

## UNDERSTANDING THE MOST EFFECTIVE STRATEGIES IN PROMOTING SMALL BUSINESSES IN INDIA

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### ABSTRACT

The small business landscape in India is diverse and dynamic, playing a crucial role in the country's economic fabric. Small and medium-sized enterprises (SMEs) are a significant contributor to employment generation, fostering entrepreneurship, and promoting inclusive economic growth. These businesses operate across various sectors, including manufacturing, services, and retail. Small businesses in India encompass a wide range of industries, from traditional crafts and agriculture to modern technology and services. India's small business sector reflects a vibrant entrepreneurial spirit, with individuals often venturing into diverse niches to meet local and global demands. Small businesses in India are becoming more interconnected with the global economy, participating in international trade and benefiting from global supply chains. Understanding the nuances of the small business landscape is crucial for policymakers, stakeholders, and researchers to develop effective strategies for sustainable growth and economic development.

**Keywords:** Small and medium enterprises , Economic development , Entrepreneurship, promoting, Innovation, Funding

### INTRODUCTION

Small businesses are the engine of growth and development of any economy, generating jobs and income, stimulating competition, sources of innovation, creating possibilities for business ventures and etc. (de Kok et al., 2011). The world economic crisis, which caused series of unexpected events, further demonstrated the vulnerability of large companies and the consequences, and even more revealed the importance of small business for economic recovery in the post-crisis period. The huge presence of small businesses in any economy provides a basis for reviewing various aspects related to their operations. In terms of increasing the importance of small business for the recovery and growth of world economy, growth of small businesses imposes itself as a relevant and important research area. Additionally, the high failure rate, i.e. mortality of small businesses, increases the interest towards overcoming issues related to growth of small business. The Republic of Macedonia is a relatively young economy that is still struggling with the consequences of the transition process. Many countries in Southeast Europe, with close socio-economic background and similar current conditions, have macroeconomic policies dedicated to the segment of small and medium sized enterprises, but unfortunately the actual results are mainly still missing. The failure of many small businesses to achieve growth and development is quite common. In first line, this has been caused by the problems related to the Macedonian economy, enhanced by the troubled transition period, but also the lack of knowledge, experience, guidance in terms of strategies for achieving growth and development of small businesses.

Growth is considered as a phenomenon which is determined by various factors, in and out of control by the owner or the management of small businesses. One of the main problems in analyzing growth of small business is that most of the research considers the extent of growth, while usually not perceiving the existence of substantial qualitative differences in how businesses achieve growth (McKelvie and Wiklund, 2010). An additional problem concerning the issue of growth, is typically the attention on general factors that affect growth, associated with the basic characteristics of business, also known as demographic factors, such as size and age of business, form of organization, ownership, the type of industry in which it operates, and so on (Wiklund et al, 2009). These factors are often beyond the control of the owners of small business, especially those related to growth and development. So the question is: which are the factors that are associated with particular activities of owners of small businesses, which could affect growth of small business. In this regard, relevant research has specified the necessity to make a more thorough analysis of the strategic and competitive characteristics of small and medium family firms, as well as the factors that condition them in both financial and economic terms (Scholes et al., 2010).

Thus, the purpose of this research is to examine the impact of factors, related to important strategic characteristics, affecting growth of small business, particularly considering a specific economic and cultural context related to a developing economy and post-socialist country experiencing transition, as is the case of the Republic of Macedonia. The research model is designed to test the impact of five potential factors that could affect growth of small business, identified and selected using the theory and the most relevant models of life cycle of small business growth. The theoretical and practical implications of this research refer to identifying and stressing important aspects of performance that can stimulate the growth of small business, and to apply the model of research on growth factors in a specific economic and cultural context of developing economy and post-socialist country experiencing transition.

## **LITERATURE REVIEW**

### ***Theoretical Background of Small Business Growth***

The literature recognizes many discussions aimed at understanding the phenomenon linked to growth in respect of small businesses. Different approaches and models related to growth imposed the need for their classification. Approaches to the study of small business growth may be divided into six broad groups: stochastic; descriptive; evolutionary; resourcebased; learning; and deterministic (Dobbs and Hamilton, 2007). Initially, stochastic models assume that there are too many factors that affect growth and that there are no specific factors with dominant effects, which explain the realization of growth (Farouk and Saleh, 2011; McMahon, 1998). The growth of small businesses is considered as random event and cannot be predicted using a set of variables. Contrary, the deterministic models evolved over time focusing on identifying a set of internal and external variables that can explain the growth of small businesses by identifying certain characteristics, strategies and practices related to growth. Besides these models, the literature also developed the so-called life-cycle models that explain growth through the stages which businesses experiences in their evolutionary development, and in that context, growth and development are discussed considering the principle of life-cycle development (Fadahunsi, 2012). Each of the individual stages, which the business passes through in its development, has its own features and significantly affects how the business can achieve growth.

