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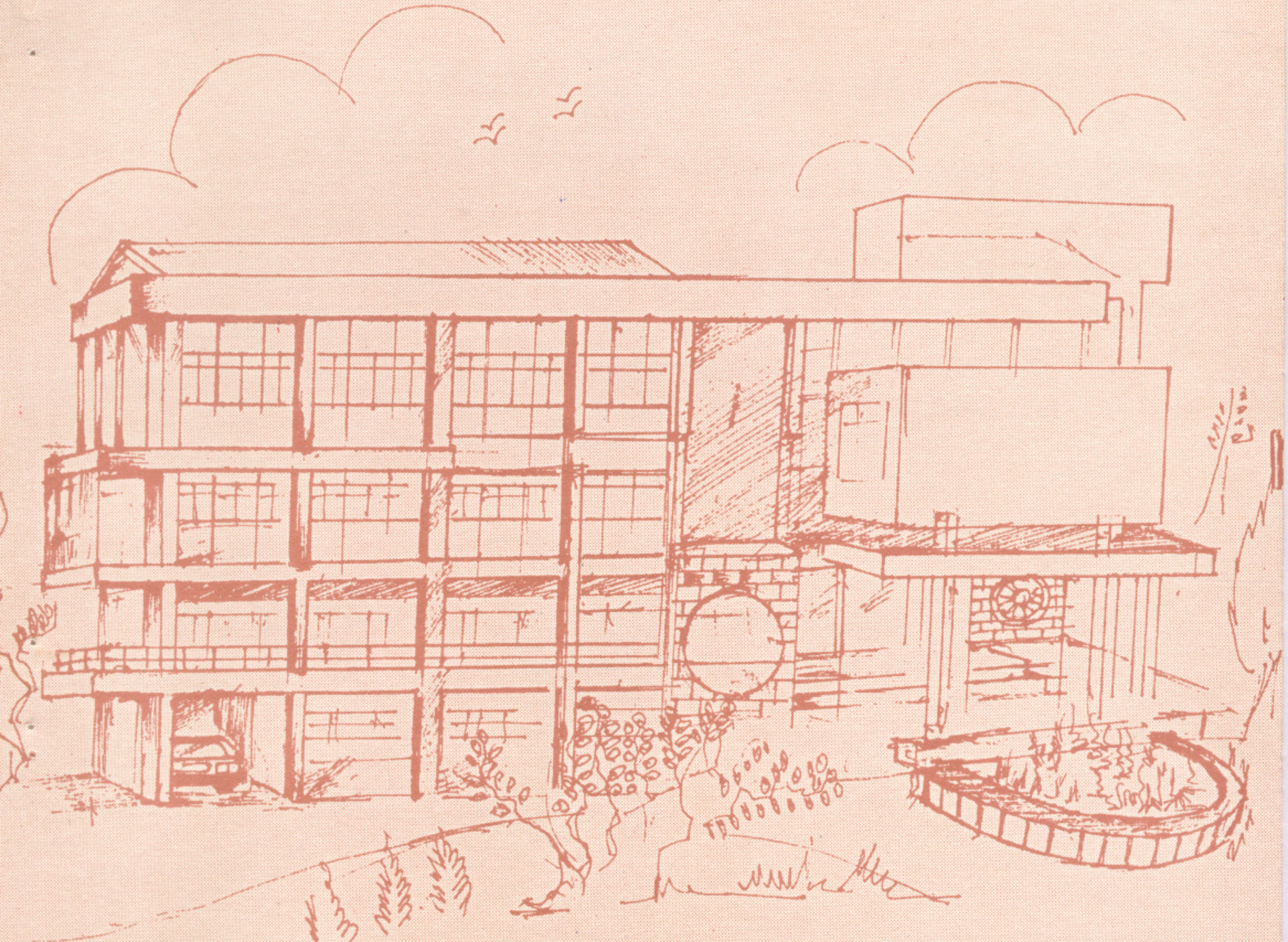
GROWTH STRATEGY IN SMALL BUSINESS ORGANIZATIONS – A STUDY ON MADHYA PRADESH & MAHARASHTRA



GROWTH STRATEGY IN SMALL BUSINESS ORGANIZATIONS – A STUDY ON MADHYA PRADESH & MAHARASHTRA

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Abstract

The small scale manufacturing organisations contribute significantly in the industrial development due to high employment generating capability and low investment requirements. A strong literature support is available on causes of failure of small organisations and the factors influencing them as compared to success and growth in this sector. The paper is an attempt to address this gap. Many researchers concluded that the success of small manufacturing firms should not only be measured with the help of profitability and market share but the potential factors such as management focus, internal functions and integrations should also be analysed. The paper is based on two research questions – 'Are there factors which are important for growth of small manufacturing organisations in India ?' and 'Do these factors are of equal importance for growth ?' An entrepreneurial organization is considered to take birth, grow and achieve maturity before death. But many small firms necessarily do not make clear transition from one stage to the other. The transition is often in only one if the three dimensions namely, resources of the entrepreneur(s), the firm and strategy. Hypotheses were framed based on literature review on these three dimensions and discriminant analyis was carried out to distinguish the factors influencing growth. The factors were classified as low, medium and strong depending on the degree of predictions by the respective discriminant function. The paper concludes that the entrepreneurs' style influences growth of small businesses organisations. Small manufacturing organisations consider technology, improvement in manufacturing capability to get cost advantage as the key determinant for growth. They are also sensitive towards changes in product and processes to meet the market challenges but they have moderate focus on application of computer and information technology. These organisations have high dependence on government on infrastructure support.

Key Words : Entrepreneurship, Growth Strategy, Growth Planning, Small Manufacturing Organisations, Organisation Life Cycle.

Introduction :

The emphasis placed on the small scale sector in the industrial development is due to its high employment generating capacity and low investment requirement. This led to many policies for promotion in this sector. The promotional policies include, among others, product reservation, infrastructure support, directed and concessional credit, tax concessions, special assistance in procurement of equipment and material in short supply, quality control and market network. Since the process of liberalisation the small scale sector has witnessed a major shift in Government policy to de-reserve the items earlier exclusively reserved for this sector. The trend is continuing, in the year 2005-06 108 items were de-reserved while the figures of 2004-05, 2003-04, 2002-03 and 2001-02 were 85, 75, 50 and 14, respectively.

In the year 2005-06 the Government targeted to achieve 12 % growth in this sector to contribute 7 % to the GDP of the country.[1] Small manufacturing companies support the large scale sectors as suppliers offering quality, flexible and small quantities which help them in achieving the competitive strength. Small companies also cater to the needs of the niche market.

Relatively a strong literature support is available on causes of failure of small organisations and the factors influencing them as compared to success and growth in this sector. (Ibrahim and Goodwin, 1996) In this paper an attempt has been made to address this gap to identify the strategic differentiators between growth and non – growth small manufacturing organisations. While establishing need to develop a set of criteria to measure success of small firms with strong export orientation Buckley et al (1988, 1990) suggested that performance such as profitability and market share should not be the only decide the success such firms, but the potential factors such as management focus, internal functions and integrations should also be analysed. Crick et al (2000) suggested that success can be viewed from one of the two directions.

The paper is based on two research questions – ‘Are there factors which are important for growth of small manufacturing organisations in India ?’ and ‘Do these factors are of equal

[1] Date source : Financial Express dated 04.03.2005.

importance for growth ?' In this paper the success i.e. growth has been defined based on the performance parameters of the firm with some amount of benchmarking with respect to the performance of the particular industrial sector. Then the strategies which differentiate the growth oriented small organisations from the others were separated out. The paper also takes a view of the strategy formulation process. Quinn (1978) argued that the process is evolutionary, fragmented and intuitive in nature. The impact of entrepreneurs' vision and motivation substantially influence the strategy formulation process. Mintzberg (1978) also explained that strategy emerges over a period of time and the decision maker' approach eventually becomes the strategy. De Geus (1988) concluded that the strategy planning and development process becomes the primary source of learning and adaptation. In this context the impact of the strategies on growth of a small manufacturing is one of the generalisations this paper may lead to. The paper also looks at the nature of variables considered to be important with varied degrees of importance by the growing small manufacturing business units.

Literature Review : Small Organisations

In India small scale industrial units are those engaged in manufacture, processing or preservation of goods with investment in plant and machinery not exceeding Rs. 1 Crore. These include units engaged in mining or quarrying, servicing and repairing of machinery. In the case of ancillary units, the investment in plant and machinery should also not exceed Rs. 1 Crore. Investment limit is Rs. 5 Crore for toys, hosiery, packaging materials, auto components and hard tools sectors. Small firms have many definitions in various parts of the world. These firms are also accepted as owner (entrepreneurs) managed. In Europe and many other countries demarcation is based on number of employees. Carland et al (1984) explained that entrepreneurial firms have higher goal orientation and are more future directed.

