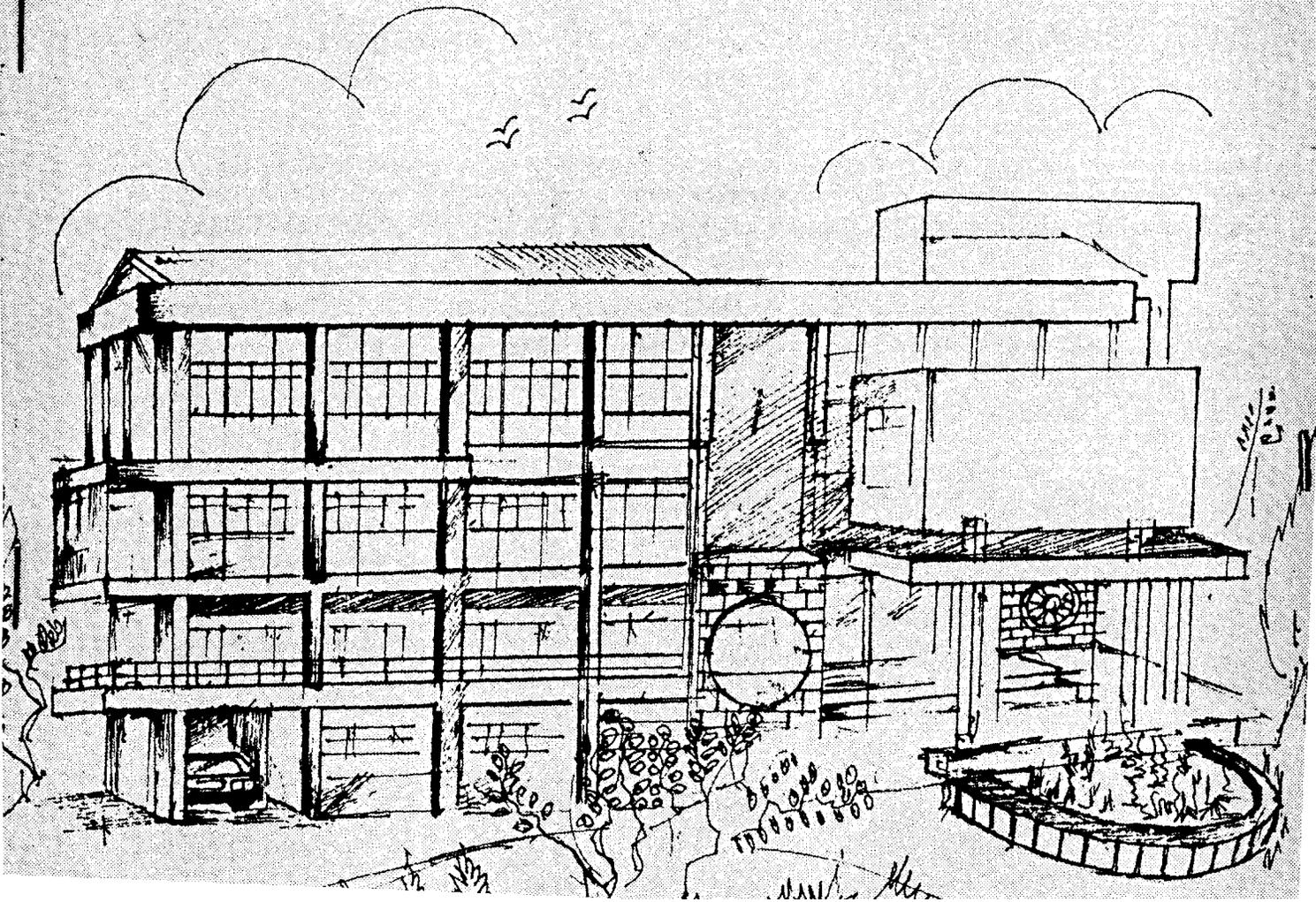




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Growth Strategy in Entrepreneur
Managed Small Organisations in
Auto Component Sector



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Growth Strategy in Entrepreneur Managed Small Organisations in Auto Component Sector

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GROWTH STRATEGY IN ENTREPRENEUR MANAGED SMALL
ORGANISATIONS IN AUTO COMPONENT SECTOR

Satyajit Majumdar¹

Abstract:

Entrepreneurs of small organisations describe growth differently. Growth strategy of these organisations is a function of industry structure and performance, entrepreneurial motivation, attitude, and competence of the entrepreneurs in strategy planning. Typical characteristics of small organisations which make these organisations different are flexibility and short term orientation, and long term entrepreneurial vision and strategic growth planning. The paper aims to fill up literature gap in the area of strategic management and strategic decision making process in entrepreneur managed small organisations. The paper presents two theoretical frameworks on growth strategy planning in small entrepreneurial organisations based on a study of small auto component manufacturers of central India. Grounded Theory approach was adopted for data collection and analysis to arrive at the strategic frameworks. Indian auto component sector represents the competitive business environment. Two major strategic frameworks have emerged from the study. In ‘focused customer based growth strategy’ entrepreneurial vision towards a single customer is the basis for growth planning. Customer relations, low cost automation, and agility to match demand uncertainty are the important dimensions. In ‘multiple opportunity based growth strategy’ the entrepreneurs choose data based approach to search for new opportunities, value addition and cost efficiency with technological support. They develop investment capability to establish supply chain collaboration among manufacturing bases established at various locations. The paper adds to theory building on entrepreneurial growth strategy in small business organisations.

Keywords - Strategy, small business, entrepreneurship, growth

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INTRODUCTION

Strategic management literatures are based on various perspectives. Organisations compete on the strength of their relative position in the industry segment and the strategies they adopt; the industry attractiveness is also important (Porter, 1979; 1991). Mintzberg emphasised on process and explained that strategy is evolutionary and is unpredictable; core competence gives an organisation competitive capability and remains central to its strategy planning process (Hamel and Prahalad, 2002). These perspectives mostly deal with the large businesses. Small organisations show different characteristics and face different kinds of problems; limitations of resources and market information (Van Kirk and Noonan, 1982) and competition within and with large organisations (Besant, 2001) are to name a few. On account of such uniqueness we need specific framework on strategic management for entrepreneur managed small organisations (O' Farrell and Hitchins, 2002).

Storey (1994) developed a theoretical framework to explain that growth of small organisations was a result of a combination of initial resources (of the entrepreneurs), firm and strategy. Strategy in entrepreneur managed small businesses is about establishing and re-establishing fundamental set of relationships with the environment and uncertainties (Murray, 1984). Growth is a result of environmental and leadership processes (Eisenhardt and Schoonhoven, 2002; O' Farrell and Hitchins, 2002). Growth is also a combination of external and internal variables (Murray, 1984; Hrebiniak and Joyce, 1985); entrepreneurs influence the external conditions through strategy to make them favourable (Chan and Foster, 1999; Kelmar and Wingham, 1995; Liao et al, 2003). Churchill and Lewis (1983) gave growth model theory; the theory gives only the heuristic classification and does not address strategy planning process (O' Farrell and Hitchins, 2002). Non-homogeneity (Anderson, 1982), variations due to industry sectors (Boswell, 1973; Lu, 2005), and countries (Wijewardena and Cooray, 1995) makes the subject matter complex; functional categorisation based on environment, processes and factors, and behaviour may help in better understanding (Morris, 2001).

Burke and Jarratt (2004) reaffirmed Mintzberg's early notions of strategy as an explicit plan, and as an implicit pattern of behavior. Entrepreneurs' attitude and the decisions influences growth and learning (Politis, 2005), and development (Dutta and Crossan, 2005) of small organisations, and the growth agenda varies among the entrepreneurs even if they operate in the same market (Matthews and Scot, 1995; O'Farrel and Hitchins, 2002). The entrepreneurial aspects are mirrored in strategy decisions in which the entrepreneur is the central strategic decision maker.

