

# Growth Strategy in Entrepreneur Managed Small Organizations: A Study in Auto Component Manufacturing Organizations in Central India

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*Small business organizations offer cost effective and customized products to niche markets and provide employment to local talents; many large organizations source products from them. Entrepreneurs of small businesses develop both strategic and tactical skills and abilities to face market related uncertainties. Growth is seen differently by entrepreneurs even if they operate in similar product markets and industries. In order to develop theoretical framework(s) on growth strategy of entrepreneur managed small organizations, an empirical study was undertaken at an auto component manufacturing cluster in Central India. Two major patterns were found. In 'focused customer based growth strategy' entrepreneurs focus on single customer and hence customer relations, low cost automation, and agility to match the demand uncertainty are the important strategic actions. In 'multiple opportunity based growth strategy' entrepreneurs choose data based approach to search for new opportunities at various locations for value addition and cost efficiency with technology support.*

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## INTRODUCTION

Small business organisations play major role in industrial and economic development. They offer cost effective and customized products to niche markets and provide employment to local talents. Many large organizations source products from them. Despite facing problems on account of resource limitations and less market information (Van Kirk and Noonan, 1982) and competition within and with large organisations (Besant, 2001) small businesses with entrepreneurial orientation tend to react early to changing environment (Steiner and Solem, 1988; and Messeghem, 2003). Their growth is result of a combination of initial resources of entrepreneurs, firm and strategy (Storey, 1994).

Majumdar (2010) in his study in entrepreneur managed small foundries located in western India, mostly in business with auto component manufactures presented two frameworks on growth strategy-one based on relationship and social capital and the

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other on technology. Entrepreneurs develop both strategic and tactical skills and abilities to face market related uncertainties (Carland *et al.*, 1984; Kuratko *et al.*, 2001; and Majumdar, 2008). However, growth is seen differently by entrepreneurs even if they operate in similar product markets and industries as macroeconomic conditions and industry environment provide dissimilar contexts to different entrepreneurs and they analyze the same according to their strategy making capabilities and personalities (Kangasharju, 2003).

Hence the two aspects which demand attention in scholarly literature on strategy in small businesses are growth and entrepreneur. Deliberate act by entrepreneurs, as sole strategist, in making choices about growth and the way they pursue growth justifies fresh discussion under the fold of strategic management. For developing a robust theory in this field studies across industries (with significant presence of small organisations) has been suggested. High sensitivity towards global competition makes auto component sector a strong case for this purpose.

## RESEARCH GAP AND RESEARCH QUESTIONS

Literature on entrepreneurship and strategic management has grown independently. At firm level, we see two major typologies of strategy in entrepreneur managed organisations. Miles *et al.* (1978) has proposed four postures—defenders, analyzers, prospectors and reactors as response to environment with a combination of structure, culture and processes. Mintzberg (1973) presented three major classifications—adaptive, entrepreneurial and planning-oriented; entrepreneurial mode is one such pattern associated with firm level behavior. Both are related to organisational behavior modes as linkage between environment and organization. Entrepreneurial strategy leads to improved performance in dynamic business environment and supports development of state of art process technologies and core process redesign (Dess *et al.*, 1997). Entrepreneurial mode as firm level strategic behavior pattern was also reported by Covin (1991), Miller and Friesen (1982) and Murray (1984). Emphasis on these dimensions varies in different contexts as reported by Van Kirk and Noonan (1982) and Dean *et al.* (1998) highlighting importance of context in strategy planning (Chan and Foster, 1999). Descriptions of entrepreneurial strategic postures, in one hand, enrich our knowledge about typologies of firm level behavior under different sets and combinations of environmental and organizational conditions but, on the other hand, it poses questions on high degree of predictability claimed. The posture explains firm level strategic behaviour ignoring the conceptualization of growth, growth opportunity and attitude of entrepreneur towards growth. Opportunity as a construct has meaning both in strategic and entrepreneurial terms (Gartner *et al.*, 2009). Entrepreneurial dimension adds to 'intuitive' decision making which Vyas (2005) referred as calculated risk taking.

In recent past integration of strategic management and entrepreneurship by infusing Resource-Based View (RBV) has drawn attention of scholars (Foss *et al.*, 2008). Resources

under RBV reference are the 'strategic resources' (Amit and Shoemaker, 1993; and Barney, 1991). They are valuable to enhance firm's performance and/or customer value, rare enough hence, competitors do not use, and difficult to imitate or substitute (Barney, 1991). Although RBV has been empirically tested by many researchers but it is still evolving to establish the assertion that to the extent organizations possess strategic resources their performance enhances (Crook *et al.*, 2008). This view of firm level strategy also holds good for small businesses and in this paper, I am raising research questions to develop deeper insight, on the premise of resource heterogeneity in RBV. My research constructs are growth perception and attitude of entrepreneur (the sole strategist in small business) and thus the strategy to achieve growth. In subsequent paragraphs I am raising specific research questions related to these research gaps.

## GROWTH AND GROWTH PERCEPTION

Growth of small business organizations is a result of a combination of initial resources (of the entrepreneurs), firm and strategy (Storey, 1994). Their growth combines favorable environmental conditions and leadership processes (Eisenhardt and Schoonhoven, 2002; and O' Farrell and Hitchins, 2002). It is affected by various external (suppliers, customers, competition, taxation, market and government policies) and internal variables (personal and leadership factors of the entrepreneur, resources, etc.) (Murray, 1984; Hrebiniak and Joyce, 1985; Kelmar and Wingham, 1995; and Chan and Foster, 1999).

