2 LITERATURE REVIEW

The chapter provides descriptive review of the work carried out by different researchers in the area of small business firms and their growth. The first three sections of the chapter focus on characteristics of small business firms, different growth theories and the factors effecting growth. There after research gaps have been identified on the basis of literature review and the objectives. Finally, based on study objectives and gaps identified in existing studies, a conceptual framework for the current study has been described.

2.1 Small Business Firms

To understand small scale businesses in India, a clear definition and scope of the term “small business firms” is critical. The term “small business” is referred by different nomenclatures like small firm, small firm and small industries and so on and the definition of a small business varies across nations, industries, authors and agencies. In their study on Small Scale Entrepreneurship in India, Latha et al. (2008) have provided a set of characteristics exhibited by small business firms. Vepa (1988) has listed these variations across countries (see Table 1).

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<tr>
<th>Sr. No.</th>
<th>Country</th>
<th>Terminology</th>
<th>Scope</th>
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<tbody>
<tr>
<td>1</td>
<td>Japan</td>
<td>Small Firm</td>
<td>Manufacturing, Mining, Services,</td>
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<td>Trading (wholesale and retail)</td>
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<td>2</td>
<td>India</td>
<td>Small Industry / Small Firm</td>
<td>Manufacturing, Repair and Servicing</td>
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<td>3</td>
<td>Korea</td>
<td>Small Firm</td>
<td>Mining, Construction, Commerce</td>
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<td>4</td>
<td>USA/Canada</td>
<td>Small Business</td>
<td>Manufacturing, Services, Trading</td>
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<td>Small Firm</td>
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<td>5</td>
<td>UK</td>
<td>Small Firm</td>
<td>Manufacturing, Commerce (both retail and wholesale), Construction, Mining, Transport</td>
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<td>6</td>
<td>Indonesia</td>
<td>Small Industry</td>
<td>Manufacturing, Servicing</td>
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Source: Vepa (1988)

In India, the small industry is defined in terms of investment ceiling and number of persons employed (Abid Hussain, 1997). However, it has been observed that there is no consistent definition of small business firms in quantitative terms. Instead, the small businesses can be defined using qualitative approach, an approach that is most suitable to the case study based method used in this research. Bolton Committee Report in UK (Bolton Report, 1971) has provided one of the best-known approaches on this topic in the form of an ideal type combining three elements. First, in economic terms, a small firm is one that has a relatively small share of market. Secondly, an essential characteristic of a small firm is that its owners or part owners manage it in a personalized way, and not through the medium of formalized management structure. Thirdly, it is also independent in the sense that it does not form part of a larger firm and that the owner managers should be free from outside control in taking their principal decisions.

Haksever (1996) notes that “in case of small firms, the management is independent; usually the owner is one of the managers and reports to no one”. The summary of Haksever (1996) is based on the guidelines formed by US Small Business Administration (Guide to SBA: Definitions of Small Business, 1996). In accordance with these, Haksever (1996) concluded that a small business has less than 500 employees and exhibits the following characteristics:

- Management is independent; usually the manager is also the owner.
- Capital is supplied and ownership is held by an individual or a small group.
- The area of operations is mainly local; workers and owners tend to belong to one home community, although markets need not be.
- The business is small, compared to the bigger units in the field.

In Indian context, Chachadi (1988) has arrived at similar definition in his work on ‘Decision Making in Small Industry’ where he has mentioned about managerial aspects such as
ownership and control. The definition of Haksever (1996) has provided significance inputs to the present study, as it emphasises local area of operation, owners and personnel (craftsmen); an aspects very prominent in the metal artware business in Moradabad.

In his work on Small Business Firms (Ram, 1999) has suggested that despite inherent antagonism between employer and labour, there are elements of co-operation between then in case of small business firms. This co-operation exists because employers need to secure workers’ willingness to work while workers reply on the firms for their livelihood. He further stated that there is often additional complexity in relationship of small business firm owners and workers due to wised variety of immigrant communities and the impact of cultures in which they operate.

Small scale industries (SSI) in India exhibit most of the characteristics3 mentioned by Ram (1999) and Haksever (1996). This sector is divided into seven industry groups (Charantimath 2009) - handicrafts, handlooms, khadi, village and cottage industries, coir, sericulture, power looms and residual small scale industries. The first five sectors are collectively called the traditional sector and the last two are known as the modern sector. Despite diverse opinions on the overall contribution of small businesses, it is widely regarded as important source for employment generation (Curran, 2000; Smallbone and Wyer, 2000; Hamilton and Dana, 2003; Robbins et al., 2000; Tonge et al., 2000; Davidsson and Delmar, 1997; Gibb, 2000; Westhead and Birley, 1995). According to Mitra and Pingali (1999), these firms have benefits of cheap labour and operational control and flexibility along with inexpensive home-grown technology. Small scale firms support large businesses by supplying goods and services, which in turn helps them to achieve competitive advantage (Majumdar, 2007).

Government has introduced many policies over the years for promotion of this sector like. Policies related to product reservation, infrastructure, credit, tax, procurement of equipment, export/import duty, quality control and market network are examples of the same (Gupta et al., 2013). Several institutions at the state and central level have also been started for the promotion and development of small business firms. These structures work towards providing supports in the area of marketing, technology, finance, infrastructure and skill development. But there are many

3 Appendix 4 provides the definition of SMEs and MSME and detailed specification of the same as per MSME Act 2006.
issues that act as constraints to the overall development of this sector. The present structure suffers from poor delivery of services at the field level, lack of coordination among various organizations involved in promotion of SMEs both at the state and central level. There is significantly high number of redundant programmes run by various ministries/departments for the same.

2.1.1 Growth in Small Business Firms

Small and Medium Firms are seen as the backbone of the economy for its growth. The importance of these firms is well renowned worldwide because of substantial contribution made by these firms towards socio-economic objectives such as employment growth, export promotion, nurturing entrepreneurship and improved industrial output (Latham, et al.,2011; Ilhua, 2009; Arinaitwe, 2006; Fletcher, 2004; Reid and Harris, 2004; Hamilton and Dana, 2003; Muma, 2002; Curran, 2000; Gibb, 2000; Robbins et al., 2000; Smallbone and Wyer, 2000; Solymossy and Penna, 2001). In India, New Industrial Policy 1991 has identified micro, small and medium firms as a building block for economic development of India. Market conditions have improved for Indian small firms after economic reforms of 1991-92. The policy changes during this time had major implications on the functioning on the small scale industry. For example, breaking down of artificial barriers to the flow of goods, services, capital, knowledge and globalisation brought different countries together and there was a huge reduction in cost of transportation and communication (Stiglitz, 2002). Firms could freely do business with people across the borders. The formation of World Trade Organization (WTO) in 1995 fast-tracked the process further and paved the way for greater level of competition globally. Removal of restrictions across countries helped seamless movement of merchandises/goods between countries including India. As a result, world exports grew in at a rate of 5.9 per cent during 1990-99, 0.7 per cent improvement over export performance during 1980-90 (Ministry of Finance, 2003). Another change which was brought for this sector was reduction in the number of items reserved exclusively for small scale manufacturers from 842 in 1991 to 239 item in 2007. All this resulted in transforming the functioning of small scale industry in India.

Changes at the global, national and sectorial levels create pressure on the small and medium business firms to perform well, deliver quality and also keep their operational cost low. Differentiating capabilities and competencies become critical for an organization to sustain in the
market and meet changing customer demands. Firms are required to compete on different dimensions such as product design, manufacturing processes, communication mechanisms and innovative ways of marketing, distribution and cost. These challenges call for realignment of these firms in order to meet demand for high level dynamism, flexibility and innovativeness.