There is a major literature gap with regard to strategy planning in which the perception of the entrepreneur towards growth, and skill and competence in strategy planning are explained. This is critical as entrepreneur's personal vision, convenience, prioritises, competences, etc. influence the strategy planning process. In this paper I have presented a theoretical framework on entrepreneurial growth strategy in small business organisations. The rest of the article is structured as follows. In the first part, I have explained the research setting in auto component sector and raised research questions. I have explained the methodology of my research in the second part; I have used Grounded Theory for data collection in Indore and Pithampur, auto component cluster in central India. In the third part I have presented the data summary, analysis and the explanations thereof. Subsequently I have presented two strategic frameworks based on the strategies.

RESEARCH SETTING

A study based on the auto component industry will help developing better insight about strategic management in small entrepreneurial organisations (Messeghem, 2003). Strategic variables carry different weightage in different industry segments (Mcdougal, 1994). Automobile industry can be considered as a representative sector on account of competition where strategy planning is important for survival and growth. The manufacturers need to adhere to the strict quality and delivery norms imposed by the customers. About 30% of the auto components sourced is machined castings or forgings and majority of them are manufactured by small and medium organisations (Ivarsson and Alvstam, 2004). My paper is based on a study of small organisations located in Indore

and Pithampur (central India) engaged in machining of metal parts for automobile manufacturers.

RESEARCH QUESTIONS

Growth performance of small organisations depends on internal factors (Hrebiniak and Joyce, 1985) like organisational structure and processes (Hrebiniak and Joyce, 1985), policy, planning, market knowledge and technology (Kelmar and Wingham, 1995). Small organisations influence the external conditions and make them favourable through strategy planning (Sims et al, 2002; Liao et al, 2003). McMohan (2001) argued that internal factors such as commitments in investment, growth, export, and enterprise size are more important than the market variables.

Growth strategy planning involves logical and comprehensive approach to prepare the organisation for the future. Van Kirk and Noonan (1982) made reference to 'strategic window' concept of Derek Abell to explain that small organisations act fast to get maximum benefit of the optimum fit available for a limited time. Though strategy planning is a continuous process they act fast in response to the changes in the industry (Dean et al, 1998) and take short term advantages on account of their flexibility; this makes strategy planning highly contextual (Chan and Foster, 1999). Vyas (2005) submitted mixed argument that small incremental changes are important until the organisations get enough resources, skill and experience to take high growth path.

Entrepreneurs in small businesses are the sole strategic decision makers and their close control supports easy translation of their entrepreneurial vision into action (Van Kirk and Noonan, 1982). Their motivation (to grow) and competence in strategy planning have strong influence on the business strategy (Matthews and Scot, 1995). Woods and Joyce (2003) in their article 'Owner-Managers and the Practice of Strategic Management' referred Mintzberg and wrote, "As far as we can see he (Mintzberg) tend to subscribe to the following theses about small entrepreneurial firms: (1) A written strategic plan has no explanatory power in respect of their behaviour because personal strategic vision rather than written strategic plans determine actual strategy; (2) The small entrepreneurial firm develops a strategy that is deliberate and often an extrapolation of the chief executive's

personality; (3) The decision making of a small entrepreneurial firm is often intuitive and thus its success rests on reality confirming its intuitions about the opportunities that exist (and that it seeks to exploit by virtue of its flexibility); (4) There is a persisting need for strategy based on personal vision and control and thus a persisting need for small entrepreneurial firms.” There is a strong impact of entrepreneur’s attitude on the growth related decisions and there may not be uniformity in growth agenda among the entrepreneurs even if they operate in the same market (Matthews and Scot, 1995).

I observe two major streams of thoughts – flexibility and short term actions, and the entrepreneur. Flexibility helps the small organisations to adopt short term view of the market opportunities to gain maximum benefit of fit. But influence of entrepreneur’s personality makes strategy planning intuitive and unpredictable. A gap in finding a balance between flexibility and short term phenomenon, and long term entrepreneurial vision and strategic growth planning is evident.

My central research question is - *What are the growth strategies of small entrepreneurial organisations?*

Meaning of growth and attitude and competence of entrepreneurs are the two major aspects of growth strategy planning. I have two sets of subsidiary research questions for detailed investigation without making any assumption about mutual exclusivity or independence. The figure-1 schematically illustrates the framework of my research questions.

<< Figure 1 is about here. >>

Researchers have reported a number of measurements of growth in small business organisations. Parameters of growth in small organisations are classified as internal and external, and financial and non-financial (McMohan, 2001). Financial viability (Walker and Brown, 2004), turnover and profit (McMohan, 2001; O’Farrel and Hitchins, 2002), and value added, total asset and market share (O’Farrel and Hitchins, 2002) are the financial indicators of growth reported in research studies. Improvement in internal structure, increase in formalisation and higher specialisation are the major indicators of

growth (Messeghem, 2003). Nguyen and Bryant (2004) empirically concluded that formal HR practices are positively linked to higher performance. The non-financial parameters are the individual needs of the entrepreneurs or internal needs of the organisations with strong influence of the personality (Walker and Brown, 2004). But we do not find studies to establish effectiveness of such classifications (Keats and Bracker, 1988). O'Farrel and Hitchins (2002) analysed the major problems in evaluation of growth of small organisations due to inconsistencies in defining the dimensions of growth.

My first set of subsidiary research question is related to this gap - *What does growth mean to these entrepreneurs? How do these entrepreneurs describe success of their own growth?*

Entrepreneurs do not have automatic bias towards growth (Lesger, 1997). Influence of intention on growth and success was explained by Bird (1988) and LeBrasseur et al (2003). Sometimes they do not want to exploit the opportunities to grow (Wiklund et al, 2003). Entrepreneur's bias as a contributor or impeding factor is empirically established (Rogoff et al, 2004). But if they decide to grow, small business entrepreneurs tend to exploit market opportunities as early as possible. The continuous search and innovation are the typical entrepreneurial behaviour which is also context specific. Attitude is one predictor of such behaviour. I am referring the research article 'What Do They Think and Feel about Growth? An Expectancy-Value Approach to Small Business Managers' Attitude Towards Growth' authored by Wiklund et al (2003) to deal with this aspect. In entrepreneurship literature attitudinal theories are less referred in as compared to personality variables. Personality variables measure general individual tendencies and have less predictive power in specific context where as attitude is considered to be an important determinant of behaviour in such cases. Attitude is moderately strong predictor of goal directed behaviour, less stable over time and across situation, and changes in accordance with the environment. This supplements the earlier argument about unpredictability in strategy planning. Attitude to grow vary widely and is embedded in social and economic factors (Clark et al, 2001). Growth strategy planning has a strong influence of context and environment. By considering the influence of entrepreneur's

attitude on strategy, entrepreneurial strategic growth planning becomes predictable. This may help us develop a framework on strategy planning. On expectancy–value theory, Wiklund et al (2003) established that belief and attitude are closely associated. Individual’s attitude towards behaviour can be predicted by salient beliefs. This can predict the attitude of entrepreneur towards growth. Wiklund (2003) also concluded on eight key areas that affect the growth of entrepreneurial organisations positively or negatively - owner-manager’s workload, owner-manager’s work tasks, employee well being, financial outcome, control (surveillance), independence, crisis survival ability and quality of product and service. But we do not find an explanation whether the areas listed above work in specific combinations or all of them together form the necessary condition

This leads to my entrepreneur-related research question - *What is the attitude of entrepreneurs of small organisations towards growth?*

Entrepreneurial strategy leads to improved performance in highly uncertain and low cost pressure business environment; this supports development of state of art process technologies and the core process redesign (Dess et al, 1997). As business grows and competition increases the need for developing organisational capabilities and skill base becomes inevitable (LeBrasseur et al, 2003). Strategy planning is also learning driven and results into innovations. As organisations grow in their market exposure, learning becomes intense and it works as a moderating factor in strategy planning (Gibbons and O’Connor, 2005). The reason for outside interaction is for seeking information about market opportunity and competition, and accessing knowledge resources for making strategic decisions (Chan and Foster, 1999). Lechner and Dowling (2003) established that high growth entrepreneurial organisations make use of external relations. Formal orientation towards this increases interaction of entrepreneurs with the operating environment and moderates sophistication in strategic management practices leading to better business results (Keats and Bracker, 1988). Kalantaridis (2004) argued that as small businesses approach internationalisation the entrepreneur consider strategic planning important and essential. To enable growth of their businesses the entrepreneurs have to develop both strategic and tactical skills and abilities to face market related

uncertainties (Carland et al, 1984; Kuratko et al, 2001). The need for competences in strategic decision making on the part of the entrepreneur is established but we face knowledge gap about the essential entrepreneurial capabilities needed to succeed in strategy planning.

