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DEVELOPMENT OF GROWTH STRATEGIES IN SMALL BUSINESSES

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Abstract
India has a high number of start-ups compared to other countries in Europe, however, when the focus is on growth entrepreneurs, India is still lagging behind. Many of the newly started businesses are not capable to create sustainable growth and one of the reasons might be the absence of a clear definition of goals and formulation of strategies. Based on different studies linking the use of strategies and small firm growth, the interest is to explore how a selection of small firms in India manages to incorporate growth strategies in their business activities and in this way increase our understanding about growth strategies in the small business context. The focus will be to study the nature and complexity of those strategies, the factors promoting the emergence of growth strategies and the direction and underlying logic of the growth strategies. A qualitative approach was chosen in order to explore the growth strategies in small businesses and increase our understanding about the phenomenon. A multiple case study comprising of four firms was carried, in which semi-structured interviews and other type of secondary sources of data provided the necessary information to conduct the analysis. It was found that the studied firms make actively use of strategies, often combining the planning and emergent approach of strategy formulation. These firms made use of formal planning and pre-decision analysis combined with a high level of flexibility to adapt to changing conditions or new opportunities. This means that strategies do not need to be rigid plans that point to pre-determined course of actions, but they can also be flexible working documents allowing entrepreneurial firms to explode their opportunity seeking behavior and, at the same time, seek sustainable sources of advantage. Furthermore, it was possible to identify how different factors affected the emergence of growth strategies. Due to the small size of the firms, they were not only highly dependent on their external environment to formulate strategies, but also on their access to financial, human and social resources. Internal factors such as the entrepreneurial orientation of the firm and the owner-manager's attitude towards growth were also found to be responsible for affecting the emergence of their growth strategies. Lastly, the growth strategies of the firms, which by nature are strategies at the corporate level of the firms, were directed towards product development and market development. Here an interesting finding was that this pattern was often combined with a high level of cooperation with external entities that enabled the firm to achieve their ambitious goals. small firms should therefore consider looking beyond their own capabilities and regard external cooperation as a strategic possibility to grow.

1. Introduction

Entrepreneurial activity has a very central role for economic development by stimulating growth and innovation, entrepreneurial activity contributes to the creation of new products, production methods, technologies, which challenge existing businesses models, creates jobs and contributes to the general welfare of a society. India has developed a serial of factors fostering the development of entrepreneurial businesses, for instance by creating business incubators, free advising from experts in the starting phase, relatively easy access to capital, simple and quick procedures to open a company, and more. The importance of entrepreneurs for the economic development is indeed recognized in India and the government has sat itself the goal that in 2015, India will be among countries with the highest number of new started. Many of the entrepreneurial start-ups are not capable to create sustainable growth, in many cases closing down. The reason behind is perhaps the absence of a clear definition of goals and business strategy as entrepreneurs can often find themselves in a busy operational everyday placing less emphasis on ambitious long-term goals and strategies. Strategy plays an important role in a business' management process, as it helps a business to set a direction and to formulate the way they want to achieve their goals. However, earlier research indicates that small and medium sized enterprises (SMEs) pay little attention to strategy formulation and strategy in general. Furthermore, much of the existing strategy literature puts great emphasis on larger businesses, and there is no clear theoretical framework capable of explaining and guiding the strategic management for small businesses. The lack of research effort concerning growth strategies in small businesses may be justified with a limited interest in small firms, law availability of economic data, and the belief that small businesses employ little strategy or simply do not aim for growth and still, researchers have revealed from time to time, the positive linkage between the use of strategies in small businesses and performance. Their results confirm the relevance of the subject and the need to further develop this field of study and develop tools that will provide small firms with guidance and direction for development of strategies. Entrepreneurship and Growth- entrepreneurship is an activity that involves the discovery, evaluation and exploitation of an opportunity that in turn adds new products and services to the market. Thus, a basic premise of this assignment is that entrepreneurship is a process. Growth Measures Researchers employ a wide variation of growth variables when measuring the size of a firm. Some of the most common ways to measure a firm's size are according to its revenue, profits, human and physical capital .strategy as a deliberate choice to be different.