According to the annual report of micro small and medium firms (2011-12)\(^4\), Indian small and medium firms account for almost 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to provide employment to about 59 million people in over 26 million units across the country. Small and medium firms are engaged in various activities and produce numerous commodities both for direct sale in the market or to provide inputs for large scale industries. The fourth all India census of MSME which was conducted by the development commission, Micro, Small, and Medium firms, had two developments. First the definition of Medium firms was broadened under the Micro, Small and Medium Firms Development Act, 2006. And secondly, it included the definition of a firm including both manufacturing and service sector as “a unit with fixed premises, and hence did not include hawkers, road side vendors etc.” In the last decade the growth rate of this sector has been consistently higher than the overall growth rate of the industrial sector crossing the twelve per cent mark in the terminal year of the tenth plan (MSME Report, 2010-11). There are over 6000 products ranging from traditional to high tech items, manufactured by the small and medium firms in India. This sector provides the maximum opportunities for self-employment and jobs after agriculture sector. Hence the survival and growth of this sector is very crucial for the Indian economy.

Growth is a vital indicator of a successful firms but it has to be analysed against this backdrop of policy and industry changes mentioned above. Baumol (2004) has recommended that developing economies should always consider small business firms and entrepreneurs as important factors for economic development and pay attention on the overall growth these firms.

During the literature review, it was found that there were many different theories to study firm growth. While some theories address the influence of firm size and age on growth (Evans, 1987; Heshmati, 2001; Morone and Testa, 2008) other outline impact of variables such as strategy,
organization and the characteristics of the firm owners etc. (Fazzari et al., 1988; Miller and Toulouse, 1986; Lumpkin and Dess 1996; Freel and Robson 2004). However, the motivation and approach to growth varies across firms even if these operate in the same market (Matthews and Scot, 1995).

Different researchers have identified that factors such as characteristics of the entrepreneur and access to resources like finance and manpower affect firm growth and help it differentiate itself from its competitors. The quality of an organization’s human capital has a direct positive relationship with the firm growth (Parker and van Praag, 2006; McPherson, 1996; Cooper et al., 1994; Hoxha 2009; Brown et al., 2005; Chandler and Hanks, 1994; Bates, 1990). In their study on international trade and heterogeneous firms, Tybout (2003) suggests that export orientation and foreign ownership enables a firm to experience higher growth.

In their research on small and medium business firms within Europe, Mateev and Anastasov (2010) have found that in addition to financial structure and productivity, the size of firm is also a determinant of firm growth. In their view tangible assets of the firm – sometime referred as one of the measures of size, tend to have a direct impact on its sales revenue. However, other aspects such as such as employee strength, investments in R&D and other non-tangible assets don’t have major influence on the growth prospects. Lorunka et al. (2011) have found that the gender of the founder, his/her commitment, amount of initial capital and owner’s business strategy are important factors in predicting growth of a small business firm. Chaston and Mangles (1997) argue that the probability of achieving growth objective increases if a firm adopts multi-strategy transformation approach. They further suggest that depending on the stage of development for a firm, its performance improvement program plan must give high priority to those capabilities that are most suitable to that stage.

Muthiah and Venkatesh (2012) suggested that there are many factors that either contribute to the growth of small business firms or hamper the same. Small businesses mostly encounter institutional and financial barriers. While institutional barriers become prominent in cases of firm’s interaction with government (related to support, legalization and taxation), financial barriers involve lack of financial resources (Davidsson, 1989). Further, the authors have noticed that these firms can also face social barriers such as those related to market position of a firm, access to right
kind of human resources and access to network (Bartlett and Bukvic, 2001). According to Gaskill et al. (1993), small businesses are dependent on the certain characteristics of firm owner, including managerial skills and insight, formal training and educational & social background. He states that lack of these characteristics is often a reason for failure of small businesses. However Nooteboom (2002) argued that a firm’s success or failures cannot be determined only on the basis of owner’s personal characteristics. Environmental conditions under which the firm is operating has a strong influence on the business performance (Dess et al., 1997).

In their study of new venture growth, Gilbert et al. (2006) have mentioned that in order to truly understand the growth in business firms, “how” and “where” questions are very important. He emphasised that growth is a function of firm owner’s decisions regarding “how to grow” (internally or externally) and “where to grow” (domestic or international market). Finally, Nichter and Goldmark (2009) have concluded that firm growth can be associated with four factors – individual entrepreneur characteristics, firm characteristics, relational factors (e.g. social factors or value chains) and contextual factors (e.g. business environment).

To summarise, there are different views on the how small business firms perceive growth. There are different factors which either prompt firm growth or impede it. There is a significant relation between growth and individual characteristics of the firm owner. Kolvereid and Bullvag (1996), in their study, have found that almost 40% of the respondents do not want to grow. But they have also concluded that businessmen in manufacturing firms and specially those who have higher level of education want their firms to grow.

2.2 Theories of Firm Growth

As stated in (Gupta et al., 2013), to study the growth stages of the firm, scholars have suggested different theoretical frameworks. In this section, a brief review on the framework for studying the growth stages of the business firms is provided. The first sub-section covers the authors who suggested that growth is linear while the second sub-section provides insights into existing research work that contradicts the linear growth theories and instead suggest that business firm do skip stages during their growth journey.
2.2.1 Traditional Growth Theories

In his resource based theory of the growth of the firm Penrose (1959) has suggested that business firms are a bundle of internal and external resources, which helps it to achieve competitive advantage. In her view, there is a limit to growth of the firm but not its size. She has further explained that the external environment of a firm is an image in the mind of the owner. Business activities are driven and governed by the productive opportunities available to the firm as a result of a dynamic interaction between the internal and the external environment. This interaction includes all the productive possibilities that the entrepreneur can look forward to and benefit from. In her view, growth often has a connotation of natural and normal – a process that will occur whenever conditions are favourable. Size of the firm is incidental to the growth process and ‘a firm is a coherent administrative unit that provides administration coordination and authoritative communication’ (Penrose 1959; Page 20). Firm growth is determined by the efficiency of the experienced managerial staff in planning and implementation of these plans. Scope of managerial resources, especially the ability to coordinate capabilities and introduce new people into the firm, can have a limiting effect on growth.

Greiner (1972) has done the foundational work on the theory of firm development. As cited by Gupta et al. (2013), Greiner suggests that a business evolves through five distinguishable stages of growth. Each stage contains a relatively calm period of growth that ends with a management crisis (Masurel and Montfort, 2006). These five phases and crises of the growth are through creativity, direction, delegation, coordination and collaboration.

![Figure 1: Phases and Crises of Firm Growth (Masurel and Montfort, 2006)](image)

The author suggested that during this journey, the firm undergoes through evolution and revolution crises which can be overcome by introducing new structures and plans to revitalize the employees. Greiner’s phenomena of evolution and revolution has become the base for many studies on firm life cycle. Another significant contributor in this field is Adizes (1979), who argued
that the attitude and style of a manager has significant impact on the life and success of the firm. He has also pointed out that vision, administrative control, commitment and risk taking capacity are required in the first few stages of a firm development. At the prime stage of the firm, it’s critical to have a manager who is result oriented and possesses strong planning and coordination skills. At the maturity stage, the firm requires systems to achieve its targets.

