

Established SMEs Growth: Exploring firms and innovation

¹Muhammad Farooq Jan, ²Tehreem Iftikhar, ³Nadeem Safwan, ⁴Khursheed Iqbal

¹ Assistant Professor, IQRA National University Peshawar, Pakistan

² Research Scholar, IQRA National University Peshawar, Pakistan

³ Assistant Professor, IQRA National University Peshawar, Pakistan,

⁴ Assistant Professor, IQRA National University Peshawar, Pakistan,

ABSTARCT

Purpose: The main purpose of the study is to investigate the relationship of established SMEs growth by focusing on role of innovation practices for growth of the firm as well as role of entrepreneur's growth ambition.

Design: Study was designed for established SMEs growth in KPK. Scale was adopted for innovation and Entrepreneur ambitions and for growth scale was developed. A total of 250 respondents were included in the study from established manufacturing SMEs in KPK, Pakistan.

Findings: The results showed that there is a positive relationship among the variables of study and they have a significant role in the growth of established SMEs.

Keywords: Innovation, Entrepreneur ambitions, Established SMEs growth.

INTRODUCTION

Rate of growth of some organization is very high then others organization as the firms with high growth rate knows the needs of their customers and fulfill them while other do not. Firm's growth is very complex but its role to the stakeholders is very important, like investors who want return of it, owners and society in which firms gives job opportunities. A large number of research is done on is done on firms growth and the factors related to growth of firms but there is very less research on established firms knowledge as the factors associated is increasing day by day but still average firm is not growing (Coad, 2009). If we look at its picture on a large scale almost 90% of

Pakistan firms consist of small and medium enterprises (SMEs) and have employed a huge number of peoples. Owners of SMEs if understood underline factors it will help them to make decision for growth and will put on growth direction every time.

Huge literature is available on growth of SMEs and this knowledge is increasing day by day considering different factors of firms growth, but on SMSs growth literature, (Davidson et al, 2005) argued that no coherent knowledge body exists and this view is also shared by (Doobs and Hamilton, 2006; Greene and Storey, 2010) there is need of new empirical and theoretical findings as there is no unifying theory. Here argument of (Wiklund, 1998) should be noticed he argued that if we take SMEs growth as dependent variable so fail to get high explanatory power.

Established SMEs are a significant subset of the economy of a country by its growth and on the other side large firms growth is the success of new ventures due to its attention in the recent years as it have given to growth in SMEs. Different factors have been associated with growth of the firm's and argued how these factors affect the firm growth process in which two are recourses availability and finance on those firms which are growing and focusing on growth. A positive relation was found between firm's growth and resource availability (Wiklund and Shepherd, 2003), other researchers like (Storey and Greene; 2010; Gundry and Welsch, 2001) argued the same

findings. Beside finance the market (external factors) segment has also been linked to growth of the firms. Internal factors (structure of organization) of the firm determine the growth outcomes and firm's structure is found to play an important role, like using the firm's goals for linking with its growth (Locke and Latham. 2002; Wiklund, 1998; Buam, Locke and Smith 2001).

Innovation and its relation with growth of the firm's in SMEs context is an important characteristic because it provides more interpretation in research. Innovation gave huge results in every field like in communication, transportation, automobile industry (Fagerberg, 2003), but there is still need of innovation and its relation to growth of the firms. The relation between growth of firm's and innovation is not in a straight line: Studies have found positive and significant relationship has been found (Coad, 2009), no significant impact at all (Demirel and Mazzucato 2012), even negative impact and significant relation has been found on firm's growth (Demirel and Mazzucato 2012). In conclusion to these studies it can be interpreted as more research is needed on firm's innovation for finding why some innovative firm's grows and others do not.

Another characteristic which can help in the explanation of results and their differences is entrepreneur's ambition growth. According to Stenholm (2011) innovative behavior impacts negative towards realized growth expectations and (Hermans et al, 2012) said in the study that innovation orientations do not occur at the same time with ambition. Studying the ambitions of entrepreneurs and innovation will help in increasing the knowledge of established SMEs growth.

Firm Growth and Innovation

Although attention has been seen to a very large extent towards innovation but the relation with SMEs in high growth has still not reached up to the mark where it should be. For innovation understanding first we should know what innovation is. OECD (2005) gives a broad definition having aim of encompass a variety of innovation.