The approach of understanding small business growth based on lifecycle development, trunks from an outbreak of development models that first appeared in the literature between 1969 and 1972 and which continue to emerge in more refined forms (Steinmetz, 1969; Filley and House, 1969; Greiner, 1972; Carroll, 1974; Churchill and Lewis, 1983; Scott and Bruce, 1987; Greiner 1998). One of the first authors in this era, analyzing the life cycle of organizational growth is undoubtedly Greiner, (1972). Considering this model, enterprises are moving through five separate stages of growth. Each of these stages include a relatively peaceful period of growth, possibly followed by some managerial crisis. So the five stages according to Greiner (1972) are: growth through creativity, growth through direction, growth by delegation, growth by coordination and growth through collaboration. Within the model the following five key dimensions (factors) can be distinguished, which form the model of organizational development: the age of the organization; size of the organization; stage of evolution; phase of the revolution; and the growth rate within the industry where the organization is active. Besides the already mentioned model, very relevant and often discussed is the model of Churchill and Lewis (1983), based on five stages, and an attempt to overcome the shortcomings of previous observations. The model consists of the following stages: existence, survival, success, take-off and resource maturity. Each stage of the model is characterized by an index of size, diversity and complexity, described by five management factors - management style, organizational structure, level of formal systems, the main strategic objectives and the involvement of the business owner. Scott and Bruce (1987) suggest that as a small business develops it moves through growth stages, each with its own distinctive characteristics. The model isolates the five growth stages, the sort of things that will precipitate crises and the major strategies that should be considered at each stage. It consists of the following stages: inception, survival, growth, expansion and maturity.

### ***Stages of small business growth***

Different models representing different stages of development and the transition from one to another, explain the main challenges faced by small businesses that actually represent the important factors that might determine their growth. Practically, each stage of small business development is seen as separate perspective of small business growth. However, it should not be expected these models to exactly predict what will happen during the development of a business. Their value consists in its ability to assist in diagnosing organizational problems and bottlenecks that the small business owner should take into account, if there is an intention to further realize growth. In order to identify which aspects of growth and development of small business might be identified as important, in addition will be presented various stages of development of small business, with a focus on the key factors determining growth of small business in each stage (Greiner, 1972; Carroll, 1974; Churchill and Lewis, 1983; Scott and Bruce, 1987)

### ***Initial stage of development (stage of existence) of small business***

Every business begins its existence with the first step of being established, so this is the period when the business is also focused on creating a product and a market. Within this stage human resources are provided, entrance on key markets is initiated and some financial results are indicated, while gaining trust of customers (Churchill and Lewis, 1983). Decisions are mostly made at an operational level, and tied to

short-term return on assets and minor, almost non-existent, strategic thinking. Formal planning systems are limited or non-existent in some cases. The business has a small number of employees, and accordingly there are no major opportunities for delegating certain tasks. The strategy of the business is aimed at long-term survival, facing current challenges.

### ***Survival stage of small business***

Within this second stage, small businesses start to stabilize their growth and built on early success, while using the benefits of their efforts so far. However, for the most part, this stage is characterized by increased sales and also increased complexity (Scott and Bruce, 1987). The development of the system is minimal. Formal planning is mostly down to the projection of cash flows. Initially established policies and procedures, and management of the business takes more and more time and commitment of the founder. Those businesses that will survive the first stage by setting up appropriate management usually encounter a period of sustainable growth.

### ***Success stage of small businesses***

The dilemma faced by owners during the transition at this stage is the following: Whether to exploit the achievements of the business and to expand, or maintain the business stable and profitable? In the sub stage, called sub-stage success, the business achieves good economic health, it is large enough, and the market penetration is at a sound level (Churchill and Lewis, 1983). The owner reflects more intensive on the needs of customers, followed by the increased efforts to improve standards of quality in terms of business. Planning in the form of an operating budget supports functional delegation. In terms of the stage success, the sub stage growth implies to a different orientation to long-term prospects of the business (Churchill and Lewis, 1983). The growth of the business, imposes the need for a greater production capacity, greater quantity in terms of operations, requiring knowledge and experience. Operational planning, as before, refers to the budget, but strategic planning is more detailed and largely includes the owner. Characteristic of this stage is that there is a tendency for businesses to make a progressive change from operational to tactical thinking. However, there is still no adequate level of strategic thinking, although the desire to expand activities influences the change towards strategic thinking.

### ***Take-off stage of small business***

This stage involves a continuous process, followed by a planned expansion in order to increase market share, turnover and profit. Despite the expansion, the key objectives of this stage are related to the growth of business capital (Butler, 2006). The question is whether there will be sufficient cash to meet the high demand which implies growth. The systems are affected with growth becoming more extensive and sophisticated. At the same time, operational and strategic planning are implemented and involve specific managers. Decisions at this stage are more strategic and tactical, and operational decisions are delegated to the appropriate supervisory levels. Over the years, depending on the industry and with the help of technology, especially the Internet, new tools are developed that further facilitate the development of small businesses.

***Resource maturity stage of small business***

The biggest concern of the business that enters this stage is the consolidation and control of financial gains, caused by rapid growth and secondly, maintaining the advantages of the small business, which means flexibility in response and the entrepreneurial spirit. In this part of development, the business typically focuses more attention to efficient management of products or services, and not so much to expansion of activities. The business must extend its management forces quickly enough to eliminate inefficiencies, which can produce growth and bring the business to another professional level using the tools as: budget, strategic planning, management by objectives and standard cost systems. Educational programs are used for training managers in the area of behavioral skills to achieve better teamwork and conflict resolution (Greiner, 1972). The business at this stage has sufficient manpower and financial resources to engage in detailed operational and strategic planning.