Applying the findings of Greiner to the small business firm situation, Churchill and Lewis (1983) have developed the growth model of small business firms. According to their model, a small business firm goes through five stages of growth.

![Figure 2: Stages of Small Business Growth (Churchill and Lewis, 1983)](image)

Existence is the first of the entrepreneurial venture. In this stage the firm struggles to establish its processes and works without a formal structure in place. All business activities are under close supervision of the firm owner. At the second stage, as the business grows, the entrepreneur requires additional capital to expand the business. Due to the growth, he adds family members or known people as partners to manage the expansion. The main objectives at this stage is to reach the breakeven point, so that adequate cash flow can be maintained to meet day to day requirements of business. At the third stage of success, the firm begins to earn profits. With sufficient capital in hand, the owners have options to invest in business. At this stage, firm’s management may take up organization and people development as one of their focus areas; however these initiatives are driven by personal values and vision of the firm owner. At the take off stage, focus is on seeking new opportunities for growth and expansion. The organization structure and operating model tends to become more formal with work definition and delegation happening in a structured manner. Finally, at the resource maturity stage, the firm tend to outgrowth the definition of small business firm. At this point, there is major focus on creating a niche in the market, product quality control and financial differentiation.
2.2.2 Alternate Growth Theories

In their assessment of the stage theory, Levie and Lichtenstein (2010) have argued that the stage based model and life cycle theories of business growth. As per them these theories do not provide sufficient evidences of firm growth and development. In their review of literature of last forty years, they have found that there’s lack of consensus on the definition of the stages of firm growth. Proper evidences on the step wise progress of a firm from one stage to another and the reason behind the shift are also lacking. They have suggested a new dynamic stage theory which is they believe that organizations are not like organisms so their growth can be co-created with the help of shift in internal or external environment. Their theory of dynamic stages offers argument that a firm can survive and maintain itself by being flexible and adopting changes as it evolves in the business environment. The authors highlight the need to have a sustainable growth approach instead of growing on the basis of fixed number of stages. Though the authors strongly recommended the use of dynamic stage theory, empirical research is needed to find out the reasons for dynamic yet sustainable state of growth, changes (and associated reasons) through growth stages and contextual elements that play a role in this process (Levie and Lichtenstein, 2010, 20).

Leitch et al. (2010) also suggested that there is a need to understand the growth and its importance to conceptualize the phenomenon properly. As per them, there is a lack of shared understanding on the causes, effects and the process of growth. In their view, the three questions (why, how and how much?) related to growth have been addressed some extent, however there is enough opportunities for exploration of growth as internal process of firm development (Penrose, 1959). As per Majumdar (2008), growth is a social construct which results in lot of diversity on growth among business firms. The heterogeneity of the firm and its owner-manager’s social and psychological context adds further challenges to the study and understanding of growth. In his work, he has strongly emphasised on understanding the strategic planning process of the small business firms.

In his work on entrepreneurial management in small firms, Chaston (2010) has mentioned that a firm faces different chasms on its growth path – chasms in this context being a difficulty, stage or challenge. The chasms are of five types; launch, capacity expansion, organizational
formalization, succession and long term growth and crossing these chasms is a must in order to progress to the next level of growth.

"Figure 3: Chasms of Growth (Chaston, 2010)"

Crossing each chasm requires the entrepreneur to acquire new competencies and (re)prioritize managerial efforts and tasks inside the firm. In views of the author the pace of firms may vary across firms – while some may take more time to cross a chasm, for others it may be a fast progression. Financial backing and viable means to new technology can help a firm to cross Chasm 1 (Dunn and Cheatham 1993) but one needs ability to generate demand and increase sales in order to cross Chasm 2. For crossing Chasm 3, there is a need for capacity expansion to meet the demands of growing business. As the same time, the firm needs to have a formal organisation structure with decentralised functions and administrative powers. This also requires providing greater empowerment to the respective departments and giving them additional responsibility and accountability of business performance. As states by Anon (1984), failure to implement such a formal organization structure with professional manpower will be an impediment to cross Chasm 4. Importance of succession planning is well recognized for firm to cross this chasm because ineffective replacement for the founder may now allow a business to cross Chasm 5 (Ip and Jacobs, 2006). For this, the firm owner may decide to appoint an internal or external candidate.

In their work of business organization growth, Bridge et al. (2003) have suggested that it is not compulsory for firms to develop in discrete and distinguishable phases. They further highlighted that “separating the development process into stages is rather like dividing the spectrum of visible light into colours”. While broad stages of development can be indicted, the time and reasons for movement between stages is difficult to predict. Firms do not necessarily
follow the linear models and growth of an organization is a result of many discrete efforts. Firms can grow, stagnate and decline in any order and these progressions can happen more than once with possibility of reversal in their steps. Blundel and Hingley (2001) have also suggested that pace at which an organization achieves growth may vary across firm and it depends on the strength of the growth aspirations of the owner-manager and dynamics of growth enabling factors. They have concluded that one cannot consider growth as a norm or an even progression for a business firm.

### 2.3 Factors Influencing Growth of Business Firms

Growth of small and medium firms is a central theme of many researches in the area of entrepreneurship, organizational study and strategies. Since these firms play a major role in the economic development, their growth is also considered very important. In the last two decades a lot of research has been done in the area of firm growth. However as per (Garnsey, 1996) no comprehensive theory has evolved to explain which firm will grow and how will they grow. Storey (1994) points out usage of growth as a simple measure of business success. He further explains that growth is usually a precondition of a firm's longevity.

A firm is involved in the basic activity of transforming the resources like labour, premises, technology, finance, material into goods and services. The type and combination of resources will vary according to the need of each firm and the market demand. Worthington and Britton (2006) suggest that according to the systems approach to management, business environment is influenced by factors which tend to have an immediate impact on the day to day operations of a firm and those which tend to have a general influence. Firms are entities made of interrelated parts which are knotted with the outside world called external (general) environment. This environment comprises of a wide range of macro level influences like economic, demographic, social, political, legal and technical factors etc. which effect the business activity in a variety of ways. Similarly the internal (immediate) environment includes suppliers, competitions, labour market, financial institutions, customers and trade unions. Internal environment of a business includes origination structure and functions. The internal environment is affected by the way the functions of an organization are configured to achieve the organizational goal. For an organization to be successful, constant attention needs to be paid to the balance both internal and external environment so the proper
adaptation can be done as per the circumstances. Factors effecting firm growth can be primarily classified in two categories i.e., internal and external factors.

Ardishvili et al. (1998) have classified empirical growth research as either factors of growth studies or growth process studies. Environment is defined as an “aggregate of all conditions events and influences that surround and affect it”. It can be divided into external and internal components for better understanding. In the ever changing business environment the owners of the firm must take decisions in such a way that the business environment is taken in to consideration. As it has been discussed earlier, external environmental factors are beyond the control of the firm, the success of the firm depends on the extent on its adaptability and flexibility its shows. The ability of the firm to design and adjust the internal (controllable) variables to take advantage of the opportunities and to control the threats from the environment, determines the success of the firm. The internal environment which is constantly influence by the external environment comprises of the resources, synergy and distinctive competencies of a firm. Amit and Schoemaker (1993) suggested that capabilities refers to a firm’s capacity to deploy resources using organizational processes) in terms of its abilities and weaknesses existing in the different functional areas like operations, personnel, financial, technical and marketing etc. So the internal environment of a firm comprises of all the above along with strategy and structure of the firm. Nichter and Goldmark (2009) have also highlighted the need to pay close attention to how environmental factors – that vary across countries, shape firms opportunities and capabilities which in turn affect small firm growth. In this section each of the factors under external and internal environment will be explained.
Firms are open systems and they are affected by, and in turn affect, their external environment. External environment refers to all the relevant forces outside the firm’s boundaries. There are many factors which are uncontrollable in nature, companies both large and small are affected by recession, government interference, competitor’s action and so forth. The lack of control over these factors highlights the need for a firm to stay abreast of external developments and react accordingly. Morrison (2006) also adds that factors like political, economic, social environmental, technological and legal factors rarely get influenced by management decisions since they make up to an external environment. The other factors contributing to the external environment are international, national and local economy, government attitude towards business etc. This environment is also influenced by the way people look at businesses, energy sources, availability of raw material and many other macro level factors. The nature and extent of the contribution of small business firms to economic development are influenced by the external conditions in which they operate (Smallbone and Welter, 2001).