Non-homogeneity of small businesses adds to complexities in studying growth and growth strategy (Anderson, 1982). Before proceeding further, I resolve this issue to understand the sources of non-homogeneity. Although industry (Boswell, 1973; and Lu, 2005) and country (Wijewardena and Cooray, 1995) are reported be the most common sources of variation, functional categorization helps in understanding this phenomenon better. Categorization based on (a) environment—such as industry; (b) firm related factors—such as processes and behavior; and (c) entrepreneur related factors—such as motivation may simplify the matter (Morris, 2001). Environment poses challenge depending on industry life cycle and industry structure (Morris, 2001). Location also directly impacts competitive strategy of small organizations (Galbraith *et al.*, 2008). Porter (2003, 2005) explained the disparities in regional economic development which are strongly influenced by the proportion of trade, local industries, resources and mix of organisations present in the region. In a study in small business organisations in two states in India, Majumdar (2007) reported two sets of factors which discriminate growing small manufacturing organisations with others. The factors of higher discrimination are R&D, influence of Government and infrastructure, manufacturing and quality management practices where as medium discriminating factors are change management, sales and marketing management practices, external variables, human resource management, operation planning methods and usage of IT. Entrepreneurs influence organisational processes, systems and learning (Politis, 2005) and development (Dutta and Crossan, 2005). Also, their attitude influences growth and growth related decisions

even if many organisations operate in similar product market, which also explains the non-homogeneity (Matthews and Scot, 1995; and O'Farrel and Hitchins, 2002).

Thus, the first research question is –

- a. How do the entrepreneurs define growth?

## SMALL BUSINESS AND ENTREPRENEUR

Performance of small organizations depends on internal factors (Hrebiniak and Joyce, 1985) such as organisational structure and processes (Hrebiniak and Joyce, 1985) and policy, planning, market knowledge and technology (Kelmar and Wingham, 1995). Growth oriented organisations do not consider external factors as impediments, rather they engage in strategic planning to manage those impediments and take advantage of the market opportunities (Sims *et al.*, 2002). Sometime they tend to influence external conditions to make them favorable (Liao *et al.*, 2003). Commitments in investment, growth, export, and enterprise size (internal factors) are more important than the market variables (McMohan, 2001) as market growth does not necessarily lead to growth of small organizations (Morris, 2001).

Entrepreneur's socioeconomic background has a strong influence on growth of small business organisations (Clark *et al.*, 2001). Sometimes entrepreneurs of small organisations do not desire to exploit opportunities of growth (Wiklund *et al.*, 2003) as they do not have automatic bias towards growth (Lesger, 1997). This has also been empirically established (Rogoff *et al.*, 2004). Their intention of growth and success are correlated (Bird, 1988; LeBrasseur *et al.*, 2003; and Meulenberg, 2004). If they decide to grow, those entrepreneurs tend to exploit market opportunities as early as they can (Lesger, 1997).

In entrepreneurship literature attitudinal theories are less referred as compared to personality variables. Hmieleski and Baron (2008) and others reported that firm's performance is significantly influenced by entrepreneurial self-efficacy and entrepreneur's optimism, and industry condition (stable or dynamic) have moderating effect on them. Research article, "What Do They Think and Feel about Growth? An Expectancy-Value Approach to Small Business Managers' Attitude Towards Growth", authored by Wiklund *et al.* (2003) explains it further. Personality variables measure general individual tendencies and have less predictive power in specific context. Hence, it will have less explanatory power about strategic decisions; strategy being a contextual dimension of small organisations has limited focus from personality related theories. Attitude on the other hand is an important determinant of such behavior because of focus on 'specificity'. Attitude is moderate predictor of goal directed behavior and is less stable over time and across situation; it changes in accordance with the environment. Strategy planning in general and growth strategy planning in specific has strong influence of context and

environment. By considering influence of entrepreneur's attitude on strategy, strategic growth planning becomes predictable. Further on expectancy-value theory, Wiklund *et al.* (2003) established that belief and attitude are closely associated. Individual's attitude towards behavior can be predicted by salient beliefs. If belief correspond a specific behavior, it can predict attitude of entrepreneur towards growth.

Entrepreneurs (being principal strategist and chief manager of small business organization) are the important source of value creation; they jointly with other resources determine success of the businesses (Holcomb *et al.*, 2009). There is also strong impact of entrepreneur's attitude on growth and growth related strategic decisions (Matthews and Scot, 1995) and style (Majumdar, 2007). They take both executive and strategic decisions and controls to translate vision into action (Van Kirk and Noonan, 1982). Their involvement, attention and competence in strategy planning directly affect success of strategy implementation. Woods and Joyce (2003) in their article 'Owner-Managers and the Practice of Strategic Management' referred Mintzberg's theses on strategic planning about informal and intuitive, deliberate and often an extrapolation of the chief executive's (entrepreneur's) personality, and personal vision and control.

The second research question is –

b. What is their attitude towards growth?

## STRATEGIC MANAGEMENT IN SMALL BUSINESS ORGANISATIONS

Corporate businesses dominate the scholarly literature on strategic management (O' Farrell and Hitchins, 2002). It is important to note that strategy planning in small organisations is dynamic and such organizations continuously search for new relationships with the external environment and uncertainties (Murray, 1984). On the other hand large organizations follow systematic strategy planning methods with sophisticated tools (Mathews and Scott, 1995), though causal relationship between behavior at firm level and entrepreneur is yet not adequately established. Entrepreneurs mostly use intuition (than the analytical tools) to spot opportunities (Hulbert *et al.*, 1997). We also know that small organisations tend to follow path dependence for crafting strategy for growth (Felin and Zenger, 2009). We encounter many such unanswered strategic dimensions in small businesses (Churchill and Lewis, 1983). Despite large population and significant contribution in socioeconomic development literature gap visible in Indian small business context.

Hence, the third research question is –

c. What kinds of strategy small business follow?

Researchers have used various measurements to define growth in small business organisations. Commonly referred classifications of parameters are internal and external, and financial and non-financial (McMohan, 2001). Discussion on external and financial

measures is evident, internal and non-financial measures are contextual, hence deserve specific attention. Among internal measures improvement in internal structure, increase in formalization and higher specialization are some of the major reported indicators (Messeghem, 2003). Nguyen and Bryant (2004), based on a study in Vietnam, concluded that formal HR practices are positively linked to higher performance. The non-financial parameters are related to the individual needs of entrepreneurs or internal needs of organisations with strong influence of the personality of the entrepreneur (Walker and Brown, 2004). Limited empirical studies are available to establish effectiveness of such classifications (Keats and Bracker, 1988; and Kalantraris, 2004).

The fourth research question is –

d. How do entrepreneurs measure achievement of growth?