**INTEGRATION OF STAGES AND IDENTIFICATION OF MAIN GROWTH FACTORS**

Integrating the above presented stages of growth of small business and the corresponding key factors for success in each stage, several important dimensions for research can be identified. First, the *resources and processes of small businesses*, which help them perform the necessary operational day to day activities. As indicated, in the initial stage the business obtains human resources, resources related to financial and technical ability to produce products and services and to ensure the entrance on key markets. In later stages of growth, businesses consider resources that are necessary to improve standards related to quality, efficiently managing processes and the ability to provide funds to finance growth. Second, the *skills and knowledge possessed by the owner and employees* of the small businesses. With the growth of the enterprise, the need for larger production facilities, higher quality production, the use of innovative and technically advanced processes, requires the creation and development of specific knowledge and experience. Educational training programs for managers and employees are used, new tools and instruments that encourage the progress of small businesses are developed. Third, the *strategic approach and orientation* of small business. As small business ranges from initial to advanced stages of their growth, the focus from operational activity changes to tactical and strategic thinking, of course in case the business aspires to progress to the further complex stages of development. The decisions of the owners/ managers of businesses that grow are more strategic and tactical, whereas operational decisions are delegated to the appropriate supervisory levels. Fourth, the *degree of sophistication of planning* in the business. As the volume and complexity of working through the stages of growth of the business increases, there is emerging the need for more sophisticated planning concerning processes and resources. Planning was mostly down to the projection of cash flows and budgets, through the initial formation of certain policies and procedures, to strategic planning, so in time the planning process in small businesses is getting more formal and sophisticated. Hence, sophisticated planning can be considered as an important determinant which can affect growth of small business. Fifth, the *nature of the external environment* in which small businesses operate. The type of industry and its attractiveness, customers, competition, strengths and limitations, and above all, the approach of small business towards change, to a large extent can determine the growth and development of small business.

## RESEARCH MODEL DESIGN

The research model is designed to test the impact of five potential factors, which could affect the growth of small business. These factors are identified and selected using the theory of life cycle models of growth (Greiner, 1972; Carroll, 1974; Churchill and Lewis, 1983; Scott and Bruce, 1987). Following the transformation of small business in each stage of the life cycle, containing important dimensions of operations that are commonly mentioned in close correlation with growth and development of small business, the following factors are identified as the most relevant and prevailing: resources and processes of small businesses; skills and knowledge that are possessed by the owner and employees of small businesses; strategic approach and orientation of small business; the degree of sophistication of planning; and the nature of external environment. In fact, the key factors for success in each stage, and hypothetically the possible small business growth determinants, are identified through integration of the above presented stages of growth of small business in a conceptual framework, i.e. research model of this study.

The growth of small business was analyzed in similar manner in other empirical studies in this field. In this regard, besides the general factors that affect growth, associated with the basic characteristics of business, also known as demographic factors, such as size and age of business, form of organization, ownership, the type of industry in which it operates, and so on, relevant studies have specified the necessity to make a more thorough analysis of the strategic and competitive characteristics of small business (Scholes et al., 2010). As it is suggested in the research model of this study, where the focus is directed on investigating important strategic characteristics that could influence small business growth, Wiklund et al. (2009) investigate the growth from five different perspectives with strategic orientation, as follows: resources, strategic fit, environment, entrepreneurial orientation and growth attitude. Fadahunsi (2012) reviewing the fundamental approaches to small business growth in order to develop a framework for analyzing the growth process in small firms, as far as management and strategies are concerned, suggests the following factors influencing small firm growth: ability to leverage external support and technical resources, the firm's ability to engage in long-range planning activities, developing distinctive marketing strategies, as well as training of employees and management.

Figure 1 presents the model which research is based upon and should serve as a concept for testing the hypotheses. The graph also presents the variables used for expressing and measuring the theoretical construct, i.e. each of the five potential growth factors. The theoretical constructs of *resources and processes* of small business, as well as the *nature of the external environment* are expressed using perceptions of the owners of small businesses about the limitations in the internal and external environment of the business. It is very common in other studies, limitations i.e. barriers in the internal and external environment to be considered when important strategic dimensions are subject of research. Practically, the successful implementation of strategic decisions, to a large extent might depend upon the limitations in the internal and external environment of the firm (Beer and Eisenstat, 2000; O'Regan and Ghobadian, 2002). *Skills and knowledge* possessed by the owner and employees of small businesses are expressed and measured using two variables: additional forms of education of the owner and acquired special skills and knowledge of employees.