The second entrepreneur-related research question is related to this issue - *What are the important entrepreneurial strategy planning capabilities?*

METHODOLOGY

I have adopted Grounded Theory approach of qualitative research for studying the small manufacturing organisations supplying machined auto component to automobile manufacturers, and for developing theoretical frameworks on entrepreneurial growth strategy planning.² I have adopted the methodology explained by Strauss and Corbin (1998). Creswell (1998) have provided a detailed explanation on the methodology. The steps involved are, Open Coding → Axial Coding → Selective Coding → Theoretical framework.

In my study the auto component sector represents competitive business environment. I have selected Indore and Pithampur (Madhya Pradesh, in central India) based small machining units as the sample frame.

For data collection first I interviewed industry experts to get an overview of the small manufacturing organisations about the development of this industry in central India, opportunities and challenges, etc. I conducted three such interviews. Subsequently I approached entrepreneurs of small organisations engaged in machining of components for in-depth interviews. I have approached only those entrepreneurs who claim that they have grown in the auto component business and have adopted some kind of innovation(s) for meeting the customers' needs. I noticed that the entrepreneurs were keen to share their experiences. I have adopted Theoretical Sampling in which the number of

² Grounded Theory developed by Barney Glaser and Anselm Strauss is a research method associated with qualitative research especially in social sciences.

organisations (entrepreneurs) visited depended on the saturation of information categorisation. My theoretical sample consisted of ten interviews.

The first round of interview sessions lasted for two to three hours. I used lap top computer to record the statements and prepared memos based on the interviews. I sought entrepreneurs' acceptance on these memos. In some cases I sought more details or clarifications during repeat visits. The duration of such visits was short and the discussions were restricted to the specific points. I sought clarifications over telephone when repeat visit was not possible.

The interviews were semi-structured. I listed discussion points based on my research questions and used them to trigger discussions. The interviews were largely free flow of thoughts and experiences. The entrepreneurs were also encouraged to share their problems and concerns. The discussion points were as follows –

- a) Approximate proportion of production supplied to auto component companies? (names and description of parts)
- b) Understanding about the growth opportunities and challenges in auto component sector?
- c) Describe 'growth'?
- d) Growth strategy planning? Is there a formal system?
- e) How do you work on technology – product and process? Explain technology adoption or development system. Any support from the customer?
- f) Competence in strategy planning? Do you seek outside help or support from family members, friends, etc?
- g) Any training related support from the customer(s)?
- h) Rate success in growth strategy planning?
- i) As an 'individual' how do you feel about growth of your organisation? Does growth of your organisation increase your work load or problems? Do you feel happy to earn more profit and hence personal earning?
- j) Information on functioning and experiences about foundry cluster? Benefits, if any?

As interviews were progressing, I started preparing memos. I also started the preliminary analysis by segmenting the information as a part of open coding. I prepared tables for each segment of information to summarise the open codes. In each segment I listed the various dimensions. I looked into the specific words and their explanations to identify their properties. I updated the respective memo and the table after subsequent visit or interaction.

I have observed two central themes emerging. ‘Single customer and location specificity’ and ‘multiple opportunities in multiple locations’ emerged as the central themes in growth strategy planning. For axial coding I classified the information around these themes – ‘focused customer’ and ‘multiple opportunities’. I explored the causal conditions in each category, identified the contexts resulting in to these themes and prepared strategy maps.

I have discussed these core strategies with literature support. The last stage of analysis was selective coding. I have developed theoretical framework on ‘focused customer based’ and ‘multiple opportunity based’ entrepreneurial growth strategy maps.

DATA SUMMARY

In the first part of this section I am providing an overview of the entrepreneurial history of Indore and Pithampur. Later I am presenting summarised tables of the interview-notes (open codes). I have also divided the information into two columns. The columns represent two distinct groups emerged out of the collected data. The grouping of information within the respective column is done such a way that they are correlated.

Entrepreneurial settings – past and present

Indore is considered to be one of the major business centres of central India. The city was also known as ‘mini Bombay³’. Cotton trading was one of the major business activities on account of vast cotton cultivation in the Malwa Region. Many cotton textile mills were set up; later most of them became sick due to lack of strength to face the competition and inability to invest in technology upgradation. In 1980s the city has witnessed emergence of electronic industries. Also another industrial area was developed in Dewas (about 45 KM from Indore), some major business houses like Kirloskars, Tatas, Mafatlals have set up their manufacturing facilities in Dewas. A number of suppliers were developed by these organisations which added to the industrial activities of Indore and Dewas. In late 1980s yet another industrial area Pithampur, was developed, about 40 KM away, towards the other end of the Indore city along the National Highway No. 3. Due to concentration of five major automotive OEMs (Bajaj Tempo – now Force Motor, Eicher Motors, Hindustan Motors, Kinetic Motors, and L&T Case) and one major tyre producing unit (Bridgestone) Pithampur is called the ‘Detroit of India’. This is spread across an area of 1,900 hectares, with about 122 medium and large-scale industrial units, and more than 455 small-scale manufacturing units. Pithampur has attracted cumulative investment of over Indian Rupees 68,250 million and provides employment to about 25,000 people. The value of annual production in this industrial region totals Indian Rupees 25,000 million. OEMs in this Auto Cluster had a total sales turnover of about Indian Rupees 20,000 million in 2003-04, and expected to reach Indian Rupees 100,000 million by 2010. The local sourcing by the Pithampur based OEMs is about one-eighth (12.5%) of their annual component needs. Where as local sourcing by automobile OEMs in other auto clusters ranges between 60 to 70%. This underlines the latent potential in Pithampur’s auto component sector considering the rapid growth projected in these OEMs. Majority of the small and medium sized manufacturing units are engaged in machining and related activities. Since 2004, Pithampur is being developed as an auto industry and components based cluster by the Government with setting up of a design,

³ Currently known as Mumbai.

tool room and training institute to improve competitiveness. The cluster is managed by an independent special purpose vehicle.⁴

Growth

The entrepreneurs of small manufacturing organisations located in Pithampur and Indore appreciate the cyclical demand pattern of automobile sector. Although the duration of high demand period are estimated different, their understanding about growth opportunity and planning for growth influence their decision of future investments.

Market and customers –

The entrepreneurs of the small organisations engaged in machining and related activities consider increase in sales turnover as an important parameter of growth. The first group of entrepreneurs (third column of Table -1) are dependent on single customer (in most of the cases Eicher Motors) and do not consider independently exporting their products. However the second group (fourth column of Table – 2) wants to operate in wider market base, desirous to export to other Asian markets.

Competition –

The entrepreneurs of the first group compete with other local companies and work for improving process efficiency and cost reduction to remain competitive. The second group carry out industry analysis to remain competitive.

Product focus –

The first group receives technical specifications from the customers for new product development. The small organisations cater to the current needs of the customers and try to seek opportunity for higher value addition for better financial returns. The second group searches for new product, segment and market opportunities. These organisations consider opportunities for value addition in specific industry segments.

⁴ Source: <http://www.competitiveness.org/cid/ciview/107/> and <http://www.pautocluster.com/aboutpacl.asp>

People focus –

Both the entrepreneurs' group face shortages of skilled manpower. The first group which depends on single customer feels that this is an impediment for their growth as they need to spend time and resources to provide training the locals to make them fit for the jobs. Although the second group also faces problem due to shortage of skilled manpower, they recruit locals at various locations and train them.

<< Table 1 is about here.>>

Attitude towards Growth

Workload of entrepreneur and tasks –

The entrepreneurs do not think that growth in their business adds to their individual work loads. They are ready to share the work load and delegate the responsibilities to a limited extent.

Process competence –

The entrepreneurs believe that growth of their organisations provides opportunity for learning and improvement. Growth involves new technology adoption. The first group finds better opportunities in their existing (machining related) competence where as the second group feels that they have moderate opportunities considering their overall competence to handle multiple industry, product and market segments.