### RESEARCH SETTING – AUTO COMPONENT SECTOR

Strategic variables carry different weightage in different industry segments (Mcdougal, 1994). Messeghem (2003) suggested a study in auto component industry for developing better insight about strategic management in small organizations. In developing economies like India entry strategies of large multinational and foreign companies is strongly influenced by market supporting institutions, this has been moderated by their need for local sourcing (Meyer *et al.*, 2009). Small organisations are the major local source for them. Automobile industry not only represent highly complex and competitive segment of economy, but also illustrates dynamic knowledge transfer among firms (Inkpen, 2008; and Porter, 1979). Auto component sector has grown after entry of multinational automobile companies as a result of liberalized policies adopted by the Indian Government. In Indian automobile industry about 30% of the sourced components are machined castings or forgings and majority of them are manufactured by small and medium organisations (Ivarsson and Alvstam, 2004). The manufacturers adhere to strict quality norms and time pressures imposed by the customers. The research is based on a study of small auto components manufacturers located in Indore and Pithampur (central India) supplying machined and plated auto component to automobile Original Equipment Manufacturer (OEMs). Due to concentration of five major automotive OEMs (Force Motor, Eicher Motors, Hindustan Motors, Kinetic Motors, and L&T Case) and one major tyre manufacturer (Bridgestone) Pithampur is also known as 'Detroit of India'. Spread in an area of 1,900 hectares with more than 120 medium and large and more than 455 small manufacturing units, auto component industry base size is Indian ₹5,000 mn. Majority of the small and medium sized manufacturing units located in Pithampur manufacture machined components and also engage in related activities. The value of annual production in the Cluster totals Indian ₹25,000 mn. Total sales turnover in Pithampur Cluster was Indian ₹20,000 mn in 2003-04. Local sourcing by Pithampur based OEMs is about one-eighth (12.5%) of annual component needs as compared to other auto clusters which is 60 to 70%. Growth projection of these OEMs explains the potential of Pithampur's Auto Component Cluster.

## METHODOLOGY

Grounded Theory approach of qualitative research explained by Strauss and Corbin (1998) and Creswell (1998) was adopted for this research. The steps involved were, Open Coding ! Axial Coding ! Selective Coding ! Theoretical Framework. Indore and Pithampur (in the state of Madhya Pradesh in central India) based small machining units were selected as sample frame. First industry experts were approached to get an overview about of the industry; three such detailed interviews were conducted. Subsequently entrepreneurs were interviewed who claim to have grown (in auto component business) and have adopted some kind of innovation(s) for meeting the customers' needs. Theoretical Sampling method was chosen and selecting fresh entrepreneur was discontinued after reaching saturation of information. Theoretical sample for the current research consisted of ten entrepreneurs.

The interviews were semi-structured. Eight key areas reported by Wiklund *et al.* (2003) which affect growth of small organisations, positively or negatively, were selected. Memos were prepared as interviews progressed. Also simultaneous preliminary analysis of data was carried out (as open coding). Summarized tables were prepared for each segment of data.

Two central themes for growth strategy planning: (a) single customer and location specificity; and (b) multiple opportunities at multiple locations emerged as first level of analysis. For axial coding detailed information were coded around these themes—'focused customer' and 'multiple opportunities'. Under each segment the causal conditions were also reported along with the contextual conditions explained in these themes.

## SUMMARY OF DATA

### GROWTH

The entrepreneurs of small manufacturing organisations engaged in machining and related activities at Pithampur and Indore try to understand the cyclical demand pattern of automobile sector. Although the duration of high demand period are estimated differently, their own understanding about growth opportunity and the internal capability and planning influence their decisions on future investments.

**Market and customers:** The entrepreneurs consider increase in sales turnover as an important parameter to describe growth. The first group of entrepreneurs are dependent on single customer (Eicher Motors in most of the cases) and do not consider independently exploring market for their products. However the second group operate in wider market base, desirous of exporting to other Asian markets.

**Competition:** The entrepreneurs of the first group operate with local suppliers and work for improving process efficiency and cost reduction, to remain competitive. The second group carry out data based industry analysis for the same purpose.

**Product focus:** The first group receive technical specifications from the customer for new product development. They commit to customer to cater the current needs and seek opportunity for higher value addition in the same product, for better financial returns. The second group search for new product, segment and market opportunities. They consider opportunities for value addition in the specific industry or segment.

**People focus:** Both the groups face shortage of skilled manpower. The first group feels this as an impediment for growth as the entrepreneurs need to spend a lot of time and other resources to train the recruited locals to make them fit for the jobs. The second group also recruit locals at various locations and train them.

#### ATTITUDE TOWARDS GROWTH

**Workload of entrepreneur and tasks:** The entrepreneurs do not think that growth in their businesses adds to their individual work loads. They share the work load and delegate responsibilities, to a limited extent.

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

**Financial outcome:** The entrepreneurs of both the groups believe that exercising financial discipline is important, for growth. The first group mostly reinvests their internal savings.

**Strategic focus:** The first group work in close association with customer and depend on their sales projections. The second group uses data based approach; they carry out their own analysis on market and opportunities, to prepare strategic plans.

**Independence and controls:** The entrepreneurs want to take independent decisions for (strategic) growth planning. They continue to maintain control on the day-to-day operations.

**Risk orientation and rate of growth:** The first group of entrepreneurs want to grow at steady rate and while remaining alert about the risks, they also feel confident about managing the same. The second group desires to grow at a higher rate. They also feel capable about managing the associated risks. Both the groups are capable to investing for growth.

**People competence:** The entrepreneurs depend on skill and competence of their people for growth. They feel that the people should be able to take higher operational responsibilities.

#### STRATEGY PLANNING

**Planning orientation:** The entrepreneurs appreciate the cyclical demand patterns of the automobile and auto component industries. The first group depends on their



customers' sales and demand projection data to make their plans; the normal planning period is 2 to 3 years. They manufacture low volumes and normally manufacture many products for the customer to mitigate the risks associated with demand fluctuations. They remain sensitive to the shortage of skilled manpower and tend to outsource their operations. However the second group focus on industry, market trends and product opportunities to plan for 3 to 5 years. They prepare comprehensive plan based on associated risk and competitive advantages at specific locations. They create internal value chain to share the work load among their own units at various locations and hence overcome the problem of manpower shortage.