“An innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations” (OECD, 2005).

An important feature on this is that it must be implemented in to business which makes it self a part from invention. Goal of putting effort in innovation activities is to enhance the performance of the firm. The innovation process is one of the area which is included in many studies in relation with firm's performance and growth (Freel and Robson, 2004; Dobbs and Hamilton, 2006; Storey and Greene, 2010). The results are not in agreement but still innovation effect on performance and growth is under debate. The effect of innovation may be not be direct on growth of firm's but rather be mediating or moderating by others factors. Some studies say there is no correlation between growth of firm and innovation (Storey and Greene, 2010). This argument is supported by (Coad and Roa, 2008), as they were not able to find any relation between growth of firm's and innovation. These results tells us that the road towards growth of firm's through innovation is very difficult as there may be other factors but innovation stills come at the top level when it comes to firm growth strategies (Coad & Rao, 2008).

***H1:** Innovation effects the growth of established SMEs and has a significant relationship*

Firm growth and Entrepreneur attitude

In every firm the top management plays a key role which affects the outcomes which helps in shaping the firm operations, goals, strategies etc... this is the same in the case of SMEs (Delmar & Wiklund, 2008) with one difference that the leading figure in SMEs is smaller than other firms. But the owner is still active and holds many designations in the firms like Board chairman, CEO. This can be understood by SMEs amount of resources which it have. If some hold a larger figure so simple question arise; How does their ambitions and motivation affect the firm's performance and growth?

In literature entrepreneur is often linked to leading figures like owner, chairman, CEOs. Different definitions have been proposed in several years (Stam et al. 2012). According to Leibenstein (1968) entrepreneur is the one who has some unique characteristics in gap-filling, i.e. being the one who finds the required resources for producing a marketable product or service. This shows us that entrepreneurs are responsible for exploitation and facilitating the market. By giving the fact that entrepreneurs have a designation in the firm's which gives them power which can affect the outcome of the firm so it's logical to say that their ambitions towards growth are important. Some entrepreneurs have higher growth ambitions then others and many scholars view these ambitions as the antecedents of firm growth (Hermans et al. 2012). According to Stam et al (2012) defines ambitious entrepreneurs as "*someone who engages in the entrepreneurial process with the aim to create as much value as possible*". This build an behavioral perspective in which entrepreneurship is a process opportunities are discovered for producing goods and services, then evaluated and exploited. Storey and Greene (2010) said, a side form

suggesting that growth intentions should be researched in firms there may also be given some focus to examine the entrepreneur growth intention unless if others factors have been tanked into account as the intention might be the condition to firm's growth.

Acknowledging that the entrepreneur has an impact of firm's and its output, this paper targets the ambitious entrepreneurs due to less studies on established ambitious SMEs and their relation to growth. By studying ambitious firm's characteristics then maybe it will be possible for understanding that how high ambition can lead to high growth rate of the firms. Hermans et al, (2012) argue, in their studies regarding ambitious entrepreneurs, multi levels of analysis are needed which may include both contextual and personal variables, like internal, external factors and organizational factors.

H2: There is positive and significant relationship of entrepreneur ambitions and increase the grown of established SMEs.

Firms growth is and old phenomena. Every firm are paying attention to these factors for bringing changes towards customer services, their concepts and other activities.

Research Questions

RQ1. What is role of innovation in growth of established SMEs?

RQ2. What is role of entrepreneur ambitions towards growth of established SMEs?

DESIGN

The study was based on growth of established SMEs and those were selected for the research whose growth rate were high and its limit to its size was set up to 30 employees, which were checked from national database (SMEDA) Pakistan. Those firms were selected which were located in Khyber Pukhtunkhwa province of Pakistan and rational for selection from a single

location was to ensure about the business environment. Manufacturing industry was chosen as there will be no issues of cross industry and number of manufacturing industries is high.

In current study CEO's and top managers were used for collection of the data as its assumed these people have the best information as they easily view the whole organization from every aspect and will provide most accurate response (Glick et al, 1990). A total of 250 questionnaires were used in 50 top firms in which 210 usable were selected for the analysis.