Financial outcome –

The entrepreneurs strongly believe that exercising financial discipline is important for growth. The first group reinvests their internal savings achieved through this process.

Strategic focus –

The first group works in close association with their customers and depends on the sales projections given to them. The second group uses data based approach; entrepreneurs carry out their own analysis on market and opportunities to prepare strategic plans.

Independence and controls –

The entrepreneurs want to take independent strategic decisions for strategic growth planning and continue to maintain control on day today operations.

Risk orientation and rate of growth –

Although the first group of entrepreneurs wants to grow at steady rate understanding the risks involved. The second group desires to grow at a higher rate and these entrepreneurs. But the entrepreneurs of both the groups consider that they are capable of managing the growth risks and they have the financial capability to invest for growth.

People competence –

The entrepreneurs are highly depended on skill and competence of their people for growth. They also feel that the people should be able to take higher operational responsibilities.

<< Table 2 is about here.>>

Strategy Planning Capabilities

Planning orientation –

The entrepreneurs appreciate the cyclical demand patterns of the automobile and auto component industries. The first group depends on their customers' sales and demand projection data to make plans; the planning period is 2 to 3 years. Their companies manufacture many products in low volumes for their customers to mitigate the risks associated with demand fluctuations. They remain sensitive to the shortage of skilled

manpower and tend to outsource their operations. However the second group focuses on industry, market trends and product opportunities to plan for 3 to 5 years. The entrepreneurs prepare comprehensive plan based on relative risk and competitive advantages at a specific location. They create internal value chain to share the work load among their own units (at various locations) to overcome the manpower shortage at a specific unit.

Strategy decision making in auto sector –

The first group of entrepreneurs does not consider growth opportunity in non-auto component sectors; it feels that hiving off machining facilities by large automobile manufacturers on account of absence of economies of scale is a growth opportunity for them. They see major opportunity on account of growth in infrastructure sector. But the second group sees opportunities in auto and non-auto segments both. In auto component segment opportunity exists in precision component segment for passenger cars and other light vehicles. Among other sectors they see major growth options in retail segment which will influence their growth. The first group does not feel threatened from Chinese companies as they feel those companies do not meet quality requirements. However the entrepreneurs feel that there is a threat of takeover by major auto component manufacturers. The group also feels that other sectors (like IT and ITES) offers higher salary and is a major cause of high attrition in their companies. The second group does not have any such threat perception. Both the groups select vendors and suppliers based on the merit performances.

Strategic decision orientation –

The first group follows informal methods for strategic planning with high dependence on customer interaction. The second group analyses the data collected from secondary sources and follow semi-formal system of strategic planning. On choice of Indore or Pithampur as location, the first group of entrepreneurs were already based in Indore or nearby places, they subsequently found new opportunities in auto components sector. Although the second group of entrepreneurs were also based in Indore or nearby places but they have considered other locations and made a strategic choice to remain at Indore or Pithampur. Proximity to major automobile manufacturers influenced their decision.

The first group normally develops all products offered by the customer the second group makes specific choices at different locations. The first group takes support from friend and family members in strategy planning especially in technology selection; the second group does not take any support as the entrepreneurs depend on data based analysis and their own knowledge. The groups adopt technologies but for different reasons. The first group looks for low cost automation to overcome the problems of shortage of skilled manpower. But the second group depends on the product and market needs. They consider that quality, cost and just-in-time delivery are important considerations for strategic planning and feel pressure due to rising steel prices. In order to overcome the competitive pressure the first group of entrepreneurs takes advantage of the close relationship with customer and sometimes undercut the competitors. The second group of entrepreneurs competes on cost cutting but they also respect competitors and do not indulge in undercutting.

The first group searches low cost suppliers and feels that they need competent people to support the growth process. The second group also needs competent people but does not consider supplier selection as a cost related issue.

Finance for expansion and growth –

The first group of entrepreneurs finances the growth needs through internal savings and bank loans. But the second group solely depends on loans from banks or financial institutions. The groups take advantage of tax incentives offered at various locations by the provincial or federal governments but do not expect other support from the government. Most of them are technocrats and moderately focus on financial management; they personally involve in product and process development related activities.

Market, customer and competition –

The entrepreneurs feel that auto component sector provides them a lot of opportunity to grow. Since the first group operates in niche segment with limited or negligible desire to divert in non-auto segment, the entrepreneurs find high competition from the unorganised manufacturers. While the second group does not find such competition, the group has advantage of multiple products, markets and locations, including non-auto segments. The

first group carries varied perception about their customers. Some of them feel that they receive technical support to develop processes and in product development, they reported that the extent of support varies. Sometime they (customers) also provide financial support (during the initial years). On the other hand many entrepreneurs are cautious about the exploitative attitude of their customers. The second group finds the customer highly supportive, they receive financial and/or technical know how from them.

<< Table 3 is about here.>>

Growth strategy and organisational focus

Organisation structure –

Both groups of entrepreneurs want to establish formal organisational structure for similar reasons. The first group wants to establish the image of a professionally managed organisation while the second group feels that this is necessary for establishing better relationship with the customers.

Process and technology –

The first group aims at low cost, high quality and high productivity. It focuses on process improvement and low cost automation. The entrepreneurs try to mitigate the loss of productive time and low productivity on account of product variety, low volume in each variety resulting into frequent changeovers. The second group also focuses on high quality and high productivity. But it focuses on operation cost to remain competitive in various markets. These entrepreneurs also work on process improvement but do not necessarily consider low cost automation.

People and knowledge –

Both the groups recruit local talents and train them on the desired skills.

Supplier management –

Both the groups feel that supplier relationship is important and try to pay them on time to maintain good relations.

Networking and collaboration outside the organisation –

The entrepreneurs from both the groups do not network or collaborate with organisations other than the customers.

<< Table 4 is about here.>>

Assessment of success in growth and future challenges

The satisfaction levels on growth are different. The entrepreneurs of the first group feel low to moderately satisfied and want to grow more. The second group is satisfied on success in growth. The entrepreneurs also want to grow more however they feel that the growth is attributed to the team work within their organisations.

<< Table 5 is about here.>>

GROWTH STRATEGY MAPS

Two major themes on growth strategy are emerging from the open codes of group 1 and 2, respectively – opportunity based on single customer focus (figure-2), and multiple opportunities focus (figure-3). I am explaining the causal conditions within each group to draw strategy maps, and for subsequently developing the theoretical frameworks (axial coding).

Focused Customer Based Growth Strategy Map

Entrepreneurs depend on single customer and try to define their strategy accordingly. The entrepreneurs of small organisations engaged in manufacturing auto components maintain close relationship with the customer to know about the future plan and work for

the indigenisation plans (Chetty and Campbell-Hunt, 2003). This is important for capacity utilisation of the existing facilities. The principle measure of growth is sales turnover from the existing customer. They work towards meeting the customer needs and to remain competitive. They also use technology to remain competitive and to reduce dependence on human skills.

<<Figure-2 is about here.>>

The entrepreneurs chose Indore or Pithampur considering the opportunities available to be the suppliers to major automobile manufacturers (especially Eicher Motors Limited). In this way they develop dependence on one single customer. The growth strategy has high correlation with the customer's growth plans and improvement programmes.

They manufacture high precision products and get price advantage on the value added products (Murray, 1984). The entrepreneurs personally involve to know from the customers about opportunity for new product development and also to get other market related information. This helps them stay ahead of their competitors. With process expertise they can also develop many new products (Prater and Ghosh, 2005). The small entrepreneurial organisations consider fulfilment of quality requirements of the customers as important. Generally the customers fix up target price for products and expect these organisations to manufacture at reduced cost without compromising the quality requirements.

The small organisations also synchronise their processes to manufacture small batch quantities for the customers. They develop capability of low set up time and work for achieving higher productivity and low cycle time.

Close interaction provides confidence to the customers about competence and ability of the suppliers (Kotey and Meredith, 1997). The small organisations in turn develop competence of low cost manufacturing.

Shortage of skilled manpower becomes one of the major reasons for technology adoption for process improvement, thus they look for low cost automation as a feasible option.