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2.Strategic Entrepreneurship

According to different authors small businesses are more effective in identifying opportunities compared to larger, well established firms (see Steffens et al., 2009; Ireland et al., 2003). Additionally, it is argued that young, small businesses are less effective in developing sustainable competitive advantages from those opportunities (Ireland et al., 2003). Hitt et al. (2001) claim that this occurs when entrepreneurs fail to think strategically, making it difficult to develop and sustain competitive advantages.The concept of Strategic Entrepreneurship (SE) is a relatively new field of research, and due to its emerging nature, there are varied perspectives about its meaning and definition (see Kuratko & Audretsch, 2009). However, the basic logic behind this concept is that it fuses the domains of entrepreneurship and strategic management. Some scholars define SE as combining the opportunity seeking behaviour of entrepreneurship with the advantage seeking behaviour of strategic management(Ireland et al., 2003; Steffens et al., 2009 and Kuratko & Audretsch, 2009). In other words, SE is the identification and exploitation of opportunities, while at the same time creating and sustaining a competitive advantage. Different scholars claim that for wealth creation and growth, it is necessary to integrate the opportunity-seeking and advantage-seeking behaviour and neither alone is sufficient (McGrath & MacMillan, 2000; Amit & Zott, 2001 and Ireland et al., 2003).

This concept can be useful to both entrepreneurs who need strategic goals, and managers of established firms who need to think entrepreneurially.

Looking at SE from the entrepreneur's perspective, and according to Dr. Frank Lasch in Kuratko & Audretsch (2009), SE is a discipline that starts when the entrepreneur leaves aside issues related to the emergence and short-term survival of the firm, and instead focuses on the development of strategy and market orientation. Research assistant Stephan Heblich defines SE as "a third way of doing business that falls between unsystematic trial and error and meticulous planning – being strategic" (Kuraktko & Audretsch, 2009: 14). Heblich believes that SE is a concept that focuses on strategies but keeps a high flexibility in dealing with unforeseen events and new opportunities as they rise. These elements are necessary in today's business atmosphere, which is characterize by having a new competitive landscape with increasing risk and uncertainty, decreased ability to forecast, fluid industry boundaries, a new managerial mindset and structural forms (Bettis & Hitt, 1995).
This assignment basically adapts the concept of SE from the entrepreneur's perspective, by looking at ways on how to adapt strategies in entrepreneurial businesses. This is because strategic thinking is necessary not only to exploit the capabilities and resources of the firm, but also to create sustainable sources of value. Furthermore, this way of thinking, also promotes the identification of a path that ensures that the workforce stay focused on the target.

The figure below captures the idea of SE from a growth-oriented perspective in a small, entrepreneurial firm. It depicts important elements that influence growth in the entrepreneurial firm (see section 3.4), and how those elements, together with strategic thinking and strategic management of resources, are channelled to the final objective, which in this case is wealth creation and growth.

Thus, in the entrepreneurial context, strategies are seen as the mediators to achieve predetermined goals.

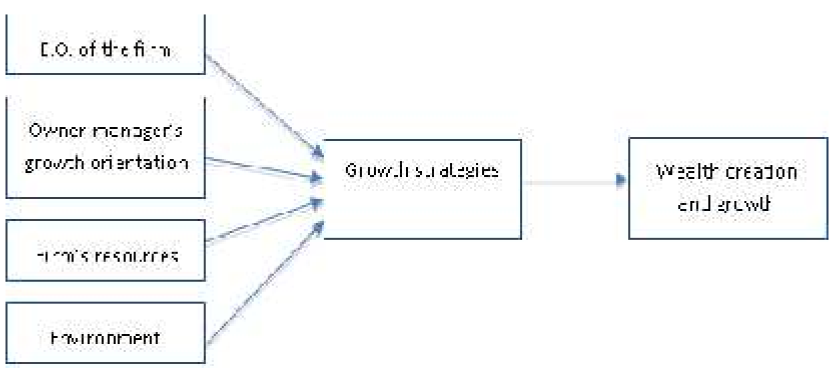

Figure 3.1: Strategic Entrepreneurship from the Entrepreneur's Perspective, when Growth is the Firm