Measures

Innovation:

Innovation scale was adopted from Uddenberg, A (2015) and was checked for its validity and reliability by doing a pilot study with a 5 point likert scale. The scale captures the role of innovation on growth of firms. For example, items such as:

- Is the industry mainly conservative or is it possible to succeed by delivering new offerings that are not similar to those already existing?
- Are there any strong customer demands or problems that are not met today, and are customers willing to try new untested products or solutions?

The scale was measured through a five point scale.

Entrepreneur Ambition:

The scale was also adopted from Uddenberg, A (2015) and was updated and then checked for its validity and reliability by doing a pilot study with a 5 point likert scale. The scale captures the action and ambition of the entrepreneur towards growth of the firm by his/her intention and behavior perception. For example, item like:

- Do the entrepreneurs have a long-term rather than short-term-oriented perspective, and does he/she invests in the firm for the future?

Organization Growth:

The scale was developed for understanding the extent to which the innovation and entrepreneur ambition influence organization growth. The scale was checked through a pilot study for its validity and reliability and was found to be valid and reliable. Sample Items like:

- Do you agree that new offerings, solutions, technology will lead to growth of established SMEs?

ANALYSIS AND FINDINGS

Regression and correlation was used for the analysis to check the relationship of variables.

**Table 1
Correlations**

		Innovation	Ambition	Growth
Innovation	Pearson Correlation	1	.965**	.905**
	Sig. (2-tailed)	.000	.000	.000
	N	210	210	210
Ambition	Pearson Correlation	.965**	1	.913**
	Sig. (2-tailed)	.000	.000	.000
	N	210	210	210
Growth	Pearson Correlation	.905**	.913**	1
	Sig. (2-tailed)	.000	.000	
	N	210	210	210

** . Correlation is significant at the 0.01 level (2-tailed).

Table 1 indicates that the correlation of the variables of the study. In the table a positive and strong correlation ($r = .905$) can be seen between innovation and established SMEs growth. And established SMEs growth has

also a strong and positive correlation ($r = .913$) with entrepreneurs ambitions.

Below we can see the results of regression analysis of the study which tells us the success of our model.

**Table 2
Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.918 ^a	.843	.841	.25270

a. Predictors: (Constant), Ambition, Innovation

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.091	.160		.570	.570
	Innovation	.416	.125	.351	3.343	.001
	Ambition	.547	.100	.575	5.480	.000

a. Dependent Variable: Growth

Our hypotheses are accepted as the relationship of established SMEs growth with innovation and entrepreneurs ambitions is highly directed and positive. The R value is 0.843 which shows a very strong relationship. The variation showed by innovation and entrepreneur ambition is 84.3 % showing that these are highly directed towards growth of established SMEs.

The value of adjusted R-Square (coefficient of determination) shows the variation and measure to fit the model and here the value is .841 meaning 84.1% times the data fit the model.

Unit of change measure is indicated by the standardized beta values and in this the independent variable shows an effect of dependent variable. Sig (p) and t shows the significance values of research, a small or low value of "P" and high value of "t" indicates that independent variables has large effect on the dependent variable. Innovation being an independent variable and its significant predictor is = .351, $P < .001$, showing our first hypothesis is accepted, and also entrepreneur ambition as the other independent variable and significant predictor is = .575, $P < .000$, showing that our second hypothesis is also supported.

Discussion

Based on previous studies the current study focused on the effects of innovation and entrepreneur ambition of established SMEs growth in KPK, Pakistan. According to the data results it was clearly evident that by focusing on innovation not only is good for new SMEs but also for the growth of established SMEs and is in support of results which were found positive and significant relationship by (Coad, 2009). Some researcher have found relationship between growth and innovation (North and Smallbone 2000, Littunen and Tohmo 2003) and some other did not find any relationship

like (Hoffman et al., 1998), meaning that it is difficult to find the relationship but still when it comes to growth innovation is at the top (Coad & Rao, 2008). In the other side entrepreneur's ambitions also plays a vital role towards established SMEs growth. From previous research we can see that intentions towards growth is seen important factor and ambition is seen as an antecedent of growth (Hermans et al., 2012) and is in line with the study of (St-Jean et al. 2008).