Technology and automation aims at reducing dependence on skilled manpower; formal HR structure and procedures become important (Kotey and Slade, 2005).

Growing organisations try to establish partnership with limited number of suppliers, pay them on time to win their confidence about fair business dealings (Beekman and Robinson, 2004). Due to competitive pressure they do not interact with the competitors. They do not share any business related data, rather they tend to undercut each other.

We notice variation in rating own successes by the entrepreneurs. Some of them feel that they have succeeded moderately in achieving growth while many are not satisfied. Limited number of customers, cost pressure and competition among the small manufacturing organisation are the major reasons for variation in satisfaction towards growth.

Multiple Opportunity Based Growth Strategy Map

Entrepreneurs consider markets at multiple locations and industry segments. Although they work toward increasing sales turnover but such organisations tend to work across industries and markets. Opportunities of product innovation help them enter into new customer segments (Kotey and Meredith, 1977; Murray, 1984; McDougal et al, 1994; Chaston and Mangles, 1997; Freel and Robson, 2004; Prater and Ghosh 2005). They take strategic decision about locations to work on strategic growth plans.

<<Figure-3 is about here.>>

The entrepreneur managed small manufacturing organisations select multiple industry segments as the market opportunity. The principal focus of opportunity search is on supply chain advantage. The decision to locate at a specific location depends on such advantages as understood by the entrepreneurs. Their decision on location also depends on systematic analysis of multiple markets leading to industry analysis which becomes an important input for strategic growth plan.

Technology selection is another dimension of search for opportunities. Training and skill development in specific technology areas help them in assessing competences and organisational capabilities which in turn results into a strategic growth plan. Technology selection aims at developing capability to manufacture more than one product. Technology adoption also develops process competence which is also a basis for searching opportunities for multiple products.

Process competence develops flexibility to manufacture many products which in turn improves capacity utilization by synergetic approach. High investment capability is important for entering into multiple industry segments. Investment capability remains important enabler for improved capacity utilization.

The entrepreneurs feel that their success in achieving growth is moderate to high. Considering that multiple market opportunities provide scope for higher level of growth (Pelham, 2000), these entrepreneurs desire to influence the markets through their strategies.

THEORETICAL FRAMEWORKS ON GROWTH STRATEGIES

Grounding in the data and with further analysis I am concluding (selective coding) on the following growth strategy in small entrepreneurial manufacturing organisations (figures-4 and 5). The strategies are not mutually exclusive.

I also want to make an important submission that irrespective of growth strategy adopted, the entrepreneurs desirous to grow have shown common attitudes. As individuals they do not consider growth as additional work, and they want to work towards enhancing quality and value for their customers. They take charge to control and lead the organisation while considering that there should be moderate delegation of the tasks. They are ready to invest in automation and technology. They also maintain financial discipline within the organisations.

Focused Customer Based Growth Strategy

Entrepreneurs depend on single (or limited number) customer. This leads to establishing close relationship and also higher competition (as many small organisations cater to common customers). Major focus remains on low cost and high customer relation.

The entrepreneurs consider growth by increasing sales turnover with the existing customer. This is also about finding out opportunity of new product development and indigenisation of components. Due to the market pressures on cost and quality the automobile manufactures expect continuous improvement. Hence the entrepreneurs of small manufacturing organisations consider process improvement as one of the priorities for quality improvement and cost reduction.

Due to high dependence on single (or limited) customer the growth strategy of small organisations is dependent on the growth plans and projection of the customer. They want slow and steady rate of growth. They invest internal surplus on technology and adopt low cost technology to remain competitive.

<< Figure 4 is about here. >>

The entrepreneurs of small manufacturing organisations adopt informal methods of strategy planning. They do not take any professional support and focus on shorter time spans. They are sensitive towards the demand fluctuation of the customers and develop operational flexibility to manufacture small batch sizes. They also develop competence to reduce process idle time on account of frequent changeovers due to low volume and higher product varieties. Thus productivity improvement, low set up time and capacity utilisation remain major goals for their organisational competence. They feel that due to small sizes and limited scopes of operation they are vulnerable to takeover by medium and large organisations considering business consolidation. Due to limited market exposure and higher competition, they do not make any attempt to collaborate; in some cases they undercut each other to remain competitive.

The critical success factors of this strategy are agility and cost efficiency. The entrepreneurs are less satisfied with their success due to ever increasing pressure from the customer, though the entrepreneurs try to manage the demand uncertainties effectively as they deal with only one (or limited) customer. They intend to reduce dependence on skill and attempt to adopt automation to replace skill with low cost technology. Due to limited scope of operation and low cost structure they have to depend on local talents which is scarce.

Multiple Opportunity Based Growth Strategy

This strategy deals with multiple opportunities. The entrepreneurs carry out systematic data based analysis of the opportunities. The core of this strategy is expansion orientation with multiple options i.e. multiple products, multiple industries, multiple product and multiple locations.

The entrepreneurs define growth as global scale operations; they aspire to be the best in Asia. They develop competence to study and analyze the comparative advantages so as to take decision on new industry, market or product segments considering all options. Options of new product development along the value chains of the existing customers is one of the critical success factors for growth as this reduces the cost of market search. Development of the local talents to make them employable in their organisations is an important indicator of growth due high dependence on skill and competence of people.

The major reason of expansion orientation is the perceived market limitations. Hence the entrepreneurs search for newer options in related areas. They have strong learning focus. The entrepreneurs maintain high financial discipline and invest in capacity expansion and competence building.

The entrepreneurs of small manufacturing organizations adopt semi-formal systems of strategy planning. They depend on data based analysis. Strategic decisions on product, market, industry and locations are based on such analysis. On the other hand they also depend on their own understanding about the future and trends. As their organizations try to move up in the value chain of existing customers, the entrepreneurs tend to develop

competence in high precision and high value product segments to achieve improved performance levels. Most of their strategic decisions involve long term focus and medium or high investments; funds are sourced out of limited internal savings and from banks and financial institutions. Process and technology selections are based on cost advantages and quality requirements.

The major input for the business growth is customer relation. The small organizations work towards developing formal organization structure. Organizations focus on competence to develop high precision quality products at lower cost for competitive pricing. Due to high investment considerations they work towards improving process efficiency, productivity improvement and better capacity utilization. Depending on the competence at each location they establish supply chain linkages among their own businesses at various locations. This also helps in achieving better capacity utilization. They recruit and train people locally, and develop teams at each location. On time payment is considered to be one of the important ways to maintain good relationship with the suppliers. Entrepreneurs do not network or collaborate beyond business linkages (with suppliers and customers).

The entrepreneurs feel moderate to highly satisfied with their success on growth but desire to grow at global scale. They attribute the success to their teams.

<< Figure 5 is about here.>>

CONCLUSION AND LIMITATIONS

I have presented two comprehensive strategic frameworks – focused customer and multiple opportunity based growth strategies, encompassing understanding of growth by small business entrepreneurs, their attitude towards growth, strategy, and success in achieving growth. The frameworks are based on entrepreneurial growth strategy grounded in my study in small organisations in central India supplying to automobile manufacturers. The comprehensiveness of this paper is also on account of the highly competitive auto component industry setting as a context in which two important aspects of strategy planning were addressed - growth and entrepreneur. The macro-economic conditions and industry environment affect the probability of growth and entrepreneurs analyse the context to search for growth opportunities which is influenced by their personality (Kangasharju, 2003). I have taken a fresh view of growth strategy considering that entrepreneurs carry different meanings and attitude towards growth and possess different competences as strategists. The premise that entrepreneurial strategy represents a distinct strategy-making process characterised by experimentation, innovativeness, and risk taking holds good (Dess et al. 1997).

The article is based on only those small auto component manufacturing companies engaged in machining related activities which have grown in automobile sector. There are two limitations in my study. I have considered the attitude towards growth and strategy planning competence as drivers for growth strategy planning but the pre-start up planning as a variable which could influence the attitude and strategy planning was not considered a variable in my study. Also factors related to regional variations have not been included in my paper. I agree that professional choices and entrepreneurial intensity varies from one region to the other. Disparity in regional economic development is strongly influenced by the proportion of trade, local industries, resources and mix of organisations present in the clusters (Porter, 2003).