Many studies are often linking the level of education of the entrepreneur in terms of growth, including formal and informal education, and even experience and capabilities (Federico et al., 2012, Ucbasaran et al., 2008). Also, many studies stress the importance of the informal mode of transmission of different experiences and sharing knowledge, organizing internal training, as well as creating a culture of sharing knowledge among employees of small businesses (Shah et al. 2013; Savery and Luks, 2004; Harris and Helfat, 1997). The *strategic approach and orientation* of small business are expressed through the developing a strategic plan. The presence of a strategic plan in the business might indicate the existence of strategy with certain accompanying elements such as vision and mission, which in turn could be seen as an indicator of the existence of a clearly built strategic approach and orientation towards long-term positioning and building competitive advantages of small businesses. There are studies where the incidence of strategic management in a firm has been measured by its final products: vision, mission, strategic objectives and strategies (Lindsay and Rue, 1980; Al-Shammari, 2008), or by creating a strategic plan (French et al., 2004; Geller, 2007). The level of *sophistication of planning* is expressed and measured by the application of planning techniques. There are many studies in the field of business planning, where planning tools and techniques are used as evidence of the practice of business planning (Elbanna, 2008), or furthermore the usage of planning techniques are considered as one of the key indicators for formal and sophisticated planning activity in a firm (Glaister et al., 2008).

### TESTING HYPOTHESIS

In addition are highlighted different states that set relations and possible impacts of the examined factors related to growth of small businesses:

#### ***The resources and processes of small business***

As noted this factor is researched through limitations in the internal environment. Practically, through the evaluation provided by the owners of small businesses regarding the limitations in their internal environment, actually it has been assessed how a business disposes the resources necessary for stimulating growth, or how their deficiency can occur as a factor that would impact growth. Proper evaluation and analysis of resources determines the ability of the business to survive and grow (Kraus et al., 2006). Particularly it can be stressed, that the possession of certain technical resources can contribute as a factor to overcome the disadvantages associated with the size and the market (Lee et al., 2012). In order to expand his or her business, the small business manager, besides the ability to secure the resources needed for growth, must have the capability of developing the organization (Covin and Slevin, 1997; Sexton and Bowman-Upton, 1991). Zajac et al. (2000) noted that previous configurational research in this field has tended to emphasize environment–structure–strategy relationships, at the expense of examining how firms can use their strategy to align organizational resources with the opportunities and threats of the environment.

***Hypothesis 1: Increasing limitations in internal environment adversely affect growth of small business.***

#### **The skills and knowledge possessed by the owner and employees.**

**Additional forms of education of the owner.** As noted this factor is expressed and measured using two variables: additional forms of education of the owner and acquired special skills and knowledge of employees, due to which are examined two

hypotheses being intertwined. There is a belief that entrepreneurs who are educated and have the required skills, discipline, motivation, information and confidence reach higher growth rates in business (Ucbasaran et al., 2008). Additionally some authors stress that growth of small business is dependent upon the small business manager's capacity to manage growth (Sexton and Bowman-Upton, 1991). Greater human capital of small business founder is likely to enhance organizational performance, as it increases the chance that the small business manager makes correct decisions and conducts proper activities (Boone et al., 1996).

**Hypothesis 2a: Increasing owner's non-formal education positively affects growth of small business.**

**Special skills and knowledge of employees.** Knowledge is one of the basic elements that enable long-term growth and development. So, no matter whether they are employees or management team members, knowledge is needed and stimulates growth. Sharing information and appropriate management of knowledge is essential for achieving efficiency and creativity during growth (Shah et al. 2013). Some studies indicate that enterprises that have expressed intention to stronger growth are more likely to be more strongly involved in different types of training directed at increasing the knowledge in the business (Savery and Luks, 2004). The skills and knowledge that are specific to certain businesses could become a competitive advantage of the entrepreneur or business, that is very difficult to imitate and ensure long-term growth and business development. (Harris and Helfat 1997). Some authors (Robson and Bennett, 2000) provide empirical evidence of a positive association between employee skills level and firm growth. The frequency of an organization undertaking workforce training has been reported to be positively related to firm size (Storey, 1994).

**Hypothesis 2b: Increasing skills and knowledge of employees in the enterprise positively affect growth of small business.**

**Strategic approach and orientation of small business.**

This factor is expressed and measured through a variable related to developing a strategic plan. Failure in terms of strategic thinking, managing or allocation of resources can create problems for businesses in terms of growth (Bhide, 1996). The strategic plan is perceived as one of the structural elements in terms of achieving long-term growth. Some empirical studies have also begun to explain small business performance – measured as growth in

profitability – in terms of the degree of fit between the resource-base and the strategy of the business (Edelman et al., 2005). The source of strategy in small business is most likely to arise from human capital resources, capabilities, and competencies (Hitt and Reed, 2000).

**Hypothesis 3: Dedicating greater attention to the development of a strategic plan, positively affects growth of small business.**

**The degree of sophistication of planning.** Any enterprise regardless of size has some form of planning (Kraus and Kauranen 2009). Planning could have significant implications for small businesses. Failure in terms of planning may result in the complete failure of the business. Where formal, long-term planning is present in small business, it is positively related to the tendency to growth (Masurel and Smith, 2000). Research demonstrates a consistent, positive relationship between the extent of



planning activities and the performance of small businesses (Robinson and Pearce, 1984). Planning is often considered to be a crucial element in small firms' ability to survive and grow (O'Gorman, 2000).