**Strategy decision making in auto sector:** The first group of entrepreneurs does not consider growth opportunity in non-auto component sector. They feel that there has been tendency of outsourcing machining operations by automobile manufacturers which is a growth opportunity for them. They see major growth opportunity in infrastructure sector. But the second group sees opportunities in auto and non-auto segments, both. In auto component segment opportunity exists in precision component segment for passenger cars and other light vehicles. In other sectors they see major growth options in retail segment. The first group does not feel threatened from Chinese companies as it does not meet quality requirements. However these entrepreneurs feel threatened of being taken-over by large and growing auto component manufacturers. The group also feels as other sectors (like IT and ITES) offer higher salary auto component sector fails to attract talented manpower. But the second group does not have any such threat perception. Both the groups select vendors and suppliers based on their performances.

**Strategic decision orientation:** The first group follows informal method of strategic planning which high dependence on customer interaction. The second group analyzes the data collected from secondary sources and follow semi-formal system of strategic planning. Most of the entrepreneurs from the first group was already based at Indore or near by places and they subsequently found new opportunities in auto components sector. Although the second group of entrepreneurs were also based at Indore or nearby places, they made strategic choice to locate at Indore or Pithampur. Location of major automobile manufacturers (Eicher and others) influenced their decision. The first group develops products asked by the customer where as the second group makes specific choices at different locations. For strategy planning, the first group consults friends and family members especially while taking decisions on technology selection; the second group do not take any such support as they depend on data based analysis and their own knowledge and understanding. The groups adopt technologies for different reasons. The first group looks for low cost automation to over come the problems of shortage of skilled manpower. The second group depends on the product and market needs. They consider quality, cost and just-in-time delivery important for strategy planning and feel concerned about continuous rise in steel prices. In order to overcome the competitive pressure the first group of entrepreneurs take advantage of close relationship

with customer and sometimes under cut the competitors. The second group of entrepreneurs compete on cost but they also respect competition.

The first group searches for low cost suppliers and feels the need for competent people to support growth. The second group also needs competent people but does not solely look for low cost, consider supplier base. For them quality, capability, capacity are some of the major considerations.

**Finance for expansion and growth:** The first group of entrepreneurs finances their growth needs through internal savings and bank loans. But the second group depends on loans from banks or financial institutions. They take advantage of tax incentives available at various locations but do not depend much on the government. Most of them being technocrats personally involve in product and process development.

**Market, customer and competition:** The entrepreneurs feel that auto component sector provide them a lot of opportunity to grow. The first group operates in niche market with limited or negligible desire to divert in non-auto segment to find high competition from unorganized manufacturers. While the second group develop competitive advantage on account of multiple products, markets and locations, including non-auto related product markets. The first group has varied perception about their customers. Some of them feel that they receive a lot of support from them in process improvement and product development while the extent of support varies. Customers not only extend technical support, sometime they also extend financial support especially during the initial years. On the other hand many remain cautious about the exploitative attitude of customers. However, the second group find their customers highly supportive and receive financial and/or technical know how from them.

#### GROWTH STRATEGY AND MEASUREMENT OF GROWTH IMPACT

**Organization structure:** Both groups of entrepreneurs want to establish formal organization structure but for different reasons. The first group wants to establish image of a professionally managed organization. While the second group feels this is necessary for establishing better relationship with the customers.

**Process and technology:** The first group aims at low cost, high quality and high productivity. The entrepreneurs focus on process improvement and low cost automation. They try to overcome the problems of low productivity on account of frequent product changeovers due to low volumes demanded by customers. The second group also focuses on high quality and productivity. But the entrepreneurs focus on low cost is to remain competitive in multiple markets. They also work for process improvement but do not necessarily look for low cost automation.

**People and knowledge:** Both the groups recruits local talents and train them on the desired skills.

**Supplier management:** Both groups feel that supplier relationship is important and they try to pay them on time to maintain relationship.

**Networking and collaboration outside the organization:** The entrepreneurs from both the groups do not network or collaborate with organizations other than their customers.

#### ASSESSMENT OF SUCCESS IN GROWTH

The satisfaction levels on growth are reported to be different. The entrepreneurs of the first group feel low to moderately satisfied and desire to grow more. The second group feel satisfied on their growth. Though they also desire to grow further and express that their growth is attributed to the team they have.

#### MAPPING GROWTH STRATEGY

Two themes on growth strategy emerge from the open codes of group 1 and 2, respectively—opportunity based on single customer focus, and multiple opportunities focus. The causal conditions within each group are explained below to develop theoretical frameworks (axial coding).

#### FOCUSED CUSTOMER BASED GROWTH STRATEGY MAP

Entrepreneurs depend on single customer and accordingly define their strategy. The principle measure of growth is sales turnover. They work to meet the customer needs and to remain competitive. But small businesses are technologically sensitive and highly competitive auto component segment refrain from any kind of collaboration (Ang, 2008). They maintain close relationship only with the customers to know about the future of indigenisation (Chetty and Campbell-Hunt, 2003). This is also important for capacity utilization of their existing facilities (Figure 1).

They use technology to remain competitive and to reduce dependence on human skills.

The entrepreneurs chose Indore or Pithampur considering the opportunities available to become suppliers to major automobile manufacturers (Eicher Motors Limited in most of the cases). In this way they develop dependence on single customer. Their growth strategy has high correlation with the customer's growth plans and product improvement programs.