Small Business Growth and Emergence of Growth Strategies

Different factors affect a small firm's growth, and some circumstances are more likely to facilitate growth than others. An understanding of these factors is of particular relevance for growth-oriented small firms, as they can formulate strategies or act according to the conditions they face. Reviews of the literature reveal that little is known about a small firm's growth, making this phenomenon a particular attractive research area (Deakins & Freel, 1998). Davidson & Wiklund (2000) argue

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that the reason for the shortcomings of the field is that the literature is highly fragmented, and there is little connection between the different perspectives.

Davidsson (1989) argues that growth in small firms is affected by many factors. Some of these factors are external to the firm, and some are internal, but both affect the firm's ability and willingness to grow. Furthermore, the decision to adopt a particular strategy will also depend on the different factors affecting the firm's growth (Roper, 1999). Understanding the factors that affect the growth in a small business will consequently provide insights in how growth strategies emerge. Based on an empirical study of 413 firms, Wiklund et al. (2009) suggest a model of small business growth, in which they identify different variables affecting small business growth (see appendix B). However, to increase the overview and keep things simple, I have selected the model's four main elements and plot them into a figure that contains the owner's attitude towards growth, the entrepreneurial orientation of the firm, its environment and resources. The diamond in the middle of the figure represents the small firm growth, which gets bigger according to the degree (low, medium, high) of each element from the figure. This figure will be used during the case study to illustrate the different companies' degree of each element. In the following, a discussion of each of the above elements will bring us closer to the background of a small business growth.

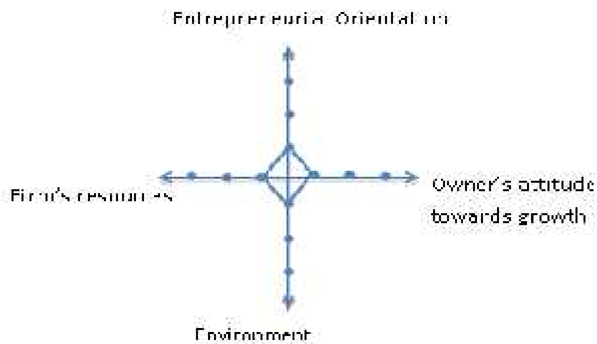

Figure: 3.3. Illustration of the Factors Affecting Growth in Small Companies
Source: Author's own creation based on Wiklund et al. (2009)

3.Growth Strategy Typologies
According to Doty and Glick (1994) a typology represents different ideal types with unique combinations of attributes that can be used to determine relevant outcomes. The central element in a typology is the set of ideal types or extreme. As Blalock expresses, typologies "provide an abstract model, so that deviation from the extreme or ideal type can be noted and explained" (Blalock, 1969: 32 in Doty and Glick, 1994). For instance Porter's typology describes different business-level strategies as ideal types that organizations can follow in order to gain competitive advantage. Thus, a typology's value lies in translating complex situations into more simple descriptions that can explain an organization's outcomes and form the basis for action. Therefore typologies, among other management tools, have become popular means to communicate management ideas (Knott, 2006). Nevertheless, the fact that typologies can simplify complex conditions comes at the expense of oversimplification and missing precision (Scott, 1981). This, in turn, limits the usage of typologies. Different scholars have developed numerous strategy typologies from their studies on strategy. However, there is no consensus as to which of them are the most appropriate for influencing growth. Some studies (i.e. Baum et al., 2001) use the Porter (1980) typology, which distinguishes between cost leadership, differentiation and focus strategies at the business-level. Other authors (see Durand & Coeurderoy, 2001) use the Miller (1985) typology, which instead focuses on the strategies of differentiation in innovation and differentiation in marketing. At the same time, others working in the field of strategy and growth consider entrepreneurship itself as a strategy (Ireland et al., 2003 and Meyer & Heppard, 2000).