Although for developing a robust theory on strategic management in small organisations cross sectional study is advisable but high sensitivity towards global competition makes auto component sector a strong case for developing theory solely based on this sector. The other auto component businesses (i.e. auto electrical, sheet metal pressed and other

component segments) not included in this study may possess different characteristics. At subsequent stage a comparative study in other segments of the auto component sector is desirable for developing a robust theory. Inclusion of specific automobile segment such as two wheeler, three wheeler and four wheeler or light and heavy duty vehicles may also make the study rich. A comparative study between growing and non-growing small organisations may be useful to validate the proposed theory.

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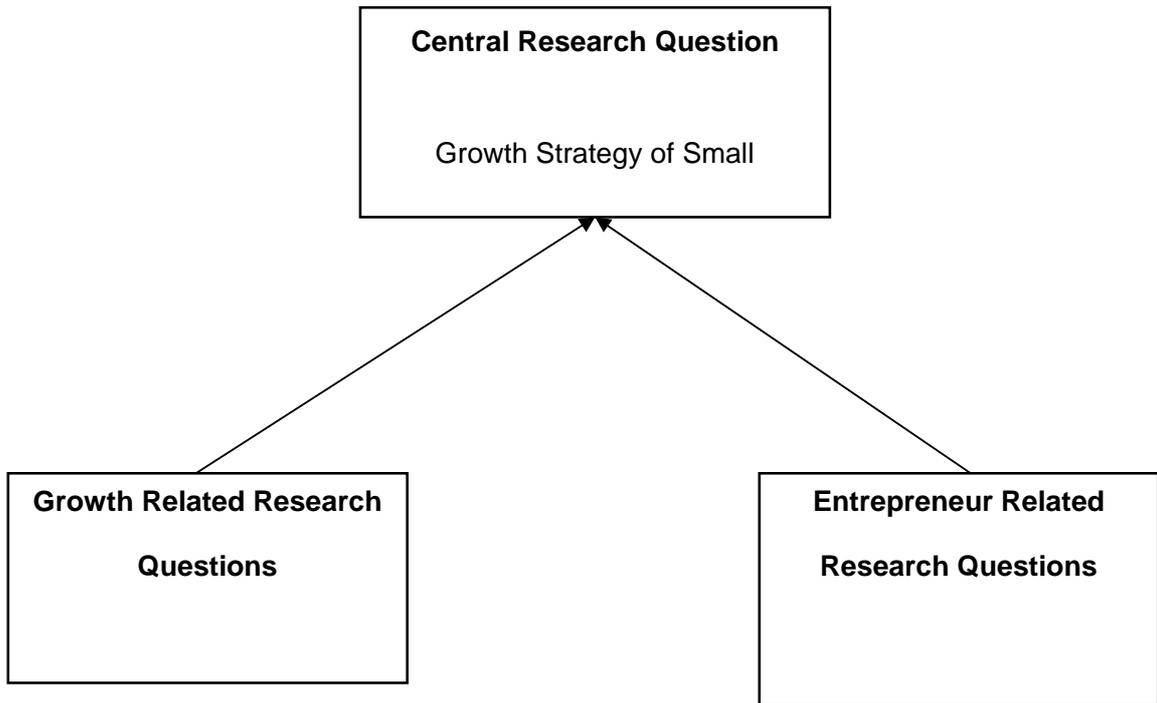