Matthews and Scott (1995) suggested that growth of a firm is affected by the attitude and decisions taken by the entrepreneurs. Growth agenda varies from one entrepreneur to another even though they may be operating in the same market. Majumdar (2012) has highlighted that employment, profit, value addition, turnover, total assets and market share are the major parameters of growth suggested by many theorists. However Kotey and Meredith (1997),

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**Figure 4: Environment factors influencing growth (Source: Amit and Schoemaker, 1993; Singh and Garg, 2008; Business Environment 2001; Morrison, 2006; Worthington and Britton, 2006)**
highlights that high performing small manufacturing firms considers more emphasis on new product development, adoption of new methods, focus on quality, better customer service, employee welfare, increase in employee productivity and efficiency as indicators of growth.

2.3.1 Internal Factors

2.3.1.1 Strategic Capability

According to Porter (1991), firm’s failure and success is closely related to its strategy. Strategy is not a race to occupy one desirable position. But, more textured problem in which many positions can be chosen or created. Chiarvesio et al. (2004) mentioned that a leading firm is characterized by strategic behaviour in terms of management with market and suppliers, relationship management, innovation, standardization of processes, ability to organize and manage business networks etc. Mulger (2002) also suggested that small firms must develop themselves strategically in order to remain competitive, grow and prosper. Fariselli et al. (1999) have highlighted the need for network strategies based on value chain integration and cooperation with key business partners.

Ismail, et al. (2011) suggested that strategic agility with operational focus of small business firms can be bottom up, responsive and proactive. The concept of agility as suggested by the authors can help companies to grow in turbulent environment. Uncertainty in the business environment comes in the form of dynamic customer requirements, intensity of competition, supply chain hindrances and changes in the STEEP (Social, Technological, Economic, Environment and Political situations). Hence it is suggested that strategic thinking and planning are very important for a firm to grow. However it is found by the author that there is less evidence to show that the concepts of agility, pro-activeness are used in practice. Matthews and Scott (1995) also found that during the period of turbulence, strategic planning tends to decline and resulting in a vicious circle, where no planning leads to firefighting moves and firefighting moves leads to no thinking and not behaving strategically.

Customer focus is the most important business strategy adopted by smalls and medium business firms. Baumeister (2002) mentioned that customer focus is turning out to be key differentiating factor for small firms to survive in the global markets. He highlights that cost to
acquire a new customer can be as high as five times the cost to doing business with existing customer. For this reason, customer retention is even more important for small business firms as they have limited resources limited sources and channels for reaching customers; this the reason why they are so concerned about keeping their customers happy.

2.3.1.2 Marketing Capability

As mentioned earlier capabilities are bundle of collective skill and knowledge which are complex in nature. It facilitates a firm to coordinate its activities and make use of its assets (Day, 1994). Marketing capability factors are those related to the pricing, promotion and distribution of products or services. All these related aspects have a bearing on the capacity and ability of an organization to implement its strategies. As per International Labour Organization, Geneva (1965), some of the factors of marketing capability are product differentiation, positioning, packaging; price objectives, policies, changes and protection advantages; promotional tools, sales promotion, advertising, public relations etc. It also covers marketing mix, distribution systems, company image, and marketing organization, marketing system, management and information systems. According to Srivastava et al. (2001) market based capabilities provides values to a firm in the form of new product development process, helps to manage customer efficiently and have an effective supply chain management process.

2.3.1.3 Operational Capability

As per International Labour Organization, Geneva (1965), operations capability factors are the ones that are directly related to production – including location, layout, material supply, extent of vertical integration, production planning, product or service design, capacity, degree of automation, maintenance systems and procedures, inventory, cost and quality control. Wu.S et al. (2010) explored that operational capabilities are intangible resources and practices of an organisation which are there in the organisation but are difficult to define and identity separately. Operational capabilities are associated with firm’s culture and history.

2.3.1.4 Personnel Capability

Personnel capability is one of the most important factors influencing business environment because people bring competitive advantage to a firm (Aswathappa, 2010; Mathis and Jackson,
Today, firm pays a lot of emphasis on hiring, training, developing and maintains their human resources. A study conducted by ICFAI (2001), described personnel capability in the form of acquisition, management, development and training of people. Narasimhan (2009) highlighted that human capital is sum of knowledge and skills of an organization's entire workforce. To enhance the capability of an organization, it is important to work continuously on the productivity of knowledge workers. Personnel capability creates significant and direct impact on the capacity of a firm and its ability of to implement strategy. It also effects firm’s industrial relations, working conditions and brand characteristics such as corporate image.

### 2.3.1.5 Financial Capability

Finance is lifeblood of any firm irrespective of its size. Small businesses face more problems in raising finance, as the provider of finance may not find the return on investment interesting as compared to large firm, and also the entrepreneurs are sceptical about repayment.

Chijoriga and Cassiman (1997) have pointed out finance as a key constraint to the growth of small scale businesses. Ngobo (1995) further made analysis and suggested that lack of working capital, wrong choice of financiers, high interests payments, frauds, corruption, lack of financial control are some of the factors which act as the constraints in the business. He further added that absence of a good costing system and delay in release of funds by banks or financiers effect the business adversely. Obviously, the professional approach is missing on the part of owners/managers and promoters, hence there are no concepts to monitor and control the financial affairs of these businesses with time.

The financial environment constitutes an integral part of the economic system. It consists of the flow of savings, financial instruments and securities, financial products etc. The financial environment is dynamic and full of uncertainties. As per International Labour Organization, Geneva (1965) business firms are closely linked with the financial sector i.e. money market and capital market which in turn effects the business environment of a county. Hence, it is necessary to understand what type of market exists in a country and what products are available in each market. Chijoriga and Cassiman (1997) have pointed non-availability of finance is one of the key constraint in the growth of small scale businesses. Ngobo (1995) further made analysis of finance.
as a constraining factor for lack of working capital, lack of financiers, high rate of interest on loans, high rates payments

2.3.2 External Factors

2.3.2.1 Economic Factors

These factors are related to the areas of economic stages in a country like economic structure adopted by the country, economic plans of the government and budgets, various economic indices, infrastructural factors like financial institutions, banks, communication facilities, modes of transport, energy sources etc. Government exercises a major influence on the economic environment. Government policy has an impact on the flow of income and hence the level and pattern of output by public and private sector. Business activity is shaped by the economic context in which it takes place. It also plays a role to shape that context. Success and failure of a government economic policy is dependent on the degree of reactions of both the firm and the market. Cheah and Cheah (2005) argued that there is a higher presence of small and medium sized business firms in developing countries like India, China etc. Because of their size and volume of operations, they are more susceptible to economic crisis.