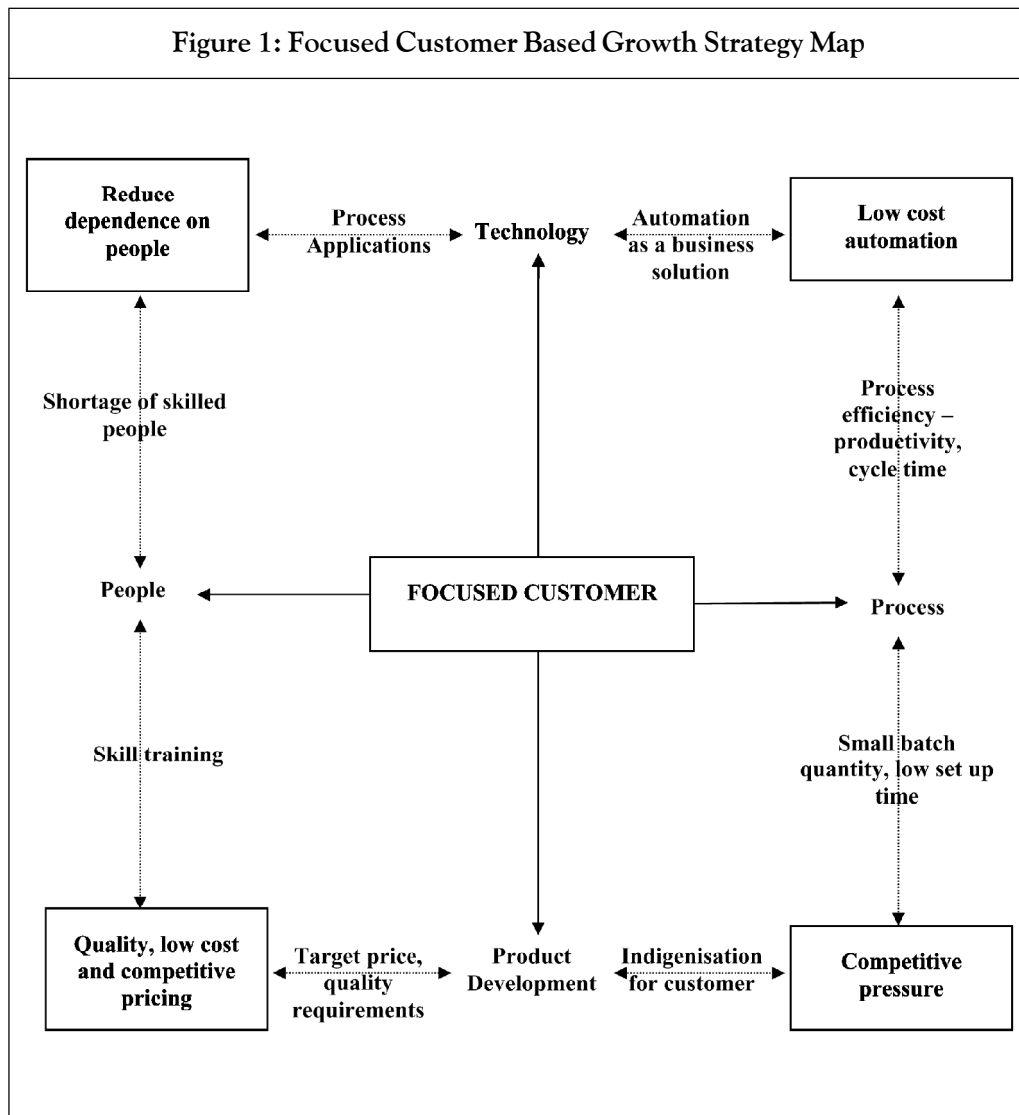
They manufacture high precision products to get price advantage on value addition, as they grow through forward integration (Murray, 1984).

The entrepreneurs personally involve to know from the customers, the opportunities of new product development and to get other market related information. This helps them to stay ahead of their competitors. With process expertise they develop competence to develop many new products as asked by the customers (Prater and Ghosh, 2005). These organizations consider fulfilment of quality requirements of the customers as the

most important. Generally their customers fix up the target price for products and expect them to manufacture at that cost without compromising the quality requirements.

Small organisations try to synchronize their processes to manufacture small batch quantities as demanded by the customers. They develop capability on low set up time and work towards achieving higher productivity and low cycle time as counter measures.

Close interaction with customer provides entrepreneurs gain their confidence and remain competitive (Kotey and Meredith, 1997).



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

Small organisations try to establish partnership with limited number of suppliers, pay them on time to gain their confidence about fair business dealings (Beekman and Robinson, 2004). Due to competitive pressure they do not interact with the competitors, they rather compete and tend to under-cut each other.

Entrepreneurs assess their own success differently on growth. Some feel that they have achieved moderate success while many do not feel in similar way. Limited number of customers, cost pressure and competition are the major reasons for this variation in assessment.

#### MULTIPLE OPPORTUNITY BASED GROWTH STRATEGY MAP

Entrepreneurs work on strategic growth plans while considering markets at multiple locations and industry segments as opportunities. Although they work for increasing sales turnover, such organisations tend to work across industries and markets. They consider selection of location as one of the most important strategic decisions. The decision also depends on systematic analysis of multiple markets (Figure 2).