Nevertheless, Moreno & Castillas (2008) argue that the decision-making concerning growth is mainly located at the corporate level of a business, and the fact that the well-known typologies of Porter and Miller are business-level strategies, makes them not very appropriate when studying growth strategies. Furthermore, the focus of Porter's typology is in obtaining competitive advantage that can bring above average levels of profitability to a business. Thus, Porter's suggested strategies are more oriented towards profitability instead of growth.

A relevant typology, given the aim of this study, is the product-market model proposed by Ansoff (1965). This model embraces most of the aspects that different scholars consider as relevant growth strategies (see Moreno & Castilla, 2008; Smallbone et al., 1995; Keogh & Evans, 1998; Gibbons & O'Connor, 2005). Ansoff's (1965) model proposes different corporate-level strategies that aim towards the growth of the firm. This typology is concerned with the strategic decision that

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a firm faces, when considering in widening the range of products or entering new markets. Based on two dimensions, product and market, four strategies are formed as shown in the figure below.

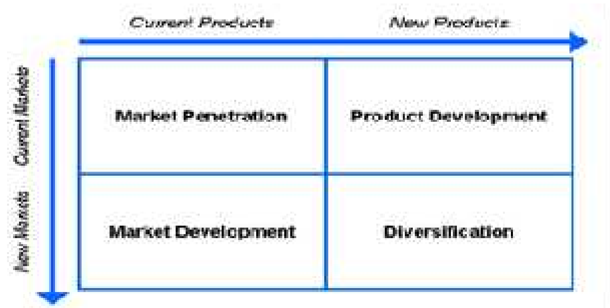

Figure 3.4: Ansoff's Product-Market Matrixsource: Boag & Dastmalchian, 1998, P.331

Market penetration is a growth strategy based on increasing the firm's existing share of products and markets. Market development strategy is when a firm responds to new market opportunities, by introducing existing products to new markets or customer groups. From this strategy, one can derive the concept of internationalization, which is recognized as a key area for growth. Product development is when firms develop new products or services for existing customers. In some industries this strategy is necessary in order to remain competitive and grow (Keogh & Evans, 1998). Diversification directs the organization towards introducing new products to new markets. Mascarenas et al., (2002) claim that growth requires expanding what a firm is doing currently.

According to Watts et al. (1998) the most suitable growth strategic alternatives for a small firm are those concerning product development and market development. Smallbone et al. (1995) share the same view suggesting that high growth can best be achieved by identifying new markets for existing products or by developing new products or services for existing customers. In this way SMEs can evolve from having an established core activity into more complex businesses (ibid).After a review of some popular strategy typologies concerning the growth of a firm, I found that the best-suited one is Ansoff's (1965) product-market matrix and particularly the product development and market development strategies. This model will be taken as a point of direction during the case study. At the same time.

4. Conclusion

The purpose of this thesis has been to study the development of growth strategies in young, small businesses. Three research questions were formulated in order to achieve this goal. Firstly, it was considered necessary to understand what a strategy is from the small business' perspective. The second step was to get an insight in the factors affecting the emergence of growth strategies in small business, and lastly, the direction and underlying logic of those growth strategies. The theoretical framework provided relevant theories within definitions of strategies, factors affecting growth strategies and growth strategy typologies, in order to guide the case study. As a result the case study was conducted with three related perspectives. The first solely emphasized the small business' definition of strategy and how strategies were used in practice. Here, the focus was on the nature of formality and flexibility of those strategies which was best described by the planning vs. emergent approach of strategy formation.The second part of the study made use of relevant theories regarding key factors affecting the growth strategies of the small business. Those factors were the owner's attitude towards growth, the entrepreneurial orientation of the firm, the firm's environment and its resources.The third part of the study focused on the growth strategies of the firms. Here the frame of direction was based on Ansoff's (1965) product-market typology that looks at the corporate-level strategies in firms and, according to different scholars, was the best suited typology when studying growth firms.

The following three sections reviews each research question and connects it with the findings of each part of the study. The four main factors affecting a firm's growth strategies were recognized by the four studied firms. Furthermore, it was possible for the firms to link those factors as being responsible for the emergence of their growth strategies.

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