Roth (1992) is of the opinion that typical small organisations are characterised by high influence of entrepreneurs' personality, quasi – formal planning and control and relatively loosely structured administrative system. This often results into problems in acquiring market information and actual management of the organisation. Dean, Brown and Bamford (1998) found that small size and niche – filling capabilities with speed and flexibility are the distinctive advantages of small organisations. In spite of the variation in classification size, resource and control of the owner / manager are the common aspects of small organisation which differentiate large organisations. In this paper entrepreneurial intensity has been assumed to be present in the small organisations. The entrepreneurial intensity is related to the higher levels of task motivation and greater degree of control of the environment by the owners. (Matthews and Scott, 2001)

Nooteboom (2002) explained strengths and weaknesses of small organisation. The core characteristic of small firm is the small scale and economies of scale occur not only in production and management but also in marketing particularly in utilization of channels of communication, distribution and in transaction costs. He said that the core characteristic of personality indicates intertwining of private and business affairs in housing – working and living in the same premise, capital – private and public sources, income – wage and profit, labour, management, and internal and external contacts – friends and family members involved in the business bringing emotional and rational motives together. This also goes together with informality of authority, communication and procedures. According to Mintzberg (1983) in a small organisation we may find a 'simple structure' with direct, centralised supervision by the owner – manager or an 'adhocracy' with a federative, decentralised structure and process on mutual adjustments. Nootenmboom (2002) further argued that the weight of the derived characteristics, and strength and weakness vary with conditions and with capabilities, motives and goals of the entrepreneur. As the firm grows the characteristics turn to the opposite. As a firm grows the entrepreneurs will have to delegate more which result into bureaucracy, additional layers of hierarchy are added and formal procedures are adopted for planning, coordination and control. Also functional specialists appear, communication becomes more structured, formal and documented, and knowledge become less tacit and more explicit formal.

Growth in small organisations –

According to Sapienza (1991) size of an organisation and years of survival are correlated positively. The literature on Industrial Economist's approach to growth of firms primarily addresses large firms and their developments. It does not differentiate the owner managed small firms. The small firm growth is explained by other theories. There are varied approaches given by the researchers in defining the dimensions of growth. They mostly refer employment, turnover, profit, value added, and total asset as parameters. O'Farrell & Hitchins (2002) argued that the theoretical framework changes according to the parameters of interest. Storey et al (1987) found that many small business owners own more than one firm. In a study they reported that about 80 % owners of small business own another business. They concluded that the three key influences upon the growth of small organisations are the background and access to resources of the entrepreneurs, the firm and the strategic decisions taken. Each of these influencing factors has many components influencing them. Curran (1996) gave a different view that there are many firms for whom growth is not an objective. Similar explanation was also given by Rogoff, Lee and Suh (2004) that success of internal factors contributes significantly to the success of small firms. A study conducted in UK concluded that the number of small firms seeking growth is higher than those who actually achieve growth. This is due to several reasons. First, the reluctance of the entrepreneurs to admit that growth was overestimated. Second, the definition of growth is also not uniformly understood. Third, the firms may be constrained to grow. Lastly, the entrepreneurs think that growth may lead to higher exposure to risks. (Storey, 1994)

Stages in Growth in small organisations : life cycle concept –

According to Beverland (2000) owners and / or managers of small business organisations often face problems in deciding on growth issues. Government support, finance, working capital, and collaboration are some of the important issues which directly influence the decision making by the entrepreneur on growth strategies. The models developed by academicians and researchers assume that an entrepreneurial organization takes birth, grows and achieve maturity before death. Beverland (2000) put forward the concept of life cycle in the context of small businesses. Churchill & Lewis (2002) characterised the stages with the help of five management factors namely managerial style, organisational culture, extent of formal system, major strategic goals and owners' involvement in the business.

	Stage I	Stage II	Stage III (D)	Stage III (G)	Stage IV	Stage V
	Existence	Survival	Success – Disengagement	Success – Growth	Take Off	Resource Maturity
Management Style	Direct Supervision	Supervised Supervision	Functional	Functional	Divisional	Line and Staff
Extent of Formal System	Minimal to non – existent	Minimal	Basic	Developing	Maturing	Extensive
Major Strategy	Existence	Survival	Maintaining Profitable Status quo	Get Resource for Growth	Growth	Return on Investment
Separation of Business and Ownership	No distinction	Low distinction	Moderate distinction	Low distinction	Moderate distinction	High distinction

D : Disengage, G : Grow

Table 1 – Stages of Growth in Small Firms (Churchill & Lewis, 2002)

Existence is the first stage of the entrepreneurial venture. At this stage the venture struggles to get customers and establishing the processes to deliver products and services to the customers. The organisational structure remains informal as the entrepreneurs directly supervise the activities. Identity of business and the owner is inseparable. At survival stage the companies are able to attract and satisfy many customers to enter to this stage and they need capital. Those who are unable to do that generally close or make fresh attempt. Due to the need to grow in terms of turnover or volume the owner need one or two trusted persons to supervise the activities. Sometime the family members or close relatives join the owner to take up this responsibility as they have limited expectations in terms of salary. The key issue at survival stage is cash generation in shortest possible time to achieve break even to meet the repair and replacement of machines and equipments. The other need for cash flow is fund the growth needs of the company. Although formal planning is generally in place, in case of any such incidence only cash flow planning is done. Petty & Bygrave (1993) explained that those who elect to remain a closely held family affair without any ambition for further growth are called ‘lifestyle companies’ as the firm decide to remain purely an extension of the life of the owner. At success stage the company becomes profitable and also has adequate cash flow to invest for growth. The entrepreneur also takes a critical decision about one of the alternatives whether to let the company to grow or to disengage partially or completely to pursue his hobbies outside. Disengagement is stability strategy. The company chooses to remain in this state for any amount of time as long as the changes in the environment do not affect. At this a part of functional responsibility can be shared by the functional managers. The control remains with the founder / entrepreneur and the family members and the company may decide to be private or public limited one but the directors are mostly selected from the insiders such as family members, relatives and close friends. At growth stage the entrepreneur utilizes the financial resource available or decides to borrow to gain financial strength for further growth. At this stage risk is also associated. Strategic and operational planning are the key issues which is carried out by the entrepreneur. Team effort and people development also remain under constant focus. Such strategies are driven by personal values and philosophy which ultimately influences the culture. But at Take Off stage growth at a high rate is the focus, hence need for finance to support growth is equally important. A formal organisation is established to support various functions. Delegation of responsibility to professional managers as a means of systematic approach for vertical or horizontal growth is adopted. Organisation undergoes a transition to become a large organisation. Professionals also join the board of directors to act as enablers. At Resource Maturity stage the small company would have had established characteristics of a large organisation and would have created niche in terms of influencing the industry sector. The important issues at this stage are consolidation and control of financial gains and retaining flexibility and entrepreneurial spirit. The requirements are elimination of inefficiencies and adoption of tools and methods such as budgeting, strategy planning. Operational and strategic planning and drawing clear line between ownership and management are important at this stage. Ossification is explained by lack of innovation and risk avoidance. Large companies which command a large market, financial power remain viable till no major change takes place in the environment; competitors may notice rapid growth in the market and make adjustments.

Growth strategy –

Storey (1994) explained that in general a number of small firms make no clear transition. But if they do, the transition is often in only one if the three dimensions namely, resources of the entrepreneur(s), the firm and strategy. The figure below shows that each component can be considered as a variety of different elements. These components can be considered as overlapping or intersecting circles. They can not be considered as wholly independent influences. This means that less rapidly growing, no – growth or declining firms may have some appropriate characteristics in the entrepreneur, firm or strategy areas, but it is only where all three combine that the fast – growth firm is found.