Figure-1: Conceptual Linkage between Research Questions

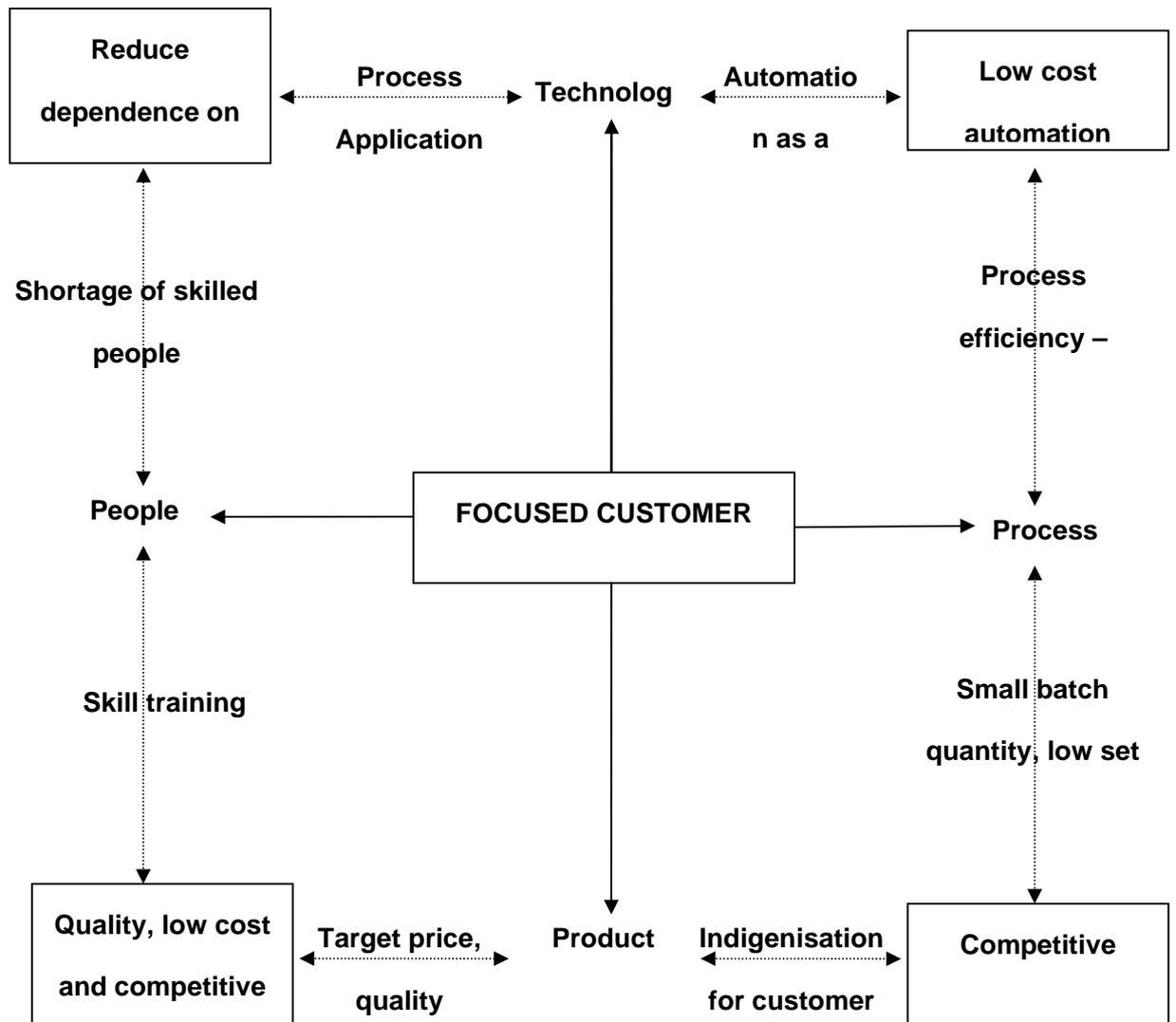


Figure-2: Focused Customer Based Growth Strategy

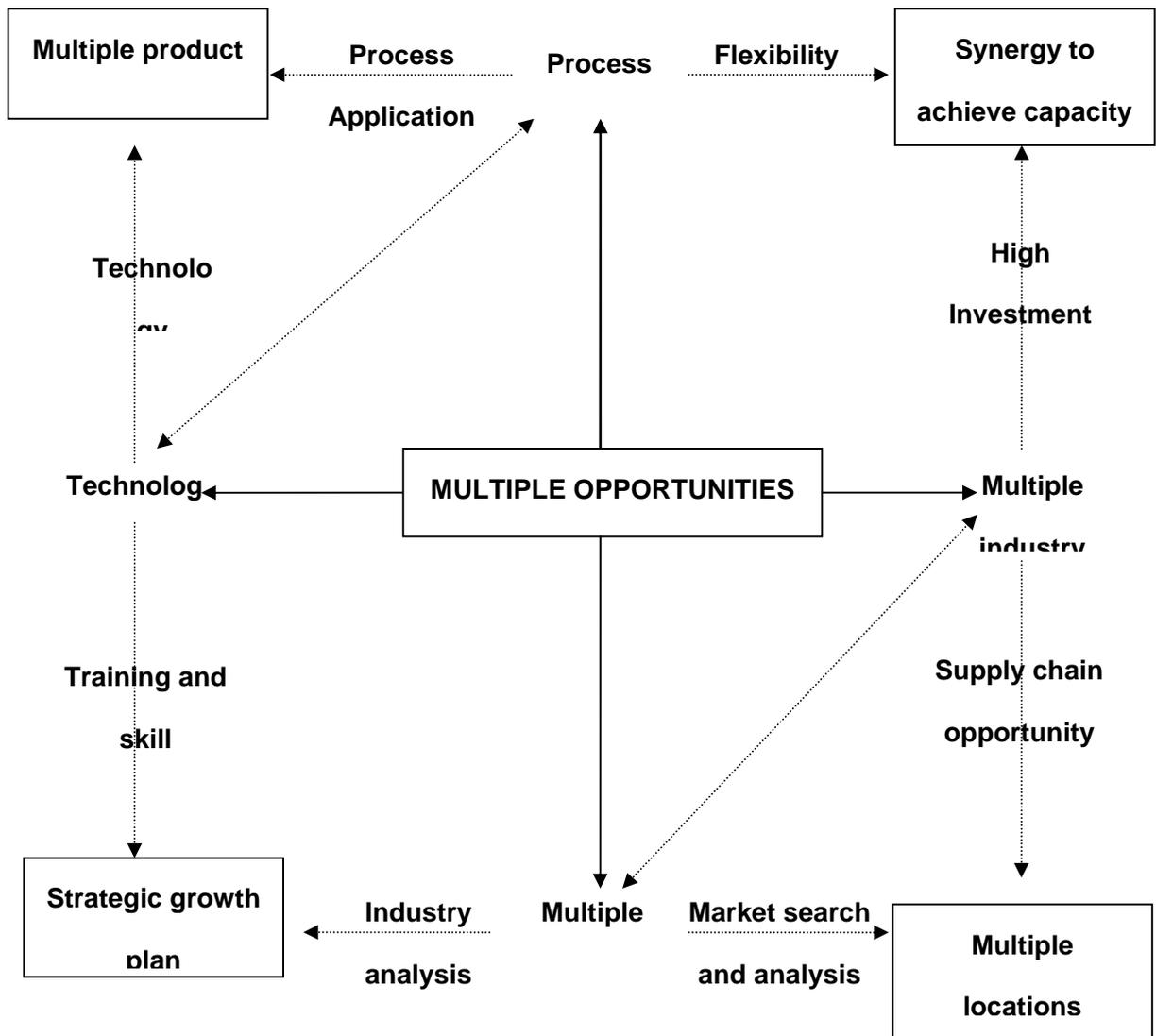


Figure-3: Multiple Opportunities Based Growth Strategy

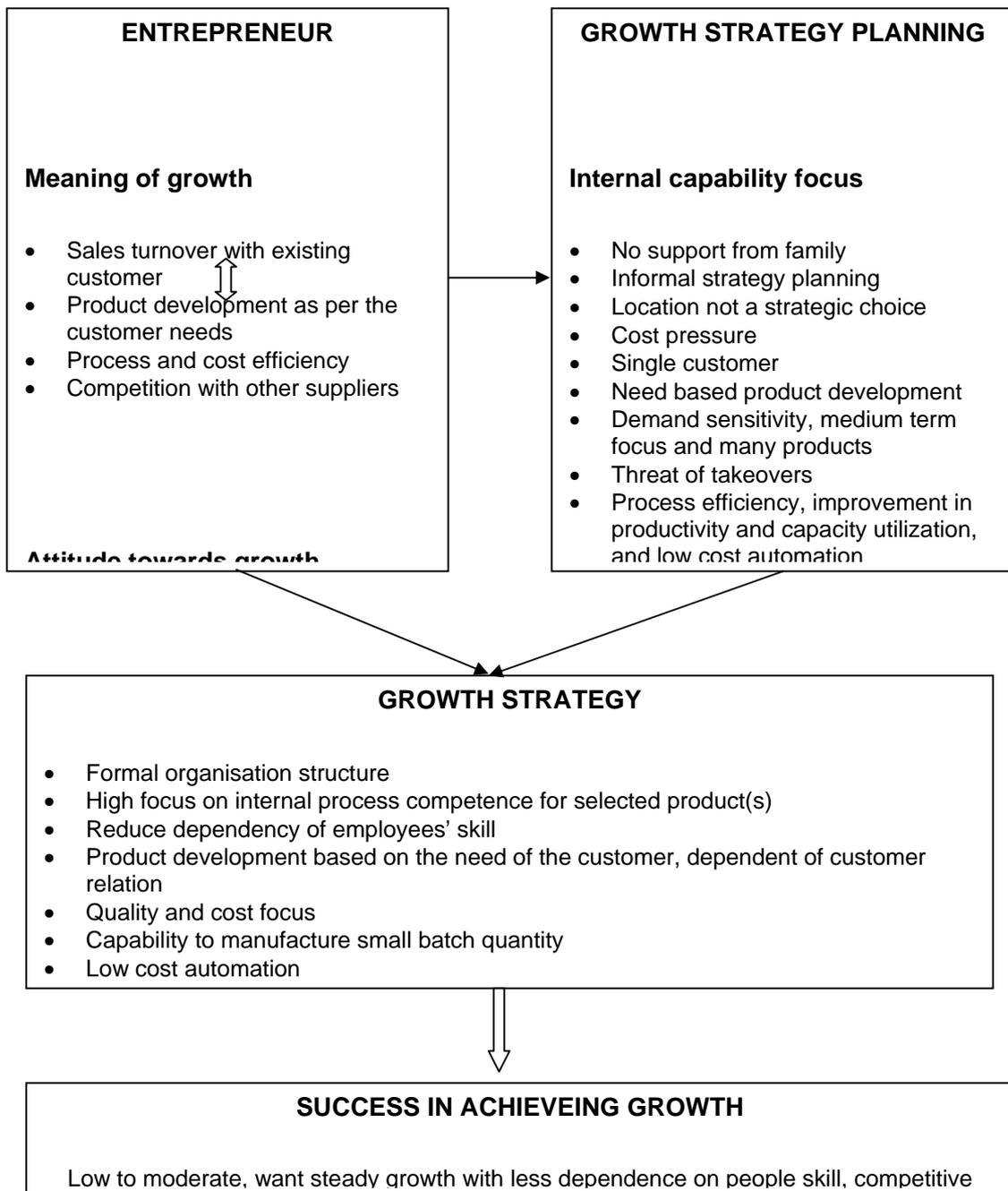


Figure-4: Focused Customer Based Growth Strategy

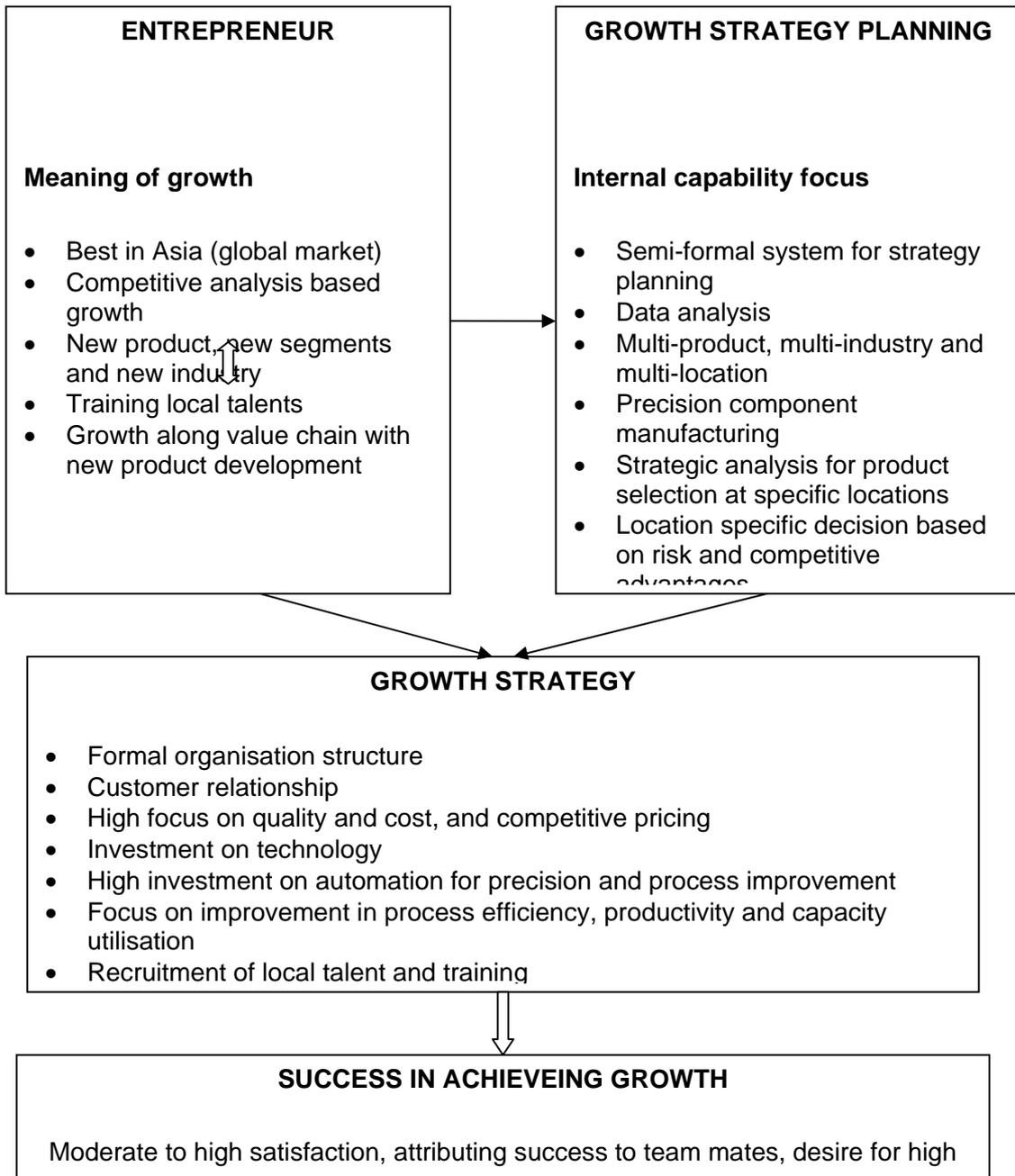


Figure-5: Proposition 2 (Multiple Opportunity Based Growth Strategy)

Dimensions	Variables	Group 1	Group 2
Market and Customer	Sales Turnover	High	High
	Market reach	Existing customer	Best in Asia
	Export Orientation	Low to High	Moderate to High
Competition	Scope	Among the suppliers	Within industry
	Focus	Cost and process efficiency	Competitive analysis
Product focus	New Product Development	Based on existing customer need, in the existing product segment	New Product, New Segment and New Industry Orientation
	Value Addition	High with existing customer	As per the requirement
People focus	Shortage of skilled manpower	High, impediment for growth – need to train local people	Issue in growth, need to train the local people

Table-1: Describing Growth

Dimension	Variables	Group 1	Group 2
Workload of entrepreneur	Added workload	No	No
Owner-manager's work tasks	Leading and delegating	Moderate	Moderate
Process competence	Learning and Improvement Orientation	Moderate to high	High
	Technology Adoption	High	High
	Perceived Opportunity in machining related competence	High	Moderate, considering overall competence
Financial outcome	Financial Discipline	High, invested personal savings	High
Strategic focus	Strategic planning capability	High, customer focused	High, data based approach
Control	Entrepreneurs' control	Moderate to high	High
Independence	Independent in decision making	High	High
Risk orientation and rate of growth	Perception about risk for growth	Moderate but manageable	Manageable
	Growth rate	Steady	High with capacity expansion
	Investment capability	High	High
Rate of growth	Rate of growth	Moderate	High, return on investment
People competence	Dependence on Skill	High	High
	Felt need to take responsibility	High	High

Table-2: Attitude towards growth

Dimension	Variables	Group 1	Group 2
Planning orientation	Demand Assessment	Cyclical demand patterns observed, demand assessment from existing customers' needs	Multi product, multi industry and multi location
	Planning period	2 to 3 years	3 to 5 years
	Volume focus	Low in each product segment to mitigate risk of single customer	As per risk/competitive advantage associated with a specific location
	Problem in getting skilled manpower	High consideration while planning	Not significant
	Process outsourcing orientation	High to overcome shortage of manpower	Not significant
Strategy decision making	Growth opportunity in other segments	Not significant	Growth in retail segments
	Growth opportunity in related segments	Automobile companies are hiving off machining facilities	Light vehicle segment, high precision product segment

Dimension	Variables	Group 1	Group 2
		Growth in infrastructure segment	
	Threat of takeover	High as medium and large companies are entering into this segment	Not significant
	Threat perception from China	Not significant, they supply higher quantities and cheap product but with low quality	Not significant
	Threat from attrition	Due to high salary in other sectors and poaching by customers	Not significant