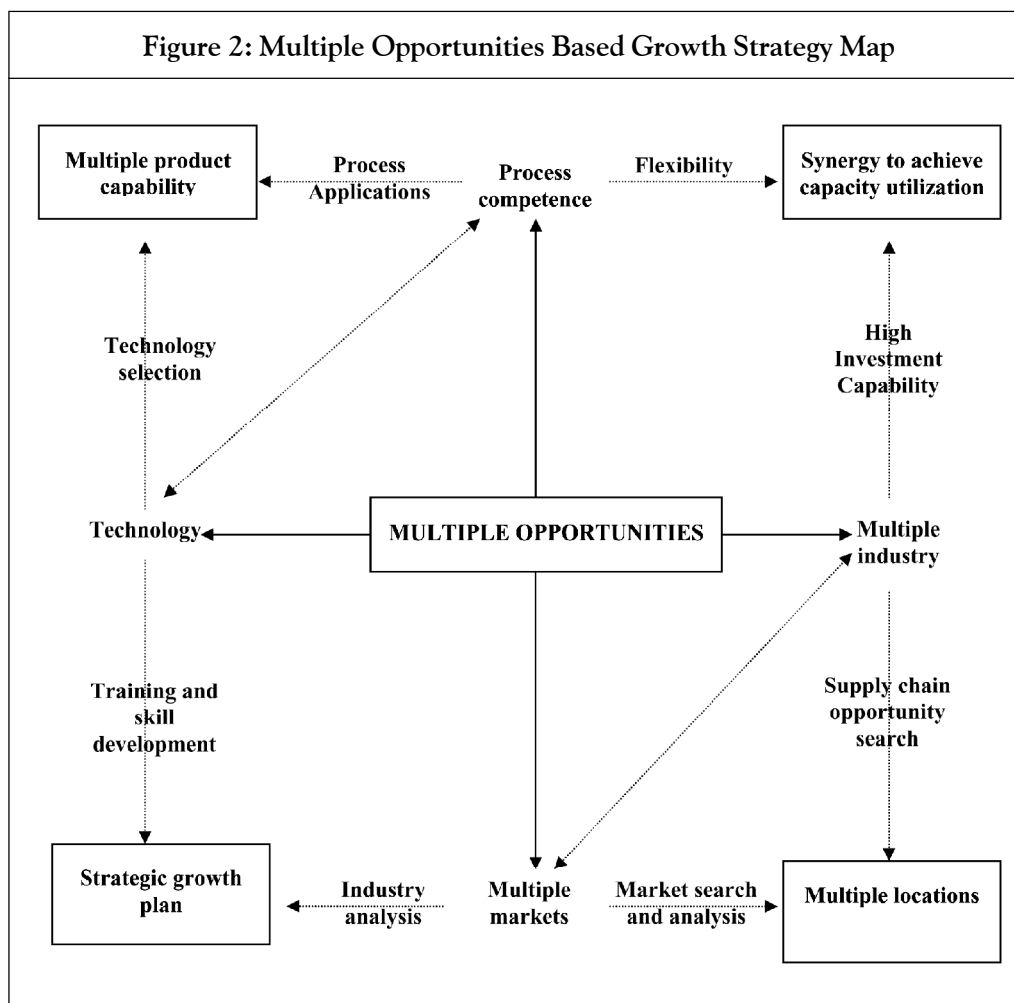
Opportunities of product innovation help them to enter into new customer segments (Kotey and Meredith, 1977; Murray, 1984; McDougal et al, 1994; Chaston and Mangles, 1997; Freel and Robson, 2004; and Prater and Ghosh 2005). These entrepreneurs select multiple industry segments as market opportunity. The principal focus of opportunity search is supply chain advantage and the decisions to locate at specific locations depend on such advantages as understood by the entrepreneurs.

The multiple market-search process involves detailed industry analysis which becomes an important input for strategic growth plan. This contradicts the thesis that small businesses do not engage in market research (Beal, 2000). Technology selection is another dimension for searching multiple opportunities. Training and skill development in specific technology areas help in assessing the competences and organisational capabilities and to implement the strategic growth plan.

Technology selection aims at developing capability for manufacturing more than one product. Technology adoption also develops process competences for multiple products. Process competence develops flexibility to manufacture many products which in turn improves capacity utilization by synergetic approach. In this case high investment capability is an important enabler for improved capacity utilization (Gibbon and O'Connor, 2003).

These entrepreneurs rate their success in achieving growth moderate to high. Considering that multiple market opportunities provide scope for higher level of growth (Pelham, 2000), these entrepreneurs desire to influence the markets through their strategies and still grow to higher levels.

The reason for outside interaction is not limited to seeking information about market opportunity and competition, but also for accessing knowledge resources for making



strategic decisions (Chan and Foster, 2001). This supports the findings of Lechner and Dowling (2003) based on their study on relationship of network with growth and competitiveness of firms that high growth firms make use of external relations. Formal orientation increases interaction of entrepreneurs with their operating environment and also moderates sophistication in strategic management practice leading to better business results (Keats and Bracker, 1988).

### THEORETICAL FRAMEWORKS ON GROWTH STRATEGY

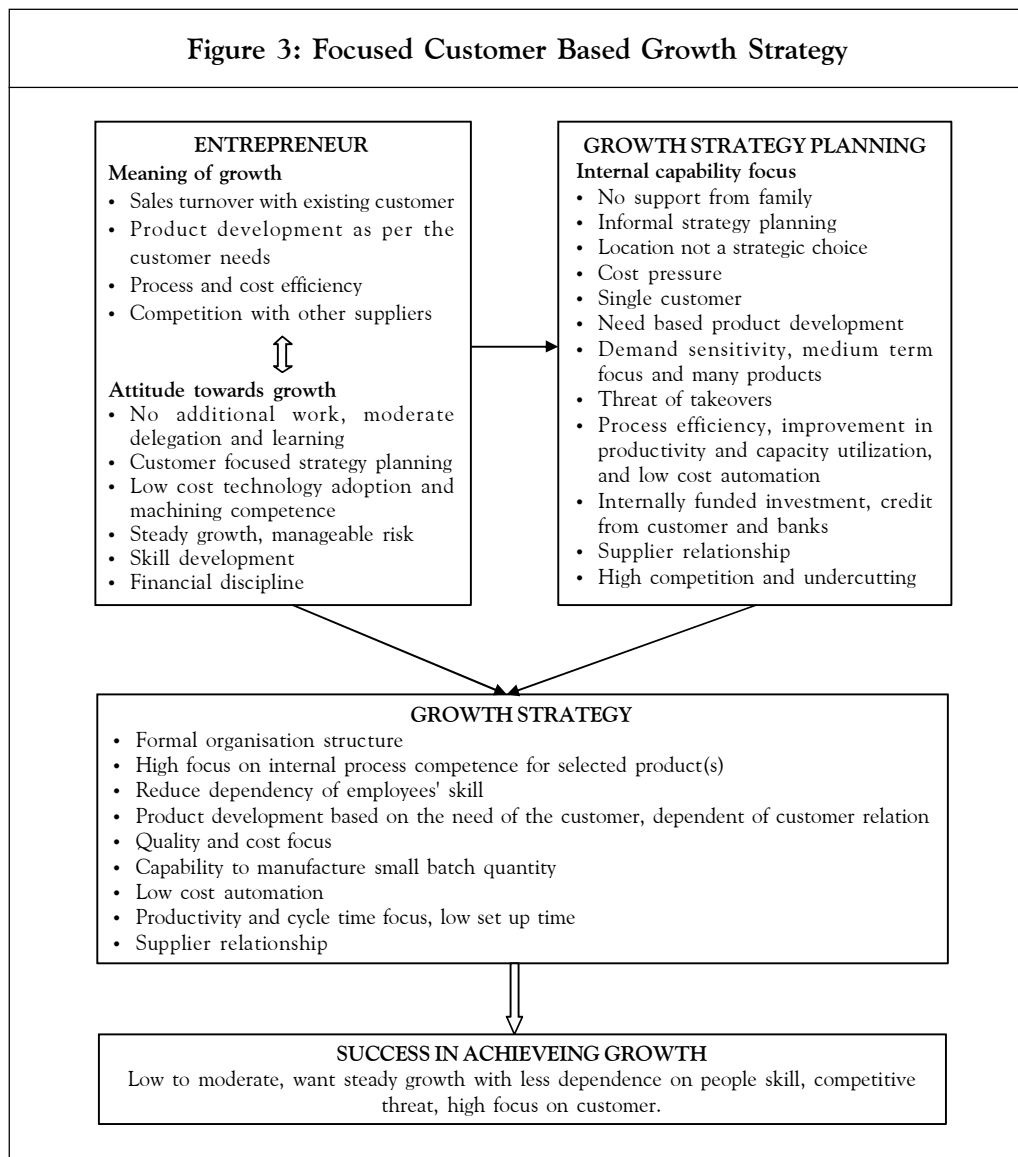
Grounded in the data and with further analysis two theoretical frameworks (selective codes) on growth strategy in entrepreneur managed small organisations are presented. Irrespective of growth strategy adopted, the entrepreneurs, desirous to grow, demonstrate some common attitude. As individuals, they do not consider growth as additional work and work for enhancing quality, and value for their customers. They take charge and lead their organisations with moderate delegation of tasks. Though for different