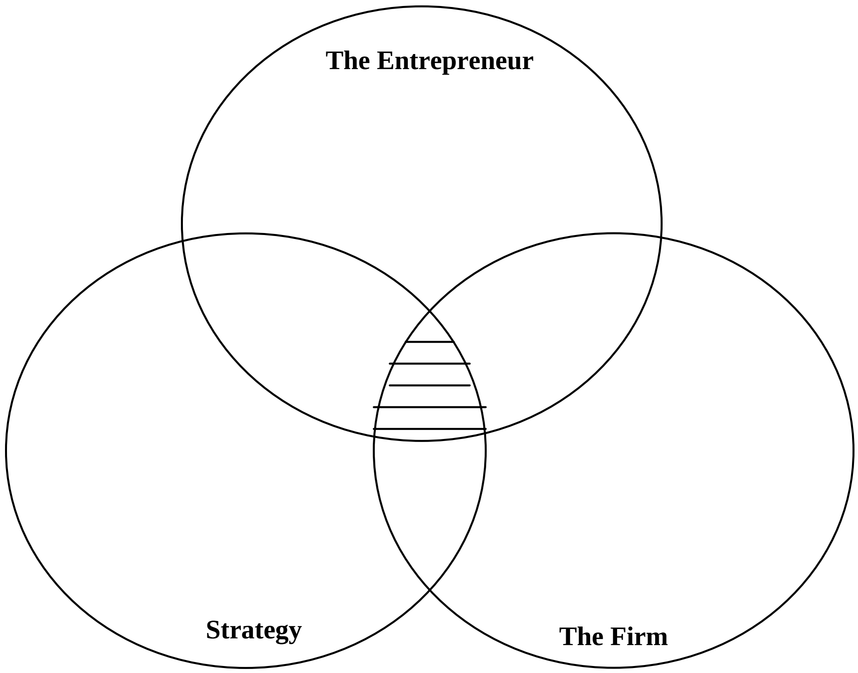

Figure 1 – Growth in Small Firms (Storey, 1994)

Table – 2 lists the characteristics of business under the headings – entrepreneurs, firm and strategy. The characteristics listed in 'the firm' are related to the stage when the firm is set up. The operational decisions which are made once the business starts are included within 'strategy' component. The second common characteristic of 'firm' is the factors which are generally held constant in examining the growth performance implications of entrepreneurial characteristics. The third factor 'strategy' is of prime interest. Strategy in this context can be considered to be answer to the question – 'given the characteristics of the entrepreneurs and the firm – what managerial actions, once the firm has started, are likely to be associated with more rapid rates of growth ?' (Storey, 1997) Entrepreneurs background and resource capability are the other characteristic influencing growth of the firm. Motivation, goal directed behaviour and perception of successful outcome are important elements of entrepreneurial process. (Goldsby, Kuratko and Bishop, 2005)

The Entrepreneur / Resource	The Firm	Strategy
1. Motivation	1. Age	1. Workforce Training
2. Unemployment	2. Sector	2. Management Training
3. Education	3. Legal Form	3. External Equity
4. Management Experience	4. Location	4. Technological Sophistication
5. Number of Founders	5. Size	5. Market Positioning
6. Prior Self Management	6. Ownership	6. Market Adjustment
7. Family History		7. Planning
8. Social Marginality		8. New Products
9. Functional Skills		9. Management Recruitment
10.Training		10.State Support
11. Age		11. Customer Concentration
12. Prior Business Failures		12. Competition
13. Prior Sector Experience		13. Information and Advice
14. Prior Firm Size Experience		14. Exporting
15. Gender		

Table 2 – Factors influencing Growth in Small Firms (Storey, 1994)

Churchill and Lewis (2002) have classified the eight factors which change their status in terms of importance as the business grows determines the success of the company. Four of them are related to the owner and four to the enterprise. The factors related to the owners are as follows –

a. Owner’s goal for self and for the business

b. Owner’s operational abilities such as marketing, inventing, production and distribution management

c. Owner’s managerial capabilities and willingness to delegate responsibilities, and

d. Owner’s strategic abilities to look beyond the present and matching the strengths and weaknesses of self with that of the organisation.

The factors related to the enterprise are –

a. Financial resources including cash and borrowing power

b. Personnel resources regarding quality of people at management and staff level

c. Systems resources as sophistication of information, and planning and control, and

d. Business resources including customer relation, market share, supplier relation, manufacturing and distribution processes, technology and reputation, all these factors provide a standing in the market and the industry.

Churchill and Lewis (2002) concluded that the importance of the factors changes from one stage of the cycle to the other. They classified the factors as essential variables to deal with highest priority, necessary variables which need attention in order to assure success and those which are of little importance to the top management. In early stages of the business owner's ability directly influence the business. The characteristic factors could be ability to sell, invent, distribute, etc. As the company grows support from other employees are expected and thus owner's operational skill become important but no longer remains essential. At this stage his ability to manage and delegate become important. Cash management during business start up this is extremely important and becomes manageable if the organisation succeeds. It remains a major concern as the organisation enters growth stage but at take off and resource maturity stage it again becomes manageable factor. As the company grows matching business and personal growth of people becomes important. At survival stage this remains irrelevant. Owner's preference whether he wants to reinvest into further growth or he would like to enjoy the benefit for the self and the family is also an important aspect. At initial stages building market share, customer relationship, vendor support and technological strength are important. Any loss of these at growth stage could be compensated relatively easily. The issues of people, planning and systems gradually increase in importance as the organisation transits from initial slow growth to rapid growth. Matching of business and the personal goals of the entrepreneur becomes important at 'existence stage' as he has to reconcile the time and financial resource needs of the new business. But at 'survival stage' this is already achieved and the goal matching becomes irrelevant. However goal matching becomes important yet again at 'success stage'. At this stage the entrepreneurs evaluates the managerial ability to meet the growth challenges. Flexibility in management by transforming from 'doing' to 'delegating' gains importance as the organisation moves to 'growth stage'. At 'take – off stage' every thing is important except the 'doing' part of the entrepreneur. (Churchill and Lewis, 2002)

Strategic planning, strategy and strategy implementation play a major role in financial performance, survival and growth of a business. (Schwenk and Schrader, 1993) However strategy in a small business organisation is less formal in nature, the owner / manager may also have implicit rather explicitly stated strategy. (Chan and Foster, 1995) Kalantaridis

(2004) have also drawn similar conclusions that the deployment of formal and informal plans are with an objective to achieve short term (one to three years) objectives.

Nooteboom (2002) explained that the strength and weakness of entrepreneur managed small businesses are dependent on other characteristics. The idiosyncrasy of entrepreneurial perception and interpretation can yield highly original ventures in one hand and may lead to gross misapprehensions on the other. Similarly craftsmanship in one hand could be an unique technical competence but it could also lead to technical myopia with a gross lack of attention to commercial dimensions. The figure shows that strength and weakness suggest appropriate strategies – innovation yielding new products, where scale does not affect much. The other strategy could be niche market with customised products. Both these strategies reduce the risks of lack of financial expertise and managerial resources because of captive customers. It is important to note that for innovation breakthrough is necessary which may not be required for niche strategy. Hence innovation strategy applies to only select few small organisations. However external contacts or networks are utilised by the small organisations generation of awareness as well as for acquisition of specialised knowledge. Both the strategies i.e niche as well as innovation exploits the strengths in providing unique competencies and customised products, and associated proximity to customers. Innovation further exploits the strength of motivated management and labour and the strength of limited bureaucracy with internal flexibility.

Nooteboom (2002) with support from a group of other researchers have derived a relationship among structure – conduct – entrepreneur’s characteristics called as ‘contingency’.

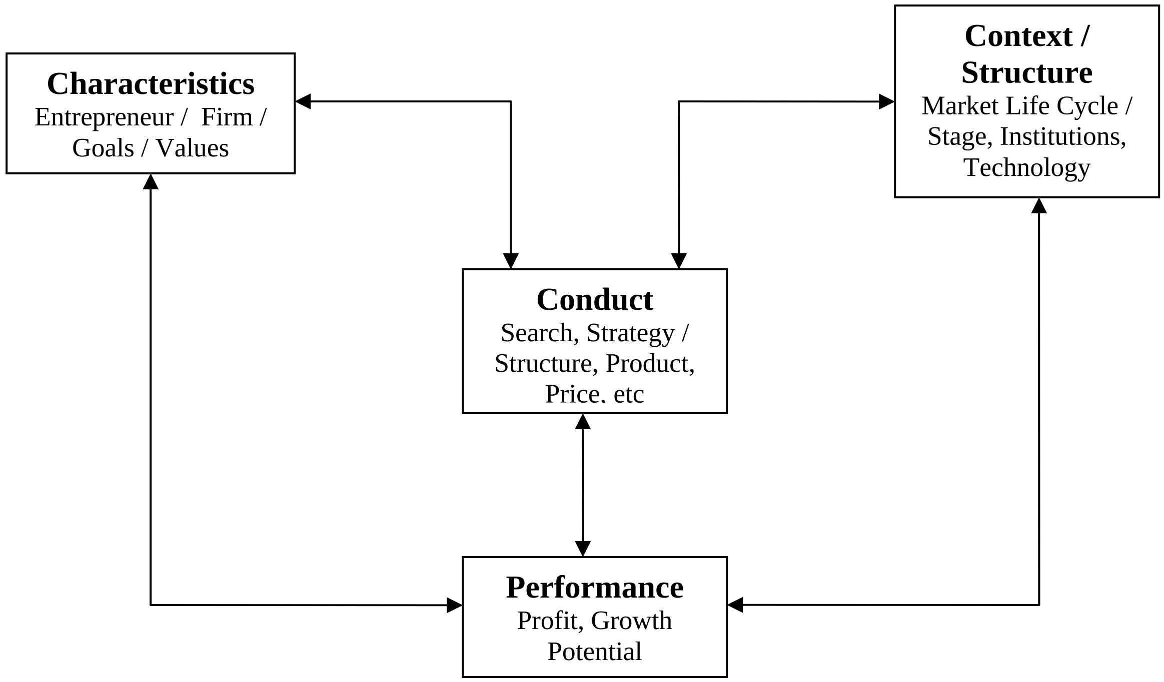

Figure 2 : Contingency (Nootenboom, 2002)

‘Characteristics’ of the entrepreneur include various personal characteristics such as cognitive, etc. The firm indicates that the team, in which the entrepreneur works, also matters. Values and goals establish the preferences. Under ‘context – structure’ not only technology is important but also the market in which the entry barriers, product differentiation, economies of scale, etc. matter. Institutions include banks, government, legal systems, employees’s association and financial systems. Life cycle relates to the stage of development of product or the market in which the firm operates. Stage is the development stage of the firm which is not related to the life cycle of product or market. Under ‘conduct’ not only strategy and choice of product are the necessary factors but also the structure and search are included. Structure is the organisational structure, procedures, and systems. Search about conduct in acquisition of knowledge including usage of external networks.