	Vendor selection	Based on performance	Based on performance
Strategic decision orientation	Choice of location (Indore and Pithampur)	Already based in Indore and subsequent opportunity in auto component sector	Already based in Indore and subsequent opportunity in auto component sector, strategic choice due to Eicher and

Dimension	Variables	Group 1	Group 2
			others
	Choice of product for development	Accept all products demanded by the customer	Specific to the location, customer choice
	Technology orientation	High as per product needs, low cost automation to overcome the shortage of skilled manpower	High as per the product and market needs
	Quality, cost and just in time	High	High
	Pressure on profit	High due to fluctuation in steel prices	High due to fluctuation in steel prices
	Competitors	No respect as they undercut each other, try to take advantage of close relationship with the customers	No interaction with competitors, respect for competitors as all are trying for cost cutting
	Finance for expansion and growth	Moderate to high, from internal savings and from	Available from banks and financial

Dimension	Variables	Group 1	Group 2
		banks and financial institutions	institutions
	Support from government (taxation, policy and infrastructure)	Low	Low but advantage of multi location and multi industry
	Support from family and friends in strategy planning	Low to moderate in general, moderate in technology selection	No support
	Strategy planning process	Informal and based on customer interaction	Semi formal, market data based
	Supplier selection	Constant search for low cost suppliers	Not significant
	People	Need for competence development	Need for competence development
Market, customer and competition orientation	Existing customers	Supporting to Exploiting	Supporting
	Customer support in product development	High for large variety of	High

Dimension	Variables	Group 1	Group 2
		products and process competence demanded by the customer	
	Nature of customer support	Financial support during the initial years and technical support	Financial and technical support
	Opportunity to grow	High	High
	Competition from unorganised segment	High	Not significant
	To grow in segments other than auto component	Low to High	High
Entrepreneurs' competence focus within the organisation	Financial Management capability	Moderate	Moderate

Table-3: Strategy planning capability

Dimension	Variables	Group 1	Group 2
Organisation structure	Need for formal structure	High, in order to create a visibility like a professional organisation	High, in order to establish better client relationship
Process and technology	Low cost focus	High	High but competitive
	Quality focus	High	High
	Low cost automation	High	Low
	Productivity and capacity utilisation focus	High due to high set up time and low volume	High
	Process improvement focus	High	High
People and knowledge	Recruitment	Recruit locals and train	Recruit locals and train
Supplier management	Payment to the suppliers	On time payment	On time payment
Networking and collaboration outside the organisation	Other than customer	Low	Low

Table-4: Focus on Organisational Factors

Dimension	Group 1	Group 2
Satisfaction of entrepreneurs	Low to moderate satisfaction, want to grow more	Moderate to high satisfaction, attribute growth to team work, want to grow more

Table 5 : Success in Growth