reasons, they invest on automation and technology and maintain financial discipline in their organisations.

### FRAMEWORK 1: FOCUSED CUSTOMER BASED GROWTH STRATEGY

Entrepreneurs depend on single (or limited number of) customer. This leads to establishing close relationship and also higher competition among themselves. Major focus remains on low cost and high customer relation.

These small organisations grow by increasing sales turnover with the existing customer. This is also about finding opportunity for new product development and/or indigenisation of auto components. Due to market pressures on cost and quality



automobile manufactures expect continuous improvement; hence these entrepreneurs consider process improvement as one of the priorities for quality improvement and cost reduction.

Due to sole dependence on single customer growth strategy of these small organisations depend on the growth plans and future projection of their customer. They look for slow and steady growth. They invest the internal surplus on technology and while adopting low cost technology to remain competitive.

The entrepreneurs adopt informal strategy planning methods and plan for shorter periods. They do not take any informal or professional support for strategy planning. They develop operational flexibility to manufacture small batch sizes to overcome the effects of demand fluctuations. They also develop competence to reduce process idle time to for frequent product changeovers which results due to low volume and higher product varieties. Thus productivity improvement, lower set up time and high capacity utilization remain major attention for their organisational competence. They remain sensitive to the fact that their capability to manufacture limited scopes of operation they are vulnerable to takeover by medium and large organisations considering business consolidation. Due to limited market exposure and higher competition, the entrepreneurs do not collaborate; in some cases they undercut each other to remain competitive.

The critical success factors of this strategy are agility and cost efficiency. The entrepreneurs feel less satisfied with their success due to ever increasing pressure from their customers. They manage the demand fluctuations effectively because of only one (or limited) customer. They gradually reduce dependence on people and try to automate the processes in order to replace the skills with low cost technology. They depend on local skills and talents availability of which often remains a problem.

#### FRAMEWORK 2: MULTIPLE OPPORTUNITY BASED GROWTH STRATEGY

Entrepreneurs adopting this kind of strategy carry out systematic data based analysis of various opportunities. The core of this strategy is expansion orientation with multiple options, i.e., multiple products, multiple industries, multiple product and multiple locations.

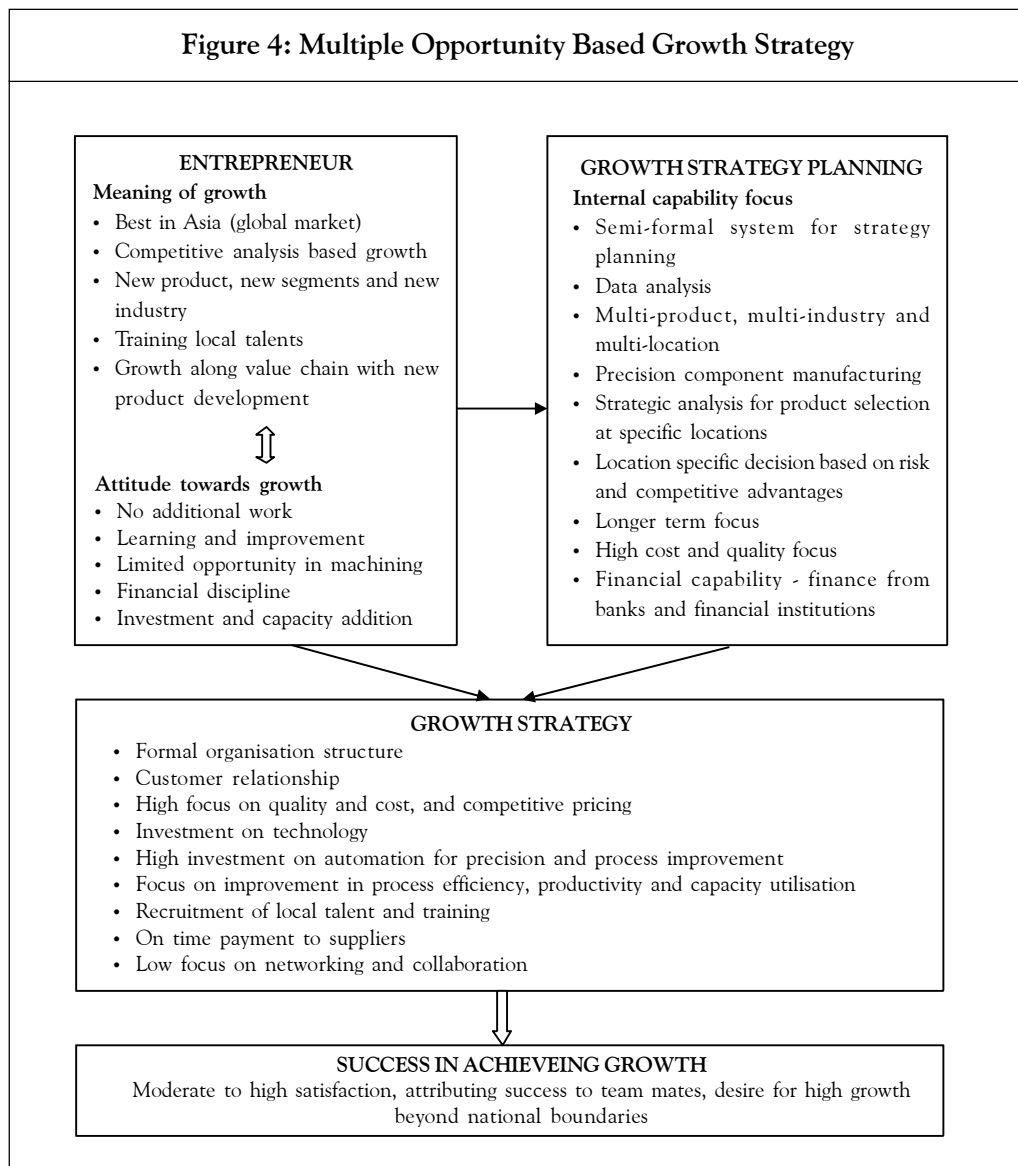
Entrepreneurs define growth as global scale operations; in immediate term they aspire be at least the best in Asia. They develop competence to study and analyze the comparative advantages so as to take decision on new industry, market or product segments. Options of new product development along the value chains of the existing customers is one of first options these entrepreneurs try to explore as this is easy and does not need detailed market search. Sourcing and development of local talents to make them suitably employable for their organizations is an important consideration for them to grow.