Hypothesis formulation

The literature review includes the factor influencing strategy of small organisations. The factors related to the competency of firm and entrepreneurs which influence the strategy of these organisations have also been reviewed.

1. Change due to market conditions –

Liberalised economic policies adopted in 1991 have affected almost every industry. The industry leaders responded to this in many ways. By understanding the company's assets and the particular characteristics of their industry, leaders can also anticipate the strategies for adoption (Dawar and Frost, 1999). As the environmental state move from turbulence to stability, one can in a similar way observe that a firm moves from the adaptive to the planning mode in main. To grow the owners of small firms need to change the way they organise and manage their firms. (McMohan, 1995) According to North et. Al. (1992) motivation plays a major role in survivors and non – survivors i.e. the desire to grow or contract. Smallbone et. Al. (1992) identified five broad types of adjustments or change – product and market adjustments, production process adjustments, employment and labour process adjustments, ownership and organisational adjustments and locational adjustments. Their research confirmed that the firms which were most active in making adjustment were most successful in terms of employing change and survival. Development of markets was essential for most firms for both survival and growth. But for 'achieving real growth' active market development in terms of both the identification of new market opportunities and increasing the breadth of the customer base were essential. The research also drew an interesting distinction. Survival was possible with relatively conservative market strategies, but managing product profile was apparently necessary for both survival and growth. Firms with very different performances made significant adjustments to the range or mix of their products. The declining firms, which undertook the fewest steps to improve competitiveness focused more on reducing costs, rather than upon other dimension of competitiveness, such as quality improvement. The researchers identified 'internal organisational adjustments' as the second most common type of adjustment characterizing surviving firms. High performing firms were most likely to point to organisational change which enabled top management to free them from operational decision and to delegate responsibilities more extensively. Similar explanations on change was given by Julien et al (1997), Namiki (1988), and Kleinschmidt and Cooper (1984), four key types of strategy are defined – responding to changes in the external environment, enhancing competitiveness through changes in the price and quality of product / service, diversification and new market development.

In a study by Kotey and Meredith (1997) concluded that highest performing clusters of small firms provide greater emphasis on product improvement, product quality, new produce development and customer service. On market intelligence Jaworski, Kohli and Sahay (2000) commented that product innovation can be the most appropriate response to it. However Zaltman, Duncan and Holbeck (1973) explained innovation on three dimensions one, innovation as a process of developing a new product, two the product itself and three, the process of adopting the new product.

Hypothesis 1 : *The factors leading to initiating change in small manufacturing organisations influence growing organisations more than the non – growing ones.*

The factors considered for testing the hypothesis are as follows –

- Change process facilitation : by a consultant, by an external agent, by CEO, or by one of the family members joined recently
- Most important reason for change : value improvement, meeting the requirements of existing customers, manufacturing cycle time reduction, or new opportunity in the country
- Least important reason for change : implementation of a Business Excellence Model, implementation of a ERP or similar package, anticipate change in global competition, system benchmarking, retaining skilled manpower, exploring new business opportunity abroad, process benchmarking, product benchmarking
- Result of change process : favourable or unfavourable.

2. Effect of government policy –

Eisenhardt and Schoonhoven (2002) argued that founding environment, strategy and top management team have significant impact on the resource level and ultimately growth of young semiconductor manufacturing organisations.

The process of liberalization of economy since 1991 has created many opportunities for growth as well as thrown many challenges to the small scale sector. The sector is gradually exposed to the challenges of opening of the economy. To provide more focused attention on the development the Government of India created a new Ministry of Small Scale Industries and Agro and Rural Industries in October, 1999 and brought a comprehensive policy package for small scale and tiny sector. The policy package included support on policy, fiscal, credit, infrastructural, technological and quality improvement and marketing and measures for streamlining inspection / rules and regulations, entrepreneurs' developments, facilitation of prompt payment, rehabilitation of sick SSI units, promotion of rural industries and improving data base. (Khanna, 1998)

Hypothesis 2 : *There is no difference in perceptions of the owners / entrepreneurs of growing and non – growing small manufacturing organisations about the government policy decision on investment limit*.

3. Fund for growth –

Availability of capital, rate of interest, exemptions, local and regional market conditions, and quality and skill of labour have substantial effect on growth. (O'Farrell & Hitchins, 2002) Gibb & Dyson (1984) agreed that although resource availability is one of the factors which affect growth of small organisations but they also argued that resource scarcity is not of cash but of management. Churchill (1983) was of the opinion that growth (or take off) stage is the most crucial in organisation life cycle. He said that cash and borrowing power are important at growth stage as they influence profitability, liquidity, creditors and employees as a part of short term cash obligations. Patternson (1986) had a mix of both the conclusions that small firms' resource constraints and managerial time prevent them to respond to the environmental turbulence. Research studies on impediment to growth in small businesses identified access to finance as one of the major impediments. (Sims, Breen and Ali, 2002)

Hypothesis 3 : *The owners / entrepreneurs of growing small manufacturing organisations arrange funds for future growth from different sources as compared to the non – growing organisations.*

4. Technology and R & D –

In order to study the technology and R & D success most of the research concentration has been on input. The intensity is measured in terms of total R & D spendings, number of R & D personnel and R & D output. In some cases number of patents has also been included as one of the measures. There has been a lot of variation in research findings about relationship between size of the firms and the R & D effectiveness. Nooteboom (1991) argued that the reason of this variation is due to lack of clarity in posing the research questions. However he concludes that most of the researches lead a conclusion that small firms' participation in systematic R & D efforts is less than large ones. But the researcher has also found that when small firms participate in R & D efforts they do so with great intensity and achieve greater productivity.

Small and large firms have different strengths in the process of innovation. Large firms are likely to be better in generation of fundamentally new and science based technologies which require large and specialised teams and sophisticated infrastructure. (Rosegger, 1980) Small firms are likely to do better in small scale applications of fundamental technologies, novel technology – product – market combination. In other words the small firms are likely to more effective further downstream from fundamental science based technologies. They possess better competence in application and development and introduction in to the market. As the temporary monopoly of the inventor wears off and price competition increases large firms get advantage in terms of economies of scale. But in residual niche markets, too the small firms have an opportunity. (Nooteboom, 2002) Meredith (1987) also supported the argument and said that the small and medium organisations can capture the benefits of technology adoption quicker. But Zahra and Covin (1993) found that the strength of relationship between technology policies and business performance differ across the types of strategies.

Hypothesis 4 : *The growing small manufacturing organisations manage technology and R &D in different way as compared to the non – growing organisations.*

The factors considered for testing the hypothesis are as follows –

- Technology Transfer : cost of technology
- Awareness about SIDBI scheme on technology upgradation
- Scope of R & D in the light of WTO : innovative product development, product development through reverse engineering, improvement in existing products,

innovative manufacturing process development, and improvement in existing manufacturing processes

- Reasons for innovation or improvement : self initiated quality improvement, cost reduction, product simplification or value engineering, or facilitation in product repair or servicing, reduction in manufacturing cycle time, quality improvement for meeting the additional needs of customers, cost reduction for the existing customers, product simplification for the customers, catering to a new market segment, or product or process benchmarking
- Support from outside agencies for R & D : engineering or technical colleges, CSIR, independent consultant, or others
- Mode of technology search : through consultant, membership of industries association, or participation in trade mission or seminar or conference abroad
- Expectations from the Government : subsidy for in house R & D, enhancing tax relief, creation of common facilities, or setting up of incubation lab
- Preparedness to face WTO challenges : fully, partially, or not prepared
- Product or process patents in possession
- Gadgets used & knowledge preservation : CAD or similar technology, documentation to preserve the R & D efforts, indexed system for knowledge preservation

5. Sales & marketing –

The relationship between market orientation and performance is based on sustainable competitive advantage. (Lado et al, 1992) Pelham and Wilson (1996) gave an explanation that market orientation provides competitive advantage due to many scarcities in market oriented culture, understanding about nature and value to the customers, difficulty in understanding market oriented norms and also about establishing causal relationship between the norms and the implications. But they agreed that the strategy, structure and the environment also play major roles. Verhees and Meulenberg (2004) also concluded about positive impact of market orientation has a positive impact of the performance of small organisations and market intelligence of these organisations help in better performance in terms of quality and service. Not having a sound knowledge of the market is one of the impediments to growth. (Bridge et al, 1998, Maki and Pukkinen, 2000) Pelham (2000) concluded that small firms with better market orientation can leverage for speed and propensity for innovation and the firms with too much of internal focus may fail to appreciate the implication of changes in customers' need or in competitors' strategies.