**Hypothesis 4: Dedicating greater attention to the sophisticated planning process positively affects growth of small business.**

**The nature of external environment** is expressed and measured through the limitations in the external environment. Many theories proposed and empirically supported the consideration that organizations are affected by their environments (Aldrich and Wiedenmayer, 1993). As previously stated, the market, competition, opportunities, limitations and key elements of change in the external environment, to a large extent can predetermine the growth and development of small businesses, or appear as an important factor of growth. The specific industry environment in which organizations operate can have an impact on the strategic direction of a firm (Miller and Friesen, 1984). In many cases the environment can affect the performance small business and thus constrains growth. Some attempts are made the external environment to be included as the central and most important factor that explains the growth of small businesses (Kangasharju, 2000). Very often the choice of environment is more critical to growth than strategic choices concerning behavior within that environment (Hawawini et al., 2002; O'Gorman, 2001).

**Hypothesis 5: Increasing limitations in the external environment adversely affect growth of small business.**

## METHODOLOGY

### *Analytical approach*

In testing the hypotheses multiple linear regression was used to determine the direct relationship between the dependent variable, growth and six independent variables grouped into five constructs: the resources available to small businesses through limitations in the internal environment; skills and knowledge possessed by the owner and employees of small businesses expressed through: additional forms of education of the owner and the special skills and knowledge of employees; strategic approach and orientation of small business expressed through the development of a strategic plan; the degree of sophistication of planning expressed through using planning techniques; and the nature of the external environment through limitations in the external environment. There are studies in literature that have analyzed growth using the regression analysis i.e. the direct or moderated relationship between the growth and its hypothetical predictors. Davidsson et al. (2008) analyzing the small business growth in Sweden, conducted regression analysis for relative effect on the dependent variable, i.e., business growth rate. Unlike this research, they used stepwise regression and different growth predictors (age, business size, overall enterprise size, industry sector, change in industry sector, legal form, change in legal form, ownership governance, change in governance, international activities, location, change in location), mostly focused on demographic characteristics of the small business. Wiklund and Shepherd (2003) examining the effect of growth aspirations and group of control variables (human capital, financial capital and environmental dynamism) on growth, use hierarchical regression analysis.

### ***Questionnaire and data collection***

After preparing the questionnaire and the testing phase, the questionnaire was distributed in several ways: in person submitting the questionnaire in printed form to random businesses, electronically by submitting the questionnaire electronically and also the questionnaire was placed in electronic format on on-line link through which it was also submitted to the respondents. The questionnaire contains 26 questions where nine are Likert scale with five points. The remaining questions offered a choice between several options, while respondents were asked to choose an option that best suits the situation in the business.

### ***Variable operationalization***

**Growth of the small business.** Growth is a specific phenomenon, so examining growth of enterprises involves many elements. Scholars have used a variety of different measures of growth. These measures include, for example, growth of sales, employees, assets, profit, equity, and others (Davidsson and Wiklund 2000; Weinzimmer et al. 1998). Also, in many studies growth and other categories of performance are usually calculated as the relative change in size of the growth measures in last three years (Wiklund et al., 2009). The growth as a dependent variable is determined by the average of the values provided by a Likert scale from 1 to 5 considering seven aspects of growth. Respondents needed within this variable to provide information related to some growth aspects of the business including indicators in the last three years, such as: income, market share, quantity of products and services, the production capacity, the product and service portfolio and number of employees.

**Limitations in internal environment.** Limitations in the internal environment practically refer to lack of important resources in the business. As it was indicated above, human resources, financial resources, resources related to technical ability to produce products and services, resources that are necessary to improve standards related to quality, resources for efficiently managing processes, etc., are the most common resources which are stressed as crucial in the life cycle of small business growth (Greiner, 1972; Carroll, 1974; Churchill and Lewis, 1983; Scott and Bruce, 1987). The internal limitations are represented in the form of continuous variables that can have a value in the range of 1 to 5. The average is calculated from the values assigned to six limitations (cash flow problems; debt problems; lack of process improvements; lack of control activities; too much focus on operational activities; and recruitment and retention of human resources) which may occur as internal limitations.

**Additional education of owner.** The owner beside his formal education has often acquired different types of informal education, such as different trainings, qualifications and certificates which could enhance his skills and abilities. There are different studies that link the level of education of the entrepreneur in terms of growth, including formal and informal education, and even experience and capabilities (Federico et al., 2012; Ucbasaran et al., 2008; Boone et al., 1996). For the purpose of this study, only the level of informal education is taken within the variable of additional education of owner, and it is measured by the average value of the three aspects of informal education (training programs in narrow field, training programs in

wider field and acquired concrete certificates and competencies) each measuring the compliance of the respondents by Likert scale from 1 to 5. The highest score determines the highest level of informal education.

**Skills and knowledge of employees.** Many authors provide empirical evidence of a positive association between employees' skills and knowledge and firm growth. The frequency of an organization undertaking workforce training has been reported to be positively related to firm size (Storey, 1994; Robson, Bennett, 2000). In terms of total knowledge in the business, it is in the form of a continuous variable showing an average value against statements related to the acquiring skills and knowledge in the last 3 to 5 years. The measurement is carried out in the form of Likert scale of 1 to 5. The various statements that should be evaluated are: basic knowledge and skills, special skills, and unique skills and abilities.