Conclusion

The study tries to fill the gap that there is a positive and significant relationship of the variables of study which was argued to be negative impact and no relation at all by (Demirel and Mazzucato 2012) and Hermans et al, (2012) study regarding ambitious entrepreneurs, that analysis are needed. The study provided some empirical evidence that there is a direct influence of innovation and entrepreneurs ambitions towards the growth of established SMEs. More research should be done external factors also and a comparative study of internal and external factors should be done to check those common factors towards growth of established SMEs.

REFERENCES

- Baum, J. R., Locke, E. A., & Smith, K. G. (2001). A Multidimensional Model of Venture Growth. *The Academy of Management Journal*, 44(2), 292-303.
- Coad, A. (2009). *The growth of firms: A survey of theories and empirical evidence*. Edward Elgar Publishing.
- Coad, A., & Rao, R. (2008). Innovation and firm growth in high-tech sectors: A quantile regression approach. *Research Policy*, 37(4), 633-648.
- Davidsson, P., Achtenhagen, L., & Naldi, L. (2005). Research on Small Firm Growth: A Review. *In Proceedings European Institute of Small Business*, 61.

- Delmar, F., & Wiklund, J. (2008). The Effect of Small Business Managers' Growth Motivation on Firm Growth: A Longitudinal Study. *Entrepreneurship Theory and Practice*, 32(3), 437-457.
- Demirel, P., & Mazzucato, M. (2012). Innovation and Firm Growth; Is R&D Worth It? *Industry and Innovation*, 19(1), 45-62.
- Dobbs, M., & Hamilton, R. (2006). Small business growth: recent evidence and new directions. *International Journal of Entrepreneurial Behaviour & Research*, 13(5), 296-322.
- Fagerberg, J. (2003). Innovation: A Guide to the Literature. (U. o. Oslo, Ed.) *Working Papers on Innovation Studies 20031012*.
- Freel, M. S., & Robson, P. J. (2004). Small Firm Innovation, Growth and Performance. *International Small Business Journal*, 22(6), 561-575.
- Glick, W. H., Huber, G. P., Miller, C. C., Doty, D. H., & Sutcliffe, K. M. (1990). Studying changes in organizational design and effectiveness: Retrospective event histories and periodic assessments. *Organization Science*, 1(3), 293-312.
- Hermans, J., Vanderstraeten, J., Dejardin, M., Ramdani, D., Stam, E., & van Witteloostuijn, A. (2012). *Ambitious entrepreneurship: Antecedents and consequences*.
- Leibenstein, H. (1968). Entrepreneurship and Development. *The American Economic Review*, 72-83.
- Littunen, H., & Tohmo, T. (2003). The high growth in new metal-based manufacturing and business service firms in Finland. *Small Business Economics*, 21(2), 187-200.
- Locke, E. A., & Latham, G. P. (2002). Building a Practically Useful Theory of Goal Setting and Task Motivation: A 35-Year Odyssey. *American Psychologist*, 57(9), 705-717.
- North, D., & Smallbone, D. (2000). The innovativeness and growth of rural SMEs during the 1990s. *Regional studies*, 34(2), 145-157.
- OECD. (2005). *Guidelines for Collecting and Interpreting Innovation Data*. Paris: OECD Publishing.
- Stam, E., Bosma, N., van Witteloostuijn, A., de Jong, J., Bogaert, S., Edwards, N., & Jaspers, F. (2012). *Ambitious entrepreneurship: A review of the state of the art. StudieReeks 23*.
- Stenholm, P. (2011). Innovative Behavior as a Moderator of Growth Intentions. *Journal of Small Business Management*, 49(2), 233-251.
- Storey, D. J., & Greene, F. J. (2010). *Small Business and Entrepreneurship*. Pearson Education Limited.
- Uddenberg, A. (2015). Growth in established SMEs: Exploring the innovative and ambitious firm.
- Wiklund, J. (1998). Small Firm Growth and Performance - *Entrepreneurship and Beyond*. Jönköping: Jönköping International Business School.
- Wiklund, J., & Shepherd, D. (2003). Aspiring for, and Achieving Growth: The Moderating Role of Resources and Opportunities. *Journal of Management Studies*, 40(8), 1919-1941