Kazanjian (1988) reported that the small organisations in growth stage consider organisational systems and sales and marketing as the foremost concerns. But owners of small organisations find themselves less confident about their ability to conduct specific and formal research abilities which one the important requirements for keeping pace in changes in the markets. (Callahan and Cassar, 2001)

Hypothesis 5 : *Management of sales and marketing activities in growing small manufacturing organisations is handled differently as compared to the non – growing organisations.* .

The factors considered for testing the hypothesis are as follows –

- Demand forecasting : without scientific techniques and based on targets of customers, or with the help of statistical techniques
- Benefits of Demand Forecasting : budgeting & fund planning, material planning, manpower planning, and / or production planning
- Frequency of wrong demand forecast : rarely, never, sometimes, very often, or every time
- Assessment of future demand growth
- Data source for demand growth : standard literature, survey or similar sources
- Adequacy of existing resources for export : adequate, inadequate or can not comment
- Sales incentives / commission : incentive, commission, after meeting targets, after getting new customer
- Sales monitoring : linking incentive with travel bill
- Sales personnel employment : full time – independent, or full time – on contract
- Selection of sales personnel : direct interview, or fresh MBAs selected and trained
- Sales training : structured
- On line selling : future plan
- Awareness about SIDBI scheme on marketing

6. Government support in infrastructure –

In India the governments have set up industrial areas with other supports such as roads, power and water. In some states the government constructed shades to house small manufacturing units. In most of the industrial development corporations have been established by the state governments which act as developmental agency for building up such facilities. The organisations pay some kind of tax or maintenance fee for upkeep of these facilities. Hence there is a lot of dependence on the governments on this aspect. Over a period of time many entrepreneurs have established their units in these industrial areas, also many large corporations have also created based in these locations. Due to this reason either the infrastructure bottlenecks started becoming visible due to lack of adequate funds these facilities were inadequately maintained. In some cases the local industries associations participated in sharing the responsibility to maintain these facilities as their members were adversely affected due the poor infrastructure.

Hypothesis 6 : *There is difference in perceptions of the owners / entrepreneurs of growing and non – growing small manufacturing organisations about the government's role and support in providing infrastructure*.

7. External factors –

Timmons (1994) explained that the existence of small firms largely depend on the entrepreneur, who act the driving force, presence of business opportunity, skill to implement the plans and resources. Uncertainty in the external environment is viewed either as an objective dimension or as an interpretive or as the end of the perceptual process through which the decision maker assign meaning (Milliken, 1987). Milliken (1987) also described three types of uncertainties, (a) state – which refers to the inability to understand or predict the state of the environment due to lack of information or understanding about the interrelationships, (b) effect – refers to the consequences on the organisation and (c) response – refers to the response of the decision makers. Small organisations remain concerned about the effect of the uncertainties of the external environment on the firms' performance. Matthews and Scott, 2001 concluded that as an effect of the uncertainty in the entrepreneurial and small firms the sophistication of strategic and operational planning decline with increasing environmental uncertainty.

Policy makers in independent India have felt that small scale industries contribute to the material progress of the country. In the famous Mahalanobis Model, widely discussed and debated in the mid – fifties as major contribution to planning for growth, village and small scale industries were given a special place, in that they formed one of the vital parts of the four sectors into which the economy was classified in the model. It is also believed that small firms create employment opportunities. Implicit also is the assumption that small scale industries are less capital intensive and more labour absorbing. This led to the adoption of policies for its promotion. Such promotional policies include product reservation, infrastructure support, directed and concessional credit, tax concessions, special assistance in procurement of equipment and material in short supply, quality control and market network etc. In 1991 Government of India announced a separate industrial policy, which had measures for development of small, tiny and village enterprises as a sequel to the financial sector reforms initiated in July, 1991. In the subsequent years many measures have been taken for development of the sector. The Government of India created a new Ministry of Small Scale Industries and Agro and Rural Industries in October, 1999.

In spite of deep involvement of the government the small businesses did not grow at the required rate due to red tape and corruption at various levels. Government regulations are seen as barrier to growth. (Bridge et al, 1998)

Hypothesis 7 : *There is no difference in perceptions of the owners / entrepreneurs of growing and non – growing small manufacturing organisations about the influence of external factors.*

The factors considered for testing the hypothesis are as follows –

- Protection expected from Government
- Promotional support expected : through R & D facilities, foreign technical collaboration, product standardization, or expansion of market, through financial assistance, or other methods
- Duty barriers experienced : anti dumping duty, or countervailing duty
- Impact on the performance due to lowering of investment limit from Rs. 3 to 1 Crore : favourable or unfavourable on technological upgradation
- Expected investment limit : Rs. 5 Crore or 3 Crore

- Competition from large scale industries : in India, or at international level
- Competition as barriers : domestic, or international
- Satisfaction on government policies : excise duty exemption, Credit Guarantee Scheme, Composite Loan Limit, Collateral Security, Credit Linked Capital Subsidy, or Back Ended Capital Subsidy
- Satisfaction on existing infrastructure : telephone, link roads to Industrial units / clusters, general roads, power supply, water supply, effluent treatment, or space for expansion

8. Human Resource Management –

In small organisations employment relations and control systems are informal. Formal communication systems are also non – existent. Emphasis on rules is also less as in these organisations the entrepreneurs are the major decision makers and they tend to take speedy decisions in response to market needs. (Wilkinson, 1999) Technical skills and work ethics normally find high priority in growing small firms. (Rowden, 2002) Absence of required right mix of employees – skill is one of the major barriers to growth. (Maki and Pukkinson, 2000 and Bridge et al, 1998) In a study Kotey and Slate (2005) concluded that as the firm grows the need of qualified managers to fill the owner / manager’s skill gap becomes important. This results into need for a formal recruitment system. The researchers found that on the job training is the most pre – dominant training method, however other training method gains prominence as the firms grow. This is important to improve the capabilities of the managers so that they can contribute better for the growth of the organisation. On performance appraisal similar conclusions were drawn my Kotey and Slate, they explained that the as the firm size grows formal appraisal system is developed. Many researches confirm that there is a strong positive influence of human resource management practices on firm’s performance. (Kotay and Mederith, 1997, Heneman and Berkley, 1999 and Huselid, 1995) However Baron and Kreps (1999) clarified that the implementation of a formal HRM system should not be aimed at establishing the best practice, rather it should be aimed at harnessing the real benefit out the human resources and create a synergetic effect in the organisation.

Hypothesis 8 : *Management of human resource in growing small manufacturing organisations influence differently as compared to the non – growing organisations.*

The factors considered for testing the hypothesis are as follows –

- Independent person to look after welfare & training
- Provision of training budget
- Employment : time rated, piece rated, contractual, and / or casual or Badli
- Strategic training plan
- HR forecasting : in practice, basis – business plan, skill forecasting, and / or skill inventory
- Functions performed by contractual workmen : unskilled work, skilled work, office work, security, canteen, and / or functional specialists
- Contractual employment for product demand : seasonal, export, or sporadic
- Contractual employees' training : on the job, formal induction and / or skill training
- Data transparency on performance : product cost, process cost, and / or profit & loss
- Data based performance analysis system : in practice
- Basis for pay rise : owners' discretion, data based performance of production, data based performance of production & quality, annual sales growth, or others
- Method of performance evaluation : annual performance appraisal, group performance appraisal, or general organisational performance

9. Operation Planning –

Small firm's competitive profile depends upon long – term orientation and also on capability to predict the industry trends. (Covin and Slevin, 1989) Robinsons and Pearce (1984) added that small firms do not focus on planning and this happens due to lack of staff and time. But Perry (2001) found that although small firms do not emphasise on planning and those who plan perform better. Similarly conclusion about positive relationship was established by many researchers. (Braker, Keats and Pearson, 1988; Bracker and Pearson, 1986; Shrader, Mulford and Blackburn, 1989) While explaining the need Georgellis et al (2002) and Perren et al (1999) mentioned that growth of small businesses depend more on planning and explicit decision making routines. But they do not diagnose the nature of appropriate planning. A classification of sophistication of strategic and operational planning was suggested by Bracker and Pearson (1986) based on type of plan as well as time frame. The levels of sophistication proposed by them were (a) structured strategic plan, (b) structure operational plan, (c) intuitive plan and (d) unstructured plan.