According to International Labour Organization Geneva (1965), economic factors include long term factors like general economic level of the country, economic level of the region or locality in which the firm is located, rate of growth of population, distribution of wealth, degree of industrialization, availability of labour, competition in the same field, general level of taxation and wage levels. Short term factors at the national level include current level of economic activity, inflationary or deflationary tendencies, interest rate as applicable, structure of taxation in specific areas of economic activity. At the international level import – export quotas, market competition, tariff levels of different countries etc. are all part of economic factors affecting the firm. A survey of 500 micro and small firm in Ghana found that entrepreneurs perceived inflation, high interest rates and the depreciation of the local currency as their greatest problem in growth (Robson and Obeng, 2008).
The general level of economic activity of the country will affect the firm in terms of the market potential, availability and cost of labour and the extent to which there is development in the country in terms of infrastructure, services and means of distribution.

2.3.2.2 Technological Factors

These factors are related to applied knowledge to perform certain tasks or solve problems related to product and services. It also involves machines and materials used in the production of goods and services. To operate in a technological environment one needs to be aware of sources of technology, different stages of development, research and development in the area and the impact of technology on human beings and the effects of technology on the environment. In India, every state is at a different level of technological development. Hence, the business environment is affected by the level of technological advancement which is achieved. Government also plays a role in this kind of variations in the development. The Collaboration and technology transfer between customers and the local expert community also have a significant impact on the technological development of the company.

Basically, technological ability refers to a firm’s ability to employ various technologies (Afuah, 2002). Hamel and Prahlad (1994) suggested that technological capability of a firm gets embedded in organizational routines and become valuable, inimitable and non-substitutable. Levinthal (1990) and Moorman and Slotegraaf (1999) argue that technological advances promotes an organizational learning and generate innovative ideas. A study by ICFAI (2001) suggested that the main factors which should be considered in the selection of technology are product competitiveness and market potential, customers preferences, speed of introduction of new products and processes, comparative studies of technology gap between India and rest of the world, availability of technology for import in strategic areas, stability of technology in the context of organizational culture and outflow of resources, foreign exchanges etc.

2.3.2.3 Regulatory Factors

According to World Bank (2006), the regulatory and institutional environment in developing countries creates oppressive environment for small firm growth as compared with that of developed countries. Regulatory challenges may deter small firm owners from making required
investments (Tybout, 2000). Similar views were shared by De Soto (1989) that strict regulations and high taxes may keep firms small and informal. Smallbone and Welter (2001) argued that growth and development of small and medium business firms are affected by government actions; which may create favourable conditions or constrained in the process of their development. They are influenced by the macro environment comprising factors like social, economic, political and institutional context which in turn is affected by government policies of the state. The author, further explains that there are broadly four different ways through which government can affect the nature and pace of development for these firms.

- The first one is the macroeconomic environment under which these firms are operating. That means the level of aggregate demand; interest rates and taxation are important for the business development.
- The second way is the differential impact of government legislation on firms of different sizes. Normally, to understand and apply new policy introduced by the government, these firms would require to either hire a consultant or train its staff. The expenses incurred in this process or the cost which the employer has to bear due to change in any staff related policy is also supposed to be included in the impact of government legislations.
- Third way is through different kind of supports and policies (either direct or indirect) introduced by the government to assist these firms and overcome their limitations.
- Finally, fourth way is through development of business support infrastructure like banks, financial intermediaries etc.

The authors have finally suggested that the value placed on firm and entrepreneurship within society are two other aspects that can impact the development of these firms. It would involve the education system of the state and the efforts put by government to encourage people to start their own businesses. Growth and development of small firms are also influenced by the behaviour of politician and government officials in there dealing with these entrepreneurs (Mugler, 2000). Harvie (2005) highlights that since the small and medium business firms play a major role in the economic development, it is very important that governmental policies and programs support these firms. Thus better understanding of regulatory environment, policies, restrictions and applicable concessions are necessary for every business in the country. However, the author furthers states
that there is lack of clarity of laws, administrative procedures and proper access to governmental agencies. The end users are not aware of the benefits offered under different policies.

Government plays a big role in ensuring the rules and regulation guidelines followed by private and public firms. Government also tries to look after the interest of the private firms through policies like protection and export promotions etc. According to planning commission (2012), government has opened many institutions at the State and Central level for the promotion and development of small business firms. These structures work towards providing supports in the area of marketing, technology, finance, infrastructure and skill development. But there are many issues that act as constraints to the overall development of this sector. The present structure suffers from the poor delivery of services at the field level, lack of coordination among various organizations involved in promotion of small business firms, both at the state and central level. There is a lot of duplication of similar programmes run by various ministries/departments for the same target groups.

2.3.2.4 Legal Factors

The laws that govern the setting up and operation of a business is referred as legal environment. Legal factor includes legal rules governing the business. It may include the rulings and decision of the courts which also affect the business and its managers to a great extent (Essays, UK. November 2013). Every country has its own legal systems. A firm operating in international market has a complex task to obey both domestic and international laws to do business. Legal environment can be domestic, foreign or international. Attempts are being made by different nations to regulate local and international business. For example, introduction of a new currency like euro was a big initiate to carry out business in s single currency across Europe. As per International Labour Organization Geneva (1965), the legal environment includes all the national laws, combined with the different treaties among nations, bilateral and multinational conventions etc. So basically a legal environment can be domestic, foreign or international. Legal environment also covers intellectual property rights, patents, issues related to trade marks, copy rights and trade secret. In their economic analysis Beck, Demirguc-Kunt, and Maksimovic (2005) have found that financial, legal and corruption challenges constrains the growth of small firms
The political environment is very critical for any country to prosper. It refers to the political happening within the country as well as relations with the neighbours. Business environment of a country is also affected by political stability or instability. Politics is a universal activity which affects the business world in a variety of ways. Worthington and Britton (2006) say that a country’s political system includes its government institutions which in turn reflect certain underlying social values and philosophies which determine how decisions are taken in a particular system. It involves taking decisions about allocation of resources, policy decisions affecting development and promotion of a sector, decisions related to providing financial assistance etc. In any country the government may change over a period of time but whatever policy decision are taken by a government have long lasting effect on the economic development of the nation including its industry. Hence, it becomes very critical to have an efficient and stable political environment in the State. The policy decisions taken by the government either poses risk and uncertainty to the businesses or provides platform to maximize opportunities for long term survival.

According to report of International Labour Organization, Geneva (1965), political environment does not restrict to domestic boundaries only. There is an increasing importance of international and supranational grouping such as G8 Nations and The World Trade Organization (WTO). The impact of political factors on a business varies according to the type of organization involved. The impact of political instability at the global scale will affect a multinational company more as compared to a small local firm operating in a localized market.

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5 The Group of Eight (G8) is a forum for the governments of the world's eight wealthiest countries. The forum originated with a 1975 summit hosted by France that brought together representatives of six governments: France, Germany, Italy, Japan, the United Kingdom, and the United States, thus leading to the name Group of Six or G6. The summit became known as the Group of Seven or G7 the following year with the addition of Canada. The G7, that is active even after the creation of the G8, is composed by 7 of 8 of the wealthiest countries on Earth (as net wealth and not GDP). In 1997, Russia was added to the group which then became known as the G8. The European Union is represented within the G8 but cannot host or chair summits.