The major reason of searching opportunities for expansion is the perceived saturation in the existing market and the resulting competence. Hence these entrepreneurs



search for newer options in newer but related products or processes. They demonstrate strong learning orientation. They maintain higher standards of financial discipline and are always ready to invest in capacity expansion and develop people to develop newer competences.

These entrepreneurs of small manufacturing organizations adopt semi-formal methods of strategy planning. They develop high dependence on data. The strategic decisions on product, market, industry and locations are based on data based analysis. On the other hand they also depend on their own understanding about the future trends. They look for opportunities to move up in the value chain of existing customer



while developing competence in high precision and high value product segments, to achieve improved performance levels. Most of their strategic decisions involve long term focus and high investments for which funds are sourced from banks and financial institutions. Process and technology selections are based on cost advantages and quality requirements of their customers.

Major input for their business growth is customer relation. These small organizations work strive to build formal organization structure. They also make consistent efforts develop competence for manufacturing high precision products at low cost, for competitive pricing. Due to high investment requirements they try to maximize the capacity utilization and work for improving process efficiency and productivity. The entrepreneurs try to establish maximum control on the supply chain. They also develop supply chain network among their own manufacturing units at various locations depending on competence at each location. This also adds to better capacity utilization. They recruit local talents and train them. They try to develop independent team at each location. On time payment is considered to be one of the important ways to maintain good relationship with the suppliers. They feel that networking and collaboration with suppliers and customers are important only for business purpose.

Entrepreneurs feel moderate to highly satisfied with their success on growth, however they also desire to grow at global scale. They attribute the success to their teams.

## CONCLUSION AND LIMITATIONS

In this paper a comprehensive view right from understanding of growth by small business entrepreneurs, their attitude towards growth, strategy, and success in achieving growth has been presented. Theoretical frameworks on entrepreneurial growth strategy were developed with the help of an empirical study on small organisations located at Central India and engaged in machining and related business for automobile manufacturers. Highly competitive auto component sector has provided the appropriate context in which two important dimensions of strategy in small business organisations were addressed—growth and entrepreneur. The paper has taken a fresh view of growth strategy considering that entrepreneurs carry different meanings about growth. The article was founded on the premise that entrepreneur managed small business organisations demonstrate a distinct strategy-making process characterized by experimentation, innovativeness, and risk taking (Dess *et al.*, 1997) and two strategy frameworks namely focused customer and multiple opportunity were presented. In the backdrop of the macroeconomic conditions and industry environment the probability of growth varies, so is the interpretations of the environment by the entrepreneurs concerned, their analysis and the search for growth opportunities which is influenced by their own personalities (Kangasharju, 2003).

The paper attempted to present growth strategy of small organizations engaged in machining related work and have grown in auto component business. The paper has

derived strong influence from 'subjectivism' as proposed by social scientists and management scholars that entrepreneurs make choices and takes decisions about strategy, and their decisions are not fully determined by external events (Foss *et al.*, 2008). It also confirms that higher level management (the entrepreneurs) influences in shaping strategy in which industry has moderating impact (Simsek *et al.*, 2010). While the paper is a step forward in explaining RBV in small businesses managed by entrepreneurs, it contributes to literature and practice, both. In literature it confirms overlaps among theories of strategy, economics, entrepreneurship and small business (Nerur *et al.*, 2008). In practice the paper provides useful leads for entrepreneurs (the strategist in small business organisations) for developing business models (Zott and Amit, 2008). Strategic management in small businesses is learning driven hence results in many incremental innovations, as organisations develop market exposure learning becomes intense and works as moderating factor in strategy planning (Gibbons and O'Connor, 2005). The paper reinforces and further explains that as competitive pressure increases the need for developing organisational capabilities and skill base beyond the entrepreneurs' capabilities become almost inevitable (LeBrasseur *et al.*, 2003).

This paper makes three major contributions to academic literature. The most important one is that it challenges the assumption that entrepreneur may think alike about growth which is close to the argument about resource heterogeneity in the literature on strategy (under RBV). It challenges the common belief that sales and financial results are the sole indicators of growth, because they derive different meaning about growth opportunity in a given industry and/or market conditions. Third, since entrepreneurs have different attitude towards growth, some of them may not take decision to grow it may add additional work about which they may not feel motivated. However others may feel motivated to accept newer challenges and try to achieve new levels of performance. Fourth, auto component represent high growth and highly competitive industry business environment, almost with no entry barrier, the small organizations in this sector can not grow without strategy plan. Though the paper does not claim conclusive theoretical frameworks which can be generalized it certainly provides a strong basis for generalization because of grounding in auto component sector.

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