Hypothesis 9 : *The growing small manufacturing organisations give more importance to the factors influencing operations planning as compared to the non – growing organisations*.

The factors considered for testing the hypothesis are as follows –

- Basis for assessment of manufacturing capacity : supplier's manual, or Industrial Engineering study
- Assessment of critical factors affecting manufacturing process
- Material or purchase planning : carried out, frequency – once in a month
- Production planning : carried out, frequency – once in a month
- Revision in production plan : sometimes, due to change in customers' schedule
- JIT : in practice, reason – customer's requirement, or inventory control

10. Operations (Manufacturing & Quality) Management –

As discussed Kazanjian (1988) concluded that in growth stage organisational systems are considered to be one of the most important aspects of organisation performance.

Increasing internationalization of production, distribution and marketing of goods and services has given rise to global commodity chains. These chains are networks of business units of various sizes beginning from the stage of raw materials supply to production, marketing and retail of any product being located across countries. In these chains, manufacturers of the products are the major driving force. So far, Indian industrial units, especially the small units, are operating in isolation, which can not continue any more. However, to get into the international production and trade networks, individual units have to satisfy the buyers' standards in terms of price, quality and delivery schedules (Siddiqui, 1998). With the entry of major global companies primarily focusing on assembly, global practices too are being slowly infused in the value chain of production, both in the upstream and downstream activities. The emergence of large MNCs in the last couple of decades which have distributed different activities in their value chain in different part of the globe and are operating in multiple nations has prompted researchers to explore factors that have led to their competitive advantage.

Hypothesis 10 : *The growing small manufacturing organisations give more importance to the factors influencing management of manufacturing and quality assurance as compared to the non – growing organisations*.

The factors considered for testing the hypothesis are as follows –

- Reason for IS0 9000 / QS 9000 / USFDA certification : requirement of customer, business from government, improvement, establishment of a documented system, or first step towards TQM implementation
- Quality control systems in practices : incoming inspection, vendor performance analysis, second party audit, machine set up approval, first piece
- approval, patrol inspection during manufacturing, sampling inspection after manufacturing, or customer inspection
- Maintenance system : preventive, predictive, or condition based
- Reason for automation : value addition, or quality check
- Internal audit of manufacturing and quality system : in practice, planned
- Audit conducted by customers : carried out, scope – manufacturing and quality control systems

11. Information management & usage of computers –

Churchill (1983) has explained criticality of two types of resources in growth stage – financial and system resources. The systems resources include the degree of sophistication of information and planning and control to help the owner / manager to deal with complex and long terms concerns. This aspect is discussed in detail in this paper while dealing with sales and marketing.

Hypothesis 11 : *The growing small manufacturing organisations manage information and use computers more as compared to the non – growing organisations.*

The factors considered for testing the hypothesis are as follows –

- Usage of computer : in use, purpose – routine office work, inventory record, or day – today reporting
- Usage of internet : in use, purpose – email, or global data access
- Usage of email : communication with customers and suppliers
- Website : available, updated regularly
- Usage of ERP or similar systems

12. Entrepreneur and leadership style –

Small firm strategy, structure and the personality of the CEO influence the overall performance (Miller and Toulouse, 1986). The owners / entrepreneurs identify themselves with the organisation (Majumdar, 2005). Researcher have concluded that attitude of entrepreneurs of small firms towards growth can be classified as stagnant satisfiers (to maintain status quo rather than pursue growth), thwarted expanders (they try but unable to grow) and capricious manufacturers (who regularly move in and out of a specific business). (Clark, Berkeley, Steuer, 1995) After a study on leadership and administrative structure of small enterprises, Penrose (1959) mentions that the difference in the administrative structure of the very small and the very large firms are significant in many ways. Changes in a firm are associated with growth. The businessmen differ in their interest in the aspects of the functions in their organisations; some may find production and quality as the area of interest while other may be interested in marketing. (O'Farrell and Hitchens, 1988 and McMohan, 1995) An illustration from Scott and Bruce (1987) is provided in the table below. Scott and At each of these stages it is assumed that the role which top management plays, the management style and the organisation of structure change, so that the butterfly as Stage 5 genuinely is fundamentally different from the caterpillar as Stage 1. In growth phase many decisions are made by the top management. At this stage they also delegate a lot of responsibility to the employees concerned. (McMohan, 1995)

Stage	Top Managements' Role	Management Style	Organisational Structure
1. Inception	Direct supervision	Entrepreneurial individualistic	Unstructured
2. Survival	Supervised supervision	Entrepreneurial administrative	Simple
3. Growth	Delegation / co – ordination	Entrepreneurial co– ordinate	Functional centralized
4. Expansion	Decentralization	Professional administrative	Functional decentralized
5. Maturity	Decentralization	Watchdog	Decentralized functional / product

Table 2 – Management Role and Style in the five stages of Small Business Growth (Scot and Bruce, 1987)

In some research findings lack of management expertise is concluded as one of the barriers to growth. (Sims, Breen and Ali, 2002) Owner / managers of small organisations with highly entrepreneurial orientation work on new product development and similar areas based on their close interaction with the market through market intelligence and customers. (Verhees and Meulenberg, 2004) High performance is found to be associated with high environmental uncertainty as well as low cost strategy. Entrepreneurs encourage state of the art process design. (Dess, Lumpkin and Covin, 1997)

On entrepreneurial values and entrepreneurship related to growth Bird (1989) described that entrepreneurial way is primarily goal oriented approach and entrepreneurs direct their efforts towards attainment of these goals. The outcomes would be either intrinsic (psychological) or extrinsic (tangible). Similar arguments were given by Kuratko, Hornsby and Naffziger (1997), they further explained that extrinsic goals can be personal wealth and family security while the internal goals may include recognition, challenges, excitement, growth, accomplishment and independence. Entrepreneurial motivation and attitude towards the goal attainment significantly influence growth of the small organisations. Gibbons and O'Connor

(2005) argued that the owner – manager of small firms find it difficult to prioritize the development of their managerial skill while dealing with pressures of the businesses. However Kets de Vries (1985) have also argued about negative factors, the influencing factors could be confrontation with risk, entrepreneurial ego and entrepreneurial stress.

Hypothesis 12 : *There is difference in styles and individual practices adopted the owners / entrepreneurs of growing small manufacturing organisation as compared to the non – growing organisations.*

The factors considered for testing the hypothesis are as follows –

- Vision and Corporate Policy
- Long Term Planning : carried out, updated – every year or as per need
- Medium Term Planning : carried out, updated – every year, six months or as per need
- Tactical planning
- Customer relationship : communication every day, once in a week, once in a month, as per need, or rarely, reason – product marketing, exploring new market opportunities, exploring opportunities for new product, or to settle complaints
- Future leadership : son or daughter, brother or sister, other relative, or other person (not in relation)
- Transfer of leadership in case no one within the family is found suitable : readiness
- Target for self performance
- Communication with departmental heads : any time, frequency – daily , once is a week, once is a month, sometime as per need

- Communication with shop floor employees : never, often on every time on every visit to shop floor, once in a day, once in a week, once in a month
- Communication of business performance with the people : sales turnover, cost related data, profit related data, productivity related data, other data, method – verbally & informally, verbally & formally, through Notice Board
- Socialization : method – informal meetings, official lunch / dinner, family gatherings, frequency – once in a month, once in a quarter, once in a six month, once in a year
- Review of suggestions of quality circles
- Resource Identification
- Computer literate
- Self Planning : carried out, frequency – once in a day, once in a week, once in a month
- Self Learning Planning

Methodology

Sampling Units –

According to Third Census of Small Scale Industries conducted during 2002 – 03, 52.5 % closed units were from five states namely Tamil Nadu, Uttar Pradesh, Kerala, Madhya Pradesh and Maharashtra[2]. The percentage of closed units varied from 0.002 (Lakshwadeep) to 16.212 (Tamil Nadu). The states which were reported to be better in terms of survival had less number of small registered units but low survival rate can not be considered to be the only indicator of better performance of small units in those states in absence of an empirical

[2] The Third Census was based on the SSI registered upto March 31, 2001. Survey for the Census was launched in October, 2002.

study. There had been significant growth in ancillary units from 0.52 % (Second Census : 1987 – 88) to 34.3 % (Third Census : 2001 – 02), whereas a sharp decline of other SSI units from 96.4 % (Second Census : 1987 - 88) to 4.5 % (Third Census : 2001 – 02). This shows a strong relationship between growth of small and large manufacturing units[3]. The Census Report also shows that the states with less industrial activities contributed less to sickness and closure of small units.