6 The World Trade Organization (WTO) is an organization that intends to supervise and liberalize international trade. The organization officially commenced on 1 January 1995 under the Marrakech Agreement, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948. The organization deals with regulation of trade between participating countries; it provides a framework for negotiating and formalizing trade agreements, and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements, which are signed by representatives of member governments and ratified by their parliaments. Most of the issues that the WTO focuses on derive from previous trade negotiations, especially from the Uruguay Round (1986–1994).
The impact of political factors at the national level will include factors such as policies related to taxation, town planning, wages and salaries, industrial health and safety etc. will affect the operations of a firm. This would also include policies related to education and training of the employees. At the international level, political factors which may affects the operations of a firm would include policies regarding imports and exports, immigration laws of different countries, emigration and employment policies and also the general level of stress throughout the world. Increase in tiff between two countries impact the trade also.

2.3.2.6 Trade Factors

The terms of trade means buying and selling of goods. Liberalization and globalization have extended the buying and selling activity across the globe. Globalization has diminished the boundaries between the domestic and international market and the world has become one massive market. In pursuance of this broad objective of opening the trade, World Trade Organization (WTO) was established and under its preview, General Agreement on Trade in Services (GATS) came into effect. The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) and the Agreement on Trade Related Investment Measures (TRIMs) have also been introduced. Hence In the present era of liberalization and globalization it is critical to understand the nuances of international licensing and franchising along with their pros and cons (International Labour Organization Geneva, 1965).

2.3.2.7 Demographic Factors

human being is critical elements of business and they play an active role both as producer (worker, manager and executive) and as consumer of the output provided by all the sectors (public, private and voluntary). As per report by International Labour Organization, Geneva (1965), the study of characteristics of human beings in terms of size, structure and distribution, educations, age, sex, income, lifestyle, preference, geographic location etc. is call demographic study. For a business to succeed it is important to understand the demographic of a country. Demographic changes in a country can have significant implications on both demand and supply of the economy. Birth rates, Net migration, death rate, increased globalization and international trade impact the demography and in turn affect the national as well as international environment. So basically, the demographic environment can impact on a country’s social as well as economic structure.
2.3.2.8 Social Factors

Organizations exist and function within the society and consequently are subject to a variety of social influence (Essays UK, November 2013). In India caste system has been a great source of social differentiation and one which has exerted the key influence over the like and opportunities available to members of different castes. The process of allocating individual to particular class or category has generally been done on the basis of social economic criteria such as income, wealth and occupation status. Worthington and Britton (2006) have suggested that there is an evidence to suggest that class might influence the demand or choice of goods and services. Class and lifestyle individuals get influenced by their families and friends who are called references. It is difficult to tell when and how far an individual demand is influenced by a reference group, but it is not difficult to think that in many cases consumers rely on the advice of a trusted friend or colleague and many form can gain new business through word of mouth recommendations.

2.3.2.9 Cultural Factors

Culture refers to a complex set of values, norms, believes, attitude, customers system and artifacts which are passed on from one generation to another generation (International Labour Organization Geneva, 1965). Culture involves the way an individual behaves in a particular environment. Culture can be of an office, home or a county. We talk of culture in broader sense also like Asian culture, Western culture, European culture etc. So basically when we put together a particular group or a set of people we expect some form of common behaviour from them, it comes under culture. In business environment culture plays a major role. The buying and selling of services and goods get influenced by a particular culture. For e.g. in India drinking amongst women is not as common as in many other countries. Hence keeping or selling liquor at women dominated shopping malls may not fetch much of business. Similarly different societies will have difference responses to a particular business based on the culture it follows and the factors influencing the buying decisions. Hofstede (2001) has identified five cultural dimensions which can be used to compare value systems at different level: - power distance, uncertainty avoidance, individualism, muscularity long term perspective.
2.3.3 Entrepreneurial Characteristics

Firm owner’s entrepreneurial characteristics have a significant impact on the growth of firm. Two kinds of entrepreneurial theories define these characteristics. While various psychological theories have highlighted the importance of an individual’s characteristics in choice of career, motivation to grow, management and decisions making style, the sociological theories highlight that influence of social background and socio-cultural environment on these personal characteristics.

Psychological factors concern different personality characteristics, cognitive characteristics, and motivational patterns (van Gelderen et al., 2003; Rauch and Frese 2000). O’Rand and Krecker (1990) have suggested that most societies have set their expectations regarding appropriate stages for major life events, right from schooling till retirement. In their work on behavioural theory of firms, Cyert and March (1963) have argued that major decisions taken by mangers are result of the behavioural characteristics of the manager instead of quest for economic optimization. They further explained that a firm’s performance is highly influenced by its manger’s decisions that are in turn influenced by his personality traits and experience. Building on this theory, Hambrick and Mason (1984), concluded that manager’s traits indirectly affect the choice of processes adopted by the firm and these processes have a direct impact on the success of the firm. Similar views have been shared by Davidsson (1991); Barkham (1994); Lin (1998); Kangasharju (2000); Entrialgo et al. (2000); Montserrat (2002); Barringer and Jones (2004); Blackburn, Hart, and Wainwright (2013).

2.3.4 Social Capital and Path Dependence

The success of firm in executing a business idea depends on the social environment with which it operates because business depends on multiple relationships in that environment. Hence it is important to discuss various influences of these relationships on the growth of the firm. In recent years one can find many studies on Social Capital. Social capital is a set of informal relationships that may help people to achieve their goals. It is an outcome of the intentional actions of individuals connected to each other in a social setting. According to Putnam (1995, 67), “social capital refers to features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit”. Burt (1992; 2001) adds that through
social capital our friends, colleagues, and more general contacts help us with financial or human resources to leverage opportunities for business growth. According to Nahapiet and Ghoshal (1998), social capital is positively linked to firm’s performance. Jack (2005) argues that social capital of an entrepreneur includes external agents like religious organizations and its members, school ties, professional associations and even community groups. Nooteboom (2007) observes that social capital includes almost everything related to ties between people. He explains that social capital consists of different ties, their characteristics, their structures, functioning and outcomes. It is a non-governmental and voluntary relationship between people at different levels and organizations.

Social capital evolved over the years can create path dependency to the future performance of the entity. North (1990) emphasized that, “the interdependent web of an institutional matrix produces massive increasing returns” (p. 95). Therefore the choices made in the past (technologies, firms assets, labour skills acquired etc.) influence subsequent choices and hence influences the economic performance of the entity.

According to (Nelson and Winter, 1982; Dosi et al., 2000) firms can be seen as bundles of specific capabilities, or as the repositories of organizational routines. What a firm did in the past defines what it can do in future, and so a firm’s growth opportunities are very much constrained by its current production activities. Competitive advantage to a large extent depends on resources and capabilities that have been carefully developed over a period of time. Such accumulation is slow in nature and limits the ability of firms to adapt rapidly to a changing environment.

From an economic perspective, Martin and Sunley (2006), have emphasized that path dependence is an analysis which is context specific and covers geographical patterns of technological changes, economic structures and institutional forms. According to their research, there are two main ways in which economic researchers have used a basic path dependence model – to explain the evolution of a particular industry, technology or institution either in a given location (region, city) or across locations. For a given area (Moradabad in this case), these studies have focused on factors or stimuli responsible for the emergence of the industry, technology or firms and special attention is often directed to the role of local ‘network externalities’.
2.3.5 Summary of Review of Literature and Research Gap

To summarize, there are two theoretical viewpoints on firm growth. The traditional theories recommend that a firm’s growth path can be linear, sequential, deterministic and invariant (Churchill and Lewis, 1983; Greiner, 1972; Adizes, 1979; Kimberly, 1979; Hanks et al., 1993). There are different thoughts on defining the growth stages of a firm in a predictable way starting from existence, survival, success, take off and culminating with maturity then reinvention or death (Churchill and Lewis, 1983; Casson, 1982). A firm’s competitiveness continuously increases from the start-up stage to mature stage. At the decline stage, its competitiveness weakens and signals that in case the firm does not upgrade itself, it will fall. Chen et al. (2008) suggested that firms at different life cycle stages should focus on strengthening capabilities.