**Developing strategic plan.** As it was mentioned above, there are studies where the practice of strategic management in a firm has been measured by its final products: vision, mission, strategic objectives and strategies, or by creating a strategic plan (Lindsay and Rue, 1980; AlShammari, 2008; French et al., 2004; Geller, 2007). Hence, this variable involves determining the different elements contained in the strategic plan (formulation of vision, mission, strategic objectives and strategies, performance evaluation, and revision of strategy). Here we also measure the intensity with which they appear in the range 1-5 and calculate the average of the occurrence.

**Using planning techniques** – Following some studies that have investigated the relationship among the use of the planning instruments in terms of sophistication of the planning process and organizational performance (Ramanujam et al., 1986; Rue and Ibrahim, 1998; Baker and Leidecker, 2001) for the purpose of this study, a list of 15 different planning techniques was created. This variable is measured by rating the intensity of application of 15 techniques in the small businesses. It is set in the form of a continuous variable in the range 1-5, wherein the average is calculated from the intensity of use of various techniques.

**Limitations in external environment.** There are researchers who have suggested that it may be advantageous to describe the environment of small businesses by dimensions reflected by the subjective perceptions of small business owners, instead of assessing the environment based on the "hard" facts. A fast-changing and dynamic environment may, for example, provide firms with opportunities for pursuing innovative strategies, but may also lead to greater pressure – from competitors, technological progress, rivalry among competitors, regulatory developments, and so on (Zahra et al., 1997). In this sense, the external limitations in this research are presented in the form of continuous variables that may have value in the range of 1 to 5. The scope of this variable indicates more aspects of the external environment, which may occur in the form of limitations. From the values attained to seven limitations (lack of employees on the labor market, very frequent fluctuations of demand, lack of financing opportunities, very frequent changes in legislation, unstable political situation, growing input prices, and growth of competition) an average value is calculated which is used in further analysis.

Before proceeding with any further analysis, Cronbach's alpha reliability of the proposed scales is tested. Literature proposes a threshold level of 0.7 for newly

developed measures (Kline, 1978), where values substantially lower indicate an unreliable scale. Still some authors argue about different reports proposing acceptable values of alpha, ranging from 0.70 to 0.95 (De Vellis, 2003). However, values of 0.60 can be accepted (Hair, et al. 2006), especially if the variable is measured with few items. Cronbach alpha indicated that the overall reliability of the scale is at a good level from above 0.7. To reiterate, we're looking for values in the range of .7 to .8. In this case  $\alpha$  is above .7, so this probably indicates good reliability.

Cronbach's alpha indicated that one item related to the lack of employees in the segment of external environmental limitation should be removed. After removing this item external limitation have an acceptable level of Cronbach alpha. On each of the remaining latent variables, principal components analysis (PCA) was run, to see whether the items within every latent construct have any subgroups which could be recognized. The principle component analysis executed on each of the elements of the model should provide additional confirmation for the measurements made with the questionnaire. Growth, internal limitation, informal education, knowledge and skills, strategic plan and external limitation have resulted in one factor, proving unidimensionality in the proposed latent variables. The results with one factor, indicates that the variables propose a loading on one factor and so explain one dimension. Whereas planning techniques have loaded into more than one so called factors, meaning that within the latent variable planning techniques could be recognized more than one variable. This should not pose any threat for the model since Cronbach  $\alpha$  is indicating very good level of reliability and very often PCA notices more factors due to numerous items included. The Kaiser-Meyer-Olkin (KMO) measure indicating individual measures all greater than 0.7. In this line Kaiser (1974) suggest 0.6 as a minimum requirement for sampling adequacy.

## RESULTS AND ANALYSIS

The model as it has been already presented includes several independent and one dependent variable. Before presenting the results from regression analysis, in table 2 are presented some descriptive statistics relating to the dependent and independent variables. Withdrawing from the table below most of the respondents indicated experiencing a slightly higher than average level of growth. Interesting is that high values within the sample are presented for additional education of owners/managers followed by a relatively high standard deviation. This indicates a discrepancy between statements of respondents related to the value of additional education of the owner/manager. At the same time the majority of respondents specified high level of acquiring skills and knowledge within the business, which might implicate the importance that knowledge receives among the owners/managers in the sample. A relatively high value of strategic plan emphasizes the overall importance of this aspect concerning the prosperity of small business.

From the proposed variables three: additional education, internal limitations and strategic plan added statistically significantly to the prediction,  $p < .05$ .

The internal limitations are represented as latent variables that can have a value in the range of 1 to 5. This variable has negative and statistically significant relation with the dependent variable ( $p < 0.05$ ,  $B = -0.159$ ). If the level of limitations in internal environment increases by 1, the level of the growth will decrease by 0.159. This result

supports the Hypothesis 1, stating that by increasing limitations in the internal environment adversely growth of small business will be affected.

Additional education of the owner is a latent variable, measured by the average value of the three aspects each measuring the compliance of the respondents by Likert scale from 1 to 5. This variable has positive and statistically strong relation with the dependent variable ( $p < 0.01$ ,  $B = 0.216$ ). If the level of additional education increases by 1, the level of the growth will increase by 0.216. Thus the Hypothesis 2a can be accepted, in that context by increasing the owner's non-formal education the growth of small business is positively affected.