In the study Madhya Pradesh and Maharashtra have been selected as sampling units. Maharashtra represents industrially advanced state with low survival rate of small manufacturing units. Madhya Pradesh represents industrially backward state with low survival rate of small manufacturing units[4]. The major reason for focusing on manufacturing sector was that this sector was affected the most due to the liberalization process. The service sector has been excluded because the major growth in this sector has started after the liberalization. Also, the small units in service sector are not very sensitive to the investment limit which forms the basis for classifying a unit as SSI in India.

Sampling Design –

A sample size of 0.002 % of the population was selected for the study which comes out to be 34 and 27, for Madhya Pradesh and Maharashtra, respectively[5]. Due to the in depth nature of the study and unwillingness of many small manufacturing unit to participate in the study a large sample was not possible. Support was also taken from the Confederation of Indian Industry (CII) to identify the units. Follow up was made on telephone and personal visits to receive the filled up questionnaire back. In most of the cases financial data were not provided

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[3] According to the Census 62.13 % units were reported to be engaged in manufacturing, assembly and processing activities.

[4] According to the Census 7.371 % and 7.078 % of small scale units are closed in Madhya Pradesh and Maharashtra, respectively.

[5] According to the Census 171376 and 137819 units were registered in Madhya Pradesh and Maharashtra, respectively.

for which the units were pursued. In many cases the questions were clarified to the organizations through personal interaction. 28 and 21 questionnaires were received back form units of Madhya Pradesh and Maharashtra, respectively. From Madhya Pradesh 11 questionnaires were found incomplete whereas 4 incomplete questionnaires were received from Maharashtra. Considering completeness of data supplied by units 17 small manufacturing organisations each from Madhya Pradesh and Maharashtra were found to be usable for the study.

Classification criterion –

The growth may be attributed to increase in sales, profit and assets, and reduction in the liabilities. Increase in profit can be attributed to improvement in manufacturing or processing efficiency and thereby reducing in process losses. The reduction in liabilities can be explained by lowering of credit period and improvement in cash flow. Hence asset creation is one of the most important reasons for growth. This is important because of the fact that assets will be further deployed for creating more productive outputs. Increase in sales is also important as this indicates success of marketing and sales initiatives in meeting the customers' requirements. When there is a need to increase capital employed in a small manufacturing unit, it shows its need to raise long term funds which may be either borrowed funds or equity or both. But if there is an increase in equity, it is an indicator that the capital employed has been raised with an increase in equity, which is also indicative of the fact that the financial stability is strengthened.

There is another school of thought about market place concept; the companies which believe in excellence create their own market place. Such companies are driven by innovation and learning approach. (Peters, 2003) Market life cycle provides a useful framework for studying strategic formulation because it provides basis for establishing differences in strategic situations and the behaviour appropriate to each. There are two caveats attached to this concept in market life cycle context. First, the market life cycle is not intended to be used as a short – run forecasting device. Strategists find it more useful as conceptual framework for understanding what changes might occur over time rather than when they are likely to occur. Second, industry life cycles are reversible and repeatable.

The growth stage of a market life cycle is often associated with demand for the product or service may be growing faster than the industry is able to supply it (Dess & Miller, 1993). There is less price pressure, exciting advances are being made in new technologies, and sales volume (if not profits) soars. For rapid growth entrepreneur, the firm and strategy, all three need to appropriately match with each other (Storey, 1997). This indicates a major focus on growth related strategies.

The sampled companies were segmented with respect to the growth reported in the respective industrial sector. The actual growth achieved in each sector reported under Annual Report of Reserve Bank of India was referred for comparing growth of a particular SSI.

During the Pilot Study it was noticed that the companies were not in a position to indicate the market size and its growth. In absence of this, the relative growth of the companies could not be compared with that of the growth in the market. In order to overcome this it growth in sales turnover and growth in assets were accepted as the indicators of growth as per the following criteria. As Sales Turnover = Activity + Profit and activity includes the part of the resource used in the process of conversion of input into output; this includes that part of the asset which has been the part of the sales. In case the surplus generated as profit is ploughed back into the business then it would be reflected as increase in asset.

PERFORMANCE INDICATORS			
SALES	**GROSS PROFIT**	**ASSET**	**LIABILITY**
Increase	Increase	Increase	Increase
Increase	Increase	Increase	No Change
Increase	Increase	Increase	Decrease
Increase	Increase	No Change	Decrease
Increase	Increase	No Change	No Change
Decrease	Increase	Increase	Decrease
Decrease	Increase	Increase	Increase

Table 3 – Classification Criterion [6]

Analysis and discussion

Discriminant analysis was carried out to classify the strategic initiatives.

[6] Increase means than more than the sector average growth, No Change means that same as the sector average growth and Decrease means less than the sector average growth

Summary of Discriminant Analysis

Variable Group	Percentage Correctly Classified by Discrminant Analysis	Level of Discrmination (High / Medium / Low)	Major Discrminating Variables
Change Management	75 %	Medium	Value improvement
			Global competition
			Meeting requirements of existing customers
			Prepare to compete in global market
			Product benchmarking
Effect of de-reservation policy of the Government	52.8 %	Low	On marketing
Fund for growth	52.8 %	Low	Internal savings
			Private borrowing
Technology and R & D	83.3 %	High	Technology transfer
			Reverse engineering
			Quality improvement for existing customers
			Technology search through consultant
			Government support – subsidy for R & D
			Government support – common facilties
			Documentation for knowledge preservation – manual efforts
Sales and marketing	77.8 %	Medium	Usage of demand assessment – material planning
			Usage of demand assessment – manpower planning
			Incentive to sales team – commission based on sales
Government and infrastructure	81.3 %	High	Support from the Government – technology collaboration
			Support from the Government – R & D
			Support from the Government – product quality

			improvement
			Support from the Government – financial assistance
			Government policy – antidumping
			Satisfaction on Government policy – excise duty exemption and other financial assistance
External factors	65.7 %	Medium	Government policy
Human Resource Management	75.8 %	Medium	Profit & loss figures
			Performance appraisal – informal
Operations Planning	64.5 %	Medium	Production planning to meet the customer's schedule (to match with JIT supplies of the customers)
Manufacturing and quality management	94.3 %	High	Second party audit (by customers)
			Internal audit on manufacturing processes
			Quality system audit
Computer usage and information technology management	68.6 %	Medium	Usage of computer – day today work
			Usage of internet – general purpose of email and data access
			Website not regularly updated as it is expensive and very few visitors
Entrepreneurs and styles	97.0 %	High	Communication with customers – average once in a week / month / as & when needed for new product marketing opportunities
			Communication with employees – sales and profit data, method – informal and formal both
			Occasional socialisation with employees
			Planning for self – once in week

Workforce training – Small businesses prefer to get trained workforce rather than training them. Sometimes they poach the workers. Although likelihood of firms undertaking training of their workforce increases with the size of the firm, owner of a small business does not want to make huge investment in training. This is due to avoid exposure to high risks and the returns on training investment can not be assured. The risk of labour turnover also leads to such decision. Although external training deepens the skill base where as small businesses look for greater flexibility rather than specific skill base. The studies failed conclude about a relationship between growth and training. Relationship exists between firm size and training efforts.

Management training – The most important competence of an entrepreneur is the ability to forecast and take decision under uncertainty. This is highly contextual and time dependent. But these skills can be imparted to an entrepreneur. In many cases substantial support in terms of training is provided by the respective government and some non – government bodies, industries associations, etc.

External equity – Many small firms do not want to share ownership with financial institutions or outside individuals. Hence they only go for short term debt financing. This becomes a limitation in growth. Researchers concluded that the small organisations willing to share equity are more likely to grow. In this context it is also important to note that if the business have potential to attract the attention and willingness on the part of the outsiders then only equity sharing would be possible.

Additional Resource – The additional capital needs for growing small organisations discriminate with low intensity. The growth needs are supported by internal savings and private borrowings. There could be two types of arguments to support this discriminating feature. The banks and financial institutions consider credit to the small organisation as high risk, their confidence on such organisations is low. Small and medium organisations too contribute to their NPAs significantly. The second argument is against this attitude of these bankers and officials of the financial institutions. Due to the problem in getting adequate and timely credit the entrepreneurs of small manufacturing organisation depend on their own sources of funds to support their growth. Since this kind of problem is not limited to the growing small organisations, the level of discrimination for growing organisation is low, in other words the non – growing organisations too face such problems.