The other school of thoughts suggests that there can be abrupt changes in the growth stages especially in small business firms. Recent researches have shown that due to unpredictable intervening factors like knowledge and technology, absorption capabilities, the appropriateness of founder’s judgment and competitive environment, the sequences of stages may be heterogeneous in small business firms. Phelps, et al. (2007), Aislabie (1992), Levie and Hay (1998), Rutherford et al. (2003) and Stubbart and Smalley (1999) have argued that the life cycle models and the deterministic approach to growth are not relevant to organizations. The authors point out that describing a firm’s growth through a series of stages is equivalent to assuming an organization growth as organism metaphor. Majumdar (2008) has mentioned that a firm’s growth depends upon entrepreneurial vision and stand point. He has further suggested that entrepreneurship is not only maintaining a status quo; it is also growing the business firm.

Firm growth depends on the vision and motivation of entrepreneur but the growth parameters vary from one entrepreneur to another. The environment in which the business is operating such as social setting, formal or informal structure of organization, country and origin, its culture and family have different implications on the firm growth. Summaries of models have been done by (Quinn and Cameron, 1983; Phelps, et al, 2007; Levie and Lichtenstein, 2010). This provides the evidences on the common propositions about organization growth but there is a lack of integration among these studies and one cannot draw any conclusion out of it.
In their research on factors impeding the growth of small business firms in Thailand, Poblete and Grimsholm (2010) have found that there are many factors like lack of access to finance, competition, barriers to trade, management competence, lack of skilled labour, low investment in R&D and new technology which hamper growth of a firm. In their study on effects of internationalization on firm survival and growth, Sapienza et al. (2006) have argued how the effects of age, managerial experience and resource feasibility are affected by internationalization and in turn impact the firm’s survival and growth. They propose that internationalization of a firm may hamper changes of a firm’s survival in the short run but in the long run it can enjoy learning advantages which promote growth. The author interestingly proposes that one should study the negative impact of development and redeployment of resources and capabilities on the value creation. Similarly many authors have worked on individual factors and their contribution in the growth of the firms. Studies done by Ramasawami et al. (2009) and Vorhies et al. (2009) have captured the marketing capabilities and the relation of these capabilities to organization growth. Wu et al. (2010) suggested the role of operational capabilities and (Zhou, 2010 and Lee et al., 2001) have studied the role of technology in firm’s development. Majumdar (2008) has mentioned that the unique structure of handicraft sector presents opportunities and constraints that influence the growth performance of the firms. On similar lines, Clark et al. (2001) have suggested that there is a need to study firm growth strategy based on different contexts like country and sectors.

Finally, Gerd (2011) has suggested that path dependency theory mainly deals with incremental innovations and it’s applicability to explain breakthrough innovation or technological innovations in limited. On the contrary, David (1985, p.332) concludes that new technological paths are often triggered "by temporally events, including happenings dominated by chance rather than by systemic forces”. Given that the metal artware industry is constantly challenged by the product innovation demands and competition from automation driven firms of other countries, it is important to study applicability of path dependency theory and find out if (and how) the firms created their own growth paths while following alternate growth models and how internal and external factors enabled such path creation.
2.4 Research Gaps

Literature reviewed for this study clearly indicates that growth of business firms has been an area of interest for policy makers, practitioners and researchers for many years. Many aspects of firm growth have been studied in the last 50 years but studies conducted on Indian context are very limited (Mitra and Pingali, 1999; Majumdar, 2008).

Majority of literature emphasizes growth of a business firm through a predetermined set of stages (Greiner, 1972; Adizes, 1979; Kimberly, 1979; Churchill and Lewis, 1983; Hanks et al., 1993). However, in the last two decades some researchers (Aislabie, 1992; Levie and Hay 1998; Rutherford et al. 2003; Stubbart and Smalley, 1999; Phelps, et al. 2007) have suggested that stages of growth can be non-linear due to intervening external and internal factors. These studies have presented different kind of change patterns observed during firm growth including jumps (Aislabie, 1992) and skipping stages (Masurel and Montfort, 2006). However, there are limited significant studies on exploring the growth path of Indian small business firms, especially in the Brassware sector of Moradabad (U.P). Under the dynamic business environment of India it would be interesting to study, whether Indian firms comply with predictable growth path or there is heterogeneity in their growth.

The above discussion suggests that there is still scope of more studies on the growth dynamics of small business firms whether predefined or otherwise. Specifically existing research leaves enough room for further study regarding the growth of small business firms on the following aspects

- Growth in the context of metal artware business within the handicraft sector. Existing studies on these businesses of Moradabad have focussed on specific aspects such as life of artisan (David, Ryon L.S. and William Rom, N., 1998), child labour (Burra, N., 1987, 1989 and 1995; Ghosh, A. and Sekar, Helen, R., 2000), productivity (Chellani, A., 2003), quality (Garg, 2012), labour health and safety (Galli, R., 1995; National Safety Council, India, 1996) but none of these studies focus on growth of these firms
- Relevance of both staged and dynamic growth theories in context of these firms. There have been studies that have either substantiated the stage theories or contradicted the same
(suggesting abandoning use of these theories). However recent research continues to refer to these theories in different contexts

- **Effect of internal and external factors on growth of these firms.** Though there are studies on different factors and their influence on the growth stages of a firm, studies in the Indian context and especially handicraft sector with combined efforts of different internal and external environmental factors influencing growth of a firm are extremely limited. Even reports by government agencies such as V.V. Giri National Labour Institute, Dept. of SSI or planning commission have not covered effect of business environmental factors on growth of these firms.

This study is an endeavour to fill that gap to a certain extent and provide basis for further research in this area.

### 2.5 Objective of the study

One broad objective of this research is to study the growth of firms through various stages, with special reference to manufacturing and export units of giftware and art ware (brass, iron, copper, aluminium and stainless steel) in Moradabad district of Uttar Pradesh in Northern India.

Under this broad objective, the specific objectives are as follows:

4. To understand the growth stages of small business firms in metal artware business at Moradabad
5. To explore the internal and external factors which influence the growth stages?
6. To determine the intervening factors which promote alternative growth behaviour like Jumps (Aislabie, 1992) and skipping stages (Masurel and Montfort, 2006).

In conjunction with the objectives mentioned above, the research questions will be as follows:

1.1. How do small business firms perceive the growth and its significance?
1.2. What are the key factors which stimulate growth as perceived by these firms?
1.3. How do small business firms grow and which are the stages they go through?

2.1. Why do growth stages of small business firms get impacted by internal and external factors?

2.2. How do internal capabilities influence growth stages of firm?

2.3. How do external factors influence growth stages of firm?

3.1. Why do firms exhibit alternative growth behaviour like skipping stages?

3.2. How do small business firms react to the sudden emergence of these intervening factors?

2.6  Conceptual Framework for the Study

This section provides a brief overview of the conceptual framework that has been used for the study and the environmental factors impacting firm growth.

Milne et al. (1982) have suggested that there are two environments in which business can be done – external and internal, which can be further understood by evaluating the elemental factors in these environments.