Skills and knowledge of employees is a latent variable in the form of a continuous variable showing an average value against statements related to the different elements related to skills and knowledge in the last 3 to 5 years, measured on Likert scale of 1 to 5. The effect of this variable on growth is negative and statistically insignificant ( $p < 0.840$ ,  $B = -0.012$ ). Thus, Hypothesis 2b: Increasing skills and knowledge in the enterprise to positively affect the growth of small business, is rejected.

Developing a strategic plan is a latent variable, which involves determining the different elements contained in the strategic plan, as well as the intensity with which these elements appear. The effect of this variable on growth is positive and statistically very strong ( $p < 0.172$ ,  $B = 0.098$ ). If the level of developing strategic plan increases by 1, the level of growth will increase by 0.273. Thus the Hypothesis 3 can be accepted, as it is formulated, that dedicating greater attention to the developing a strategic plan positively affects the growth of small business.

Using planning techniques is latent variable, measured by rating the intensity of emergence of 15 different techniques used in small businesses. It is set in the form of a continuous variable in the range 1-5, wherein the average is calculated from the intensity of the use of various techniques. The effect of this variable on growth is positive, but statistically weak ( $p < 0.000$ ,  $B = -0.043$ ). Hypothesis 4: Dedicating greater attention to the sophisticated planning process positively affects the growth of small business is rejected. Limitations in the external environment is a latent variable that may have value in the range of 1 to 5. The scope of this variable indicates more aspects of the external environment, which may occur in the form of limitations. The effect of this variable on growth is positive, but statistically weak ( $p < 0.506$ ,  $B = 0.273$ ). Hypothesis 5: Increasing limitations in the external environment adversely affect the growth of small business is rejected.

## DISCUSSION

Based on the findings presented in this research, empirical support for the proposed model for growth factors of small business has been found. The results strongly confirm hypothesis 1, 2a, and 3. In other words, according to the results from the multiple linear regression, three independent variables: limitations in the internal environment; additional forms of education of the owner; and development of a strategic plan have positive impact on growth of small business. The importance of *resources and processes* for the growth and overall success of business has strong theoretical support in the resourcebased view of strategy. Besides the theoretical support for the importance of resources for growth, there is also empirical support.

Kraus et al. (2006) stress that the proper evaluation and analysis of resources determines the ability of the business to survive and grow.

Wiklund et al. (2009) examining different relation between resources and growth, found that resources have an indirect positive effect on small business growth through entrepreneurial orientation, but do not have a direct effect on small business growth. In this line, Eisenhardt and Martin (2000) note that in addition to the resources themselves, the organizational and strategic processes of firms are important because they facilitate the manipulation of resources into value-creating strategies. Despite this, proposed indirect relation, still, in this research direct impact of resources and processes on growth has been found. This result allows, the hypothesis related to increasing limitations in internal environment that adversely affect the growth of small business, to be accepted. The result is more than expected, bearing in mind that resources are stressed in all stages of the growth life cycle as equally important for producing products and services, or for ensuring the entrance on key markets, or in later stages of growth, for improving standards related to quality and efficiently managing processes. Still, Wiklund et al. (2009) suggest that in a small business, resources must be put into use in creative ways and must be combined with entrepreneurial orientation of owners and managers for overall success of small business. Practically, providing a small business with more money does not automatically mean that business will expand.

*Skill and knowledge* of owner and employees in small business are very often connected with the theories of human capital, where it is stressed that individuals with more, or higher quality human capital achieve higher performance in executing relevant tasks (Becker, 1975). One important extension of the resource-based view is the dynamic capabilities perspective. Teece et al. (1997) argue that dynamic capabilities enable organizations to integrate, build, and reconfigure their resources and competencies and, therefore, maintain performance in the face of changing business environments. Many authors provide empirical evidence of a positive association between employees' skills and knowledge and firm growth. The frequency of an organization undertaking workforce training has been reported to be positively related to firm size (Storey, 1994; Robson and Bennett, 2000). Still, this research, partially managed to support the importance of knowledge and skills of owner and employees for the growth of small business. The hypothesis that the owner's non-formal education positively affect the growth of small business is accepted, but not and the hypothesis that skills and knowledge of employees in the enterprise positively affect the growth of small business. These results might lead us toward the conclusion that the owners of small businesses in Macedonia invest more in their own knowledge and skills than in educational training programs for their employees, or it might be supposed the training programs and other modes of acquiring skill and knowledge among the employees are not on the proper level. Thus the opportunities that come with employees' development and which could be associated to higher quality production, the use of innovative and technically advanced processes, is the component of growth that is missing in small business in Macedonia.