Technological sophistication – Technologically sophisticated businesses grow more rapidly. There is an issue about defining the expression ‘technological sophistication’ in this case. In high technology areas the typical measurement could be expenditure on R & D or number of patents but in traditional sector this is difficult. Innovation is also closely related to this aspect of growth.

Technology and R & D – The small manufacturing organisations consider technology upgradation and R & D as the key driver to improve competitive strength. Product quality improvement is one the major reasons for technology improvement and R & D which discriminated the growing organisations. These organisations do not invest on developing new technologies rather they rely on adopting the proven technologies; the in house R & D efforts support such adaptation. Such organisations document the knowledge and experience through manual efforts. The technology strategies adopted by these organisations are technology transfer or reverse engineering. They take help of consultant to source available technologies and also expect Government to support in technological collaboration. In order to meet the investment needs for such improvement they expect financial and infrastructural supports. The financial supports are easy finances and subsidies. The infrastructural support includes establishing common facilities which could be used by a group of small organisations.

Market positioning – Small businesses operate in niche areas. But the researches conclude that although there is dependence of sector with small business growth but small businesses are not uniformly affected by turbulence or other changes in the market places. However this area needs further research.

Customer Focus – Growing small manufacturing organisations maintain strong communication linkage with existing customers. The core focus is on meeting the quality requirements of these customers. They maintain flexible frequency of communication. Reasons for communication also include marketing of new products. But website is not considered to be an important means for communicating with outsiders including the customers, neither the site is updated; organisations find it expensive to maintain the website. The growing organisations are discriminated on using the communication for the purposed of aligning with their internal processes. The projected demands of the existing customers are used for material and manpower planning. They plan the production schedule to match the JIT supply needs of their customers. All these factors carry find medium focus. Those small organisations which are suppliers to large ones are also subjected to second party system audit, such audit find high priority for discrimination.

Change and Competitiveness – The growing small manufacturing organisations are also discriminated by the need for adopting change. The intensity is medium. The need felt for change are mostly focused on the product quality offered to the existing customers. The other major reason considered important for change is value improvement. There is considerable focus on meeting the global competition and preparedness to meet the global market needs and match the product standards. Product benchmarking is identified to be one of the factors for change.

Role of Government – Small scale sector has been protected through policy measures since long. Major support was in the form of reservation of items for them. Such policies have insulated the sector from competition. In the advent of liberalised policies adopted by the Government this sector is gradually exposed to competition. Due lack of confidence in facing competition the growth focused small manufacturing organisations continue to expect support from the Government. Among the external factors the Policies of Government influences them with medium level of discrimination. The policy of de-reservation adopted to create competition has affected these organisations. The adverse effect is in the area of marketing. The reservation policy creates monopoly and very few suppliers compete for a large market. Also in many Government purchases small scale industries get preferential treatment. But the organisations sensitive towards growth gradually learn to face competition, this is the reason de-reservation has affected them with medium intensity. However, these organisations have expressed satisfaction on excise duty exemption and various other financial support measures of the Government. They also expect that the Government should impose anti – dumping duties to prevent the unfair competition from the imported goods in the Indian market.

Entrepreneur and Internal Processes –

Organisations with growth focus work with a strong sales support team. The team members are paid incentives on meeting the sales targets. The organisation use computers for day today work and also for accessing internet. Email and general data access are the major usages. The performance appraisal of these employees is carried out informally. All these factors find medium focus. However the organisations give high priority to monitor their manufacturing systems. They carry out regular quality system audits which includes the manufacturing operations. The entrepreneurs give high priority to internal communication. They communicate frequently with the employees and share the profit and loss data – formally as well as informally. They socialise with them occasionally. The entrepreneurs give high priority to self management, they prepare weekly schedule for themselves.

Review of the growth imperatives –

Many small organisations are not inclined to grow, neither they possess expertise or have adequate resource to grow. Basically the entrepreneurs remain contented to stay small. They also prefer to maintain the current level of profit rather than expansion. The reason may be that the ownership and management reside with the same person, and personal life styles and family needs. Independence is the primary need and the entrepreneurs do not want to relinquish the control. The entrepreneurs who possess higher skills in craftsmanship do not want to grow as in such cases they need to take administrative roles. The personal competence of the entrepreneur in dealing with organisational matters and supervisory capability also influence growth of small organisations. Growth or expansion may mean increase in number of customers, change in type of customers or shift from old clientele obtained through some personal contacts or recommendation to large organisations. Some entrepreneurs resist such new relationships. Hence there are some inherent preferences and propensity not to expand in many small organisations. These are proven additional barriers to growth. Even if such organisations achieve growth due to some reasons they may find it difficult to sustain the benefits due reluctance form the entrepreneurs to formalise the organisation structure, delegate authority, change decision making patterns and develop new types of relationship with the employees (O'Farrell & Hitchins, 2002). Milne, Lewis, Thorpe and Thompson (1982) have focused on strategic dimension of growth. The business strategies of the small organisations are determined by the perceptions of the owner – managers about what they can achieve through their business in the light of opportunities and constraints seen by them. Personal characteristics also influence the aspirations and the perceptions. The researchers explained that there are two environments in which the business takes place – external and internal. The external environment includes suppliers, buyers, competition, potential entrants, interest on credit, taxation policies, market conditions, social, legal and political issues. Internal environment consists of resources of the firms. Personal and leadership characteristics of the owner – managers are also major internal factors. Occupational background, education, training, personal objectives, management styles are some of the major factors. The values of the owner – manager whether the organisation should pursue the objective of survival, growth, diversification, or consider for technological leadership influence the decisions. In small organisations the objectives of the business and owner are inseparable. Availability of competent people, the extent of control the owner –

manager want to exercise, financial strength, physical assets and owner's capability and willingness to deal with change are other factors. They collect and process a part of the total information of the internal and external environment and take strategic decisions to adapt and cope with the pressures from these environments. They develop new procedures, systems and managerial tasks to deal with the change.

Liao et al (2003) based on a study on responsiveness of growth oriented small and medium scale organisations concluded that such organisations possess capabilities of external knowledge acquisition as well as intrafirm knowledge dissemination. This provided them opportunities to adopt proactive strategies.

Conclusion

Business growth aspects and performance are correlated in small manufacturing organisations. Growth in these organisations can be viewed from many perspectives. The perspectives are development orientation (business growth and performance outcomes), enterprise size, growth constraints, business influence (largely internally influenced performance), dependence on external finance and extent of external financial advice. (McMohon, 1995)

The entrepreneurs' style influences significantly on the growth in small businesses. Small manufacturing organisations consider technology and improvement in manufacturing capability as the key determinant for growth. Developing competence to manufacture better products at low cost is the major focus to meet the competition and to grow. These organisations are sensitive towards the need for changes in product and processes to meet the market challenges but they continue to focus moderately on market intelligence as a result they do not consider operation planning as one of the most important aspect for growth. In spite of major focus on process efficiency improvement the organisations have moderate focus on application of computer and information technology. On resource the paper could not establish a linkage. The hypothesis that the organisations need more resources for growth could not be established as these organisations do not consider need for funds as a high priority issue. High dependence on government on infrastructure support is due to historical reasons. Most of the units are located in state promoted industrial areas in which the infrastructure creation and maintenance is sole responsibility of the government. Although they expect to create other support system for them but the de-reservation of product initiated by the government has changed the thinking of growing small scale organisations. Now they are ready to come out of protection and are keen to face competitive challenges.

Limitation of the study and criticism of stage and life cycle theories –

The stage theories on growth may be criticised on some major issues. First, this gives a heuristic classification rather than conceptualising the process of growth. Second, the theories assume that the small businesses either grow to pass through all phases of the cycle or collapse. The other theories support the counter argument that the important difference lies in characteristics of the founders who strive for growth. Also theorists classify the small firms as fast growers, satisfiers, which constitute the majority, and those who attempt to grow but fail. Third, these models fail to capture the important early stage of within the origin and growth. In short these theories do not capture the process of change; they take the view of transformation of a small firm to a large corporation. Fourth, there is no clear explanation whether all small firms necessarily pass through all the stages in a sequence or some of them may skip one or more stages. Fifth, they define the small companies in terms of sales turnover or number of employees and ignore factors such as value added, product mix, or innovation in product or processes. Sixth, the theories do not take into consideration the advantage or disadvantage of regional economies. Seventh, these literatures are wisdom based, and reflect symptoms of growth rates and not on the process underlying the phenomenon. Last, the stage model and corporate life cycle theory both assume the validity of a stage or life cycle model rather than to prove by data support. (O'Farrell & Hitchins, 2002)

The other limitation is about generalisation of conclusions. Firm size may have impact on growth. Growth of small organisation is also an industry specific phenomenon hence sector of industry specific studies would lead to better conclusions.

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