- Internal factors are controllable and comprise of the firms personnel, its strategy and its functional, operational, marketing, financial and technical capabilities.
- External factors are beyond the control of the firm and comprise of economic, socio cultural, regulatory and legal, political, financial, trade, technological, demographics and geo- physical factors etc.

For deciding the unit of analysis, these factors (internal and external) of the business context (“Business Environment”) and their connection to growth stages are discussed in the following conceptual framework. The scope of this study confines to firms belonging to the same socio cultural environment and geographical location, therefore the following Internal and external factors are being taken into consideration are depicted in the following figure.
2.6.1 Internal Factors

The internal environment comprises of resources, synergy and distinctive competencies of a firm. All these together determine organizational capability in terms of its strengths and weaknesses existing in different functional areas of marketing, operations, personnel, financial and technical etc. Business managers need to monitor the business opportunities and threats that have or likely to have an impact on their organizations. However, the internal environment is constantly influenced by the external environment.
Strategy of an organization indicates the course of action to achieve the set objectives. It constitutes a well thought systematic plan of action to ensure the objectives of the firm are achieved. This involves an analysis of the organizational factors (internal and external) with the environmental factors (opportunities and threats).

Organization structure of a firm is affected by a number of factors like size of the business, the nature of the business, the diversity of the business, the characteristics of the market, the characteristics of the strategy, the future plans of the organizations etc. Business decisions are affected by the organization structure. A very long hierarchy and rigid system may encourage red-tapism and decision making may be delayed. A flexible organization structure enables the organization to quickly and effectively respond to the changes in the market.

Marketing capability factors are those related to the pricing, promotion and distribution of products or services. All these related aspects have a bearing on the capacity and ability of an organization to implement its strategies. Some of the factors of marketing capability are product differentiation, positioning, packaging; price objectives, policies, changes and protection advantages; promotional tools, sales promotion, advertising, public relations etc. It also covers

Figure 6: Internal Factors Effecting Growth of the Firm (Source: Amit and Schoemaker, 1993; Singh and Garg, 2008; Business Environment 2001; Morrison, 2006; Worthington and Britton, 2006)
marketing mix, distribution systems, company image, and marketing organization, marketing system, management and information systems.

Operations capability factors are those that are directly related to productions. It involves factors like capacity, location, layout, product or service design, degree of automation, extent of vertical integration etc. This also involves production planning, material supply, inventory, cost and quality control, maintenance systems and procedures.

Personnel capability is one of the most important factors influencing business environment. These factors are related to the existence and use of human resources and skills in the firm. It has significant bearing on the capacity and ability of an organization to implement its strategy. Personnel capability would involve factors related to acquiring, maintaining, developing and training people. It will also take care of factors related to industrial relations, organizational and employees’ characteristics such as corporate image and working conditions etc.

Financial capability factors include all those factors which are related to the availability, usage, and management of funds. Some of the important factors that influence the financial capability of an organization are capital structure, procurement of capital, financing pattern, availability of working capital, borrowing, credit availability, reserves and surplus, relationships with banks, lenders and financial institutions.

To keep pace with the changing business scenario, organizations are giving a lot of importance to its technical capabilities. It is important to improve productivity and quality in this fierce competitive era. This objective can be met though continuous improvement in the work structure, procedure and technologies. Technical people of a firm many bring this competitive advantage.

Present study is thus an attempt to look at the various dimensions of growth of Indian firms through study of the handicraft sector. The study is based on the handicraft sector of Moradabad (UP). The focus of the study is to find patterns of growth of these firms as influenced by the internal and external environment.
2.6.2 External Factors

All the factors that provide opportunities or threats to an organization make up the external environment of the organization. In a broader sense it encompasses a variety of factors depicted below.

Figure 7: External Factors Effecting Growth of the Firm (Source: Amit and Schoemaker, 1993; Singh and Garg, 2008; Business Environment 2001; Morrison, 2006; Worthington and Britton, 2006)

Demographic Environment includes factors like size, growth rate, age composition, and sex compositions etc. of the population. It also includes family size, educational levels, economic stratification of the population, language, religion, caste etc. All these factors influence business growth. The heterogeneity of demographics in terms of varied tastes, preferences, beliefs, temperaments etc. affect the demand patterns of populations and the firms need to make different strategies accordingly.

Social environment factors include human relationships and its effects on the society. Factors like buying and consuming behaviour, languages, beliefs, values, customs and traditions, tastes and preferences, educations etc. influences the social environment and hence growth of an organization.
Cultural environment and its understanding are important to understand the business environment in its totality. Cultural preferences play a major role in consumer behaviour. Understanding a particular culture and its proper analysis provides opportunities for establishing and running a business.

The term political environment refers to factors related to management of public affairs and their impact on the growth of an organization. The political environment is closely related to the economic system and the economic policy. In most of the countries there a number of laws governing the business related matters. In India, the government’s influence extends over different aspects of business such as licensing for import/ export, setting up a business, location of business, capacity and process, loan finance, pricing, managerial remuneration, expansion plan, distribution, restrictions and many other enactments. In order to control concentration of economic power, monopolistic undertaking regulations, like MRTP Act has been introduced. These regulations enhance the prospects of Small firms and provide scopes to venture into new areas of business.

Economic environment encompasses economic planning like five year plans, budgets, and monetary, fiscal and industrial policies. Macro level factors related to areas of production and distribution of wealth affect the business of an organization. Business is affected in different ways by the incentive and disincentives offered by the monetary and fiscal policies as well as by their neutrality. Thus economic system is a very important determinant of the scope of firms and therefore a very important external factor influencing business growth.

Business firms are closely associated with financial environment. Financial markets and institutions constitute an integral part of the economic system. Financial environment consist of flow of saving, financial intermediaries, financial instruments and securities. To reduce the uncertainty arising out of the dynamic nature of financial environment it is important to understand the pulse of money market and capital market.

Globalization has reduced the boundaries between the domestic market and international market. The world has become one huge market. In pursuance of this broad objective, World Trade

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7 Globalization is the process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture. Source: Wikipedia, accessed on June 3rd 2014.
Organization (WTO) has been established and under its preview, General Agreement on Trade in Services (GATS). The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) and the Agreement on Trade Related Investment Measures (TRIMs) have been brought. This has made trade environment one of the deciding factors affecting the future of a business.

The technological environment has a huge impact on the growth of a business. It comprises factors related to applied knowledge and the materials and machines used in the production of goods and services. Technology is to bring a competitive advantage in the global market. There are many factors influencing the technological environment like the sources of technology (internal, external or foreign source) the cost of acquisition of technology, collaboration and transfer of technology. Generally the technological aspects of competition vary with customer needs and government policies. Factors like the rate of change of technology, research and development and its impact of human beings are strictly regulated at macro level by the government.

As corporate entities firm are obliged to comply with legal requirements of every country in which they operate. Because the legal system of each country differs in terms of complexity and dimension, it is essential that firms operating in global environment understand and plan to comply with the global laws, especially those related to antidumping, export/import licensing, tariffs, legal incentives, investment regulations and restrictive trading.

The regulatory factors comprise of the factors related to the planning, promotion and regulation, by the government. Some of the factors which influence the regulatory environment include; the constitutional frame work, directive principles of state policy, fundamental rights and division of legislative power between Central and State governments. It also includes policies related to import/export, distribution, pricing, public sector, small scale industries, sick industries development etc.

Other external factors effecting business environment would include tax environment, and ethical environment.