*Strategic approach and orientation* very often are considered as a crucial factor of growth. In other words, the need for business to achieve a strategic fit between the characteristics of the firm and the environment in which it competes is vital, first for survival, and then for long-term success (Andrews, 1987). Wiklund et al. (2009) found

that entrepreneurial intention of owner/manager of small business combined with an entrepreneurial strategic orientation might have strong impact on small business growth. Some empirical studies also explain small business growth in terms of the degree of fit between the resource-base and the strategy of the business (Edelman et al., 2005). Hence, it was expected this research to stress the development of a strategic plan (as an indicator for strategic approach and orientation), having positive impact on growth of small businesses, and thus the hypothesis which states that dedicating greater attention to developing a strategic plan positively affects growth of small business to be accepted. This could lead to an empirically supported suggestion for owners and managers in small business, as their business is moving from initial to more advanced stages of their growth, shifting the focus from operational and day-to-day activity to tactical and strategic thinking. The decisions of the owners/managers of small businesses, that aim to grow, have to be more strategic and tactical, whereas operational decisions should be delegated to the lower levels of management.

Many studies in the literature demonstrate a consistent, positive relationship between the *sophistication of planning activity* and the performance and growth of small businesses (Robinson and Pearce 1984; Masurel and Smith, 2000; O'Gorman, 2000). Bearing in mind the close relationship between formal planning system and strategic thinking, and since the strategic approach and orientation has been stressed as a statistically significant variable, it is surprising that the sophistication of planning activity has resulted with statistically weak impact on growth. It might be that the sophistication of planning activity would rather directly impact on the strategic approach, i.e. using the planning techniques might lead to a better strategic plan and overall strategic approach and orientation and thus only, indirectly impact growth of small business. However, it could be suggested to managers, that as the volume and complexity of working through the stages of growth of the business rises, the need for more sophisticated planning is emerging. The planning activity has to evolve from operational and financially oriented to strategic planning, as an essential part of the overall strategic approach and orientation of the small business.

The *nature of external environment*, in this research is expressed and measured through the limitations in the external environment. Basically, some theories have proposed and empirically supported the consideration that organizations are affected by their environments (Aldrich and Wiedenmayer, 1993). There are also very diverse views regarding the impact of dynamism, as a crucial characteristic of external environment for business performance. According to some studies, dynamism has a direct negative impact on small business growth, which suggests that firms in dynamic environments grow slower than those in more stable environments. Other empirical observations found a strong positive relationship between entrepreneurial orientation and performance among firms in dynamic growth environments (Zahra, 1993). In this research the effect of external environment (measured mostly by dimension which stress the dynamism of environment) on growth is positive, but statistically weak which rejects the Hypothesis 5: Increasing limitations in the external environment adversely affect the growth of small business. Obviously, the diverse visions considering the impact of dynamism of the external environment on growth is typical also for owner/managers of small businesses in Macedonia. Also, it should be taken into account that dynamism i.e. instability of external environment in term of political situation and frequent change of legislation is too long present in the

Macedonian economy as a typical transition economy, so managers are excluding it as factor which could considerably impact on their decisions.

## **CONCLUSION**

According to the findings presented in this research, empirical support for the proposed model of growth factors related to small business has been recognized. The model that tests the relationship between the dependent variable, growth and six independent variables: limitations in the internal environment; additional forms of education of the owner; special skills and knowledge of employees; development of a strategic plan; using planning techniques; and limitations in the external environment, explains 43% of the variations in growth of small businesses in Macedonia. This result is more than satisfactory, not only that it is fairly high and it covers a significant portion of the growth of small business variance, but it is even much higher compared to other studies in this field.

One particularly interesting finding in this research is the direct impact of resources on growth, although this relationship in many studies has been examined as indirect relationship, through the influence of entrepreneurial orientation and growth attitudes of small business owner/manager on growth. Still, for practitioners it should be stressed that resources must be used in creative and innovative ways otherwise, providing a small business with more money does not automatically mean growth. Other interesting, but and not very promising result in this research is the concern that the owners of small businesses in Macedonia might invest more in their own knowledge and skills than in educational training programs for their employees, or it might be supposed that training programs and other modes of acquiring skill and knowledge among the employees are not on the proper level. Thus, the opportunities that come with employees' development is the component of growth that is missing in small businesses in Macedonia.

The finding that development of a strategic plan, has a positive impact on growth of small business, could lead to suggestions for owners and managers in small business, as their businesses are moving from initial to advanced stages of their growth, the focus from operational activity and day-to-day working must change to tactical and strategic thinking. Although, it was found that sophistication of planning activity has statistically weak impact on growth, due to a potential indirect impact of sophisticated planning activities on the strategic approach and orientation, still it could be suggested to managers that as the volume and complexity of working through the stages of growth of the business increases, there is an emerging need for more sophisticated planning. The planning activity has to change from operational and financially oriented to strategic oriented planning as an essential part of the overall strategic approach and orientation of the small business. The diverse visions considering the impact of dynamism of external environment on growth is typical also for owner/managers of small businesses in Macedonia. Also, it should be taken into account that dynamism i.e. instability of external environment in term of political situation and frequent change of legislation is too long present in the Macedonian economy as a typical transition economy, so that managers are excluding it as factor which could impact on their decisions.



## LIMITATIONS AND FURTHER RESEARCH

In the literature and empirical studies in the field of small business growth, many indirect relationships between researched variable in this paper, have been suggested. Still the design of the research model of this paper has been set to test only the direct impact of independent variables on dependent variable. Hence structural analysis of potential, direct and indirect relations among the dependent and independent variables could provide additional knowledge for the growth and factors that can stimulate the growth of small business.

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