ABSTRACT

The study aims to analyze different stages of growth followed by the small business firms (SBFs) engaged in manufacturing and export of metal artware handicraft products at Moradabad (Uttar Pradesh), India.

About one million people are employed in the handicraft export segment of India. Over the years there has been a constant rise of small business firms entering into handicraft exports. (Annual Report SME 2011-12). Indian handicraft sector is a major source of trade in India and contributes significantly in earning foreign revenue, specially the state of Uttar Pradesh (UP). Moradabad is the biggest export hub in Uttar Pradesh. Moradabad is the oldest brassware cluster in India and is also called 'Peetal Nagri', meaning Brass City. Almost 90% of the goods in Moradabad are exported. Around 80% of the total brass ware products and 33% of the total handicraft items in India are originated from this city. Since the industry is mostly export oriented, it is highly sensitive to the global economies and its changing situations.

Over the years, this subject of firm growth has been researched from various theoretical perspectives and the researchers have suggested numerous stage models for this. Usually, these studies abstractly represent a cycle of emergence, growth, maturity and decline. There are two set of thoughts prevailing among researchers; some suggest that the growth stages followed by the firm are linear or predictable, while others suggest that the growth is fairly opportunistic or unpredictable. In this research both theoretical views on the growth of the firm has been taken as the base. The intent is not to explain the existing growth models, but determine what are the growth stages followed by these SBFs, their growth path and influence of environmental factors (internal and external) on their growth. The goal is to provide fresh insights about perceptions of growth stages from the handicraft sector of Moradabad.

In spite of so much potential and promise in the handicraft sector of Moradabad, one can find limited studies on this sector. Most of these studies concentrate on historical aspects, cluster dynamics, product quality, labour and health issues. However studies on factors affecting the growth of this sector are limited. It is interesting to find out the growth aspects of handicraft industry of Moradabad, which has high employment potential and has a rich tradition of excellence in arts and crafts. In addition, growth of a firm has been an area of interest for different researchers,
but there is dearth of research on Moradabad’s metal artware business. Considering this, the researcher sought to explore the growth stages of these business firms in Moradabad. The study has covered SBFs engaged in manufacturing and export of art ware and giftware made of Brass, Iron, Copper, Aluminium and Stainless steel.

The study mainly consists of respondents from a set of small business firms which are mainly exporters of handicraft products and are in this business for last two decades (a small business firm is defined as the one which is mainly owner run, follows flexible operating model with few people, there is lack of formal hierarchy, and they have short term orientation). Case study method of social science is used to get a holistic, in depth understanding of the growth of these firms under study and the findings are based on analysis of data collected from the owners and staff of these firms in Moradabad.

**Literature Review**

For this study the existing literature on small business firms, firm growth theories and factors influencing firm growth was reviewed. After an extensive review of the studies carried out by researchers across the world in different context of region, economy, sector, industry and products/services, these works were analysed in the context of research objectives. The gaps in existing research were documented and the objectives of the study were clearly stated.

Majority of exiting research over last thirty years have argued the applicability of stage based or dynamic growth theories in context of business firms. However, in a recent research Gilbert et al. (2006) have mentioned that in order to truly understand the growth in business firms, “how” and “where” questions are very important. They have emphasised that growth is a function of the decisions the firm’s owner-manager takes regarding “how to grow” (internally or externally) and “where to grow” (domestic or international market). There are also different views on the how small business firms perceive growth, however, there is significant relation between education, industry, past growth turnover, past growth in employees and firm owner’s aspiration to grow. Aspirations are also significantly related to many factors like experience and gender of the owner, location and size of the firm.

Firm owner’s entrepreneurial characteristics have a significant impact on the growth his firm. Hambrick and Mason (1984) and Cyert & March (1963) have argued that a firm’s
performance is highly influenced by its manager’s decisions that are in turn influenced by his personality traits and experience. Firm 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.

The success of firm in executing a business idea depends on multiple relationships in that environment – called its social capital. Various researchers such as Burt (1992; 2001), Jack (2005) and Putnam (1995) have defined social capital and mentioned about its impact on firm growth. Social capital evolved over the years can create path dependency to the future performance of the firm. 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.

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). 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.
- Relevance of both staged and dynamic growth theories in context of these firms.
- Effect of internal and external 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.

**Objectives 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:
1. To understand the growth stages of small business firms in metal artware business at Moradabad
2. To explore the internal and external factors which influence the growth stages
3. To determine the intervening factors which promote alternative growth behaviour like Jumps (Aislabie, 1992), 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 small business firms react to the sudden emergence of these intervening factors?

**Research Methodology**

This research is an exploratory study, in which “multiple-case analysis” method has been used with an inductive approach for data collection and analysis. This qualitative method was chosen for the study because quantitative methods focus attention on measurement and amounts of the characteristics displayed by the people and events that the researcher studies – something not applicable in the context of this study. This method makes use of both qualitative (primarily) and quantitative evidences (Eisenhardt and Graebner, 2007). Eleven firms were shortlisted as those were suitable for the study and were willing to participate in detailed research about their growth.
The shortlisting was done purposively in line with maximum variation phenomenon (Sandelowski, 1995).

The study was conducted in two phases – a pilot study followed by a more details study of these firms in Moradabad. Primary source of data for the study is the set of in-depth interviews with firm owners, managers and workers based on the research questions from the study. Observation of processes and practices during factory visits has also been used to collect data. Secondary data, in form of reports, documents, audio-visual data, newspaper cutting has been used to support the analysis.

For data analysis all individual cases were written out as standalone cases and within-case analysis was performed (unique patterns of each case were identified and similar patterns were categorized under common themes). After describing individual case characteristics, a thorough analysis of internal capabilities and external factors on the cases under study was conducted. For such cross-case comparison, factors from conceptual framework (deductive concepts) and categories which emerged from the process of coding of data, were used to facilitate inductive theory building. The purpose of cross-case analysis was to find the similarities and differences between the cases. It helped improve the likelihood of accurate and reliable theory. Several themes, concepts, patterns and relationships between variables emerged out of these within-case and cross-case comparisons.
Major Findings

The study established that there are a set of defined growth stages that small business firms in Moradabad have followed during their initial phases of development. However, the stages differ across firms and some of the firms have exhibited alternative growth behaviour such as jumps or skipping stages due to impact of the various internal or external factors studied during this research. Most importantly, the extent of growth was highly influenced by the individual characteristics of the firm’s owner-manager.

Growth Stages followed by small business firms – The assumption, found in most of the literature, that all firms follow a same predictable path has not been found during empirical examination of this sector. It was found that each firm has gone through different stages during growth. A section of the firms covered, could not confirm a linear rise in profit or turnover. Most other firms face different challenges to sustain themselves in the market. From the observation of the firms during data collection, it was found that firms do grow, but not necessarily in any prescribed sequence. Rather it was found that most of the firm owners themselves are not sure of their strategy for growth. Instead, their primary focus is on sustainability of the existing business which is highly unpredictable as they operate in a buyer driven market.

Factors effecting growth of the small business firms – This study confirms that both external business environment and internal capabilities of the firm impact the firm growth. Among all the external factors economic, market and technology have shown maximum impact on the firm growth. On the other hand operational, marketing and strategic capabilities are the most important internal factor contributing to the growth of the firms under study.

In the initial stage one can enter the market with a small setup but in the later stages operational capabilities are the major source of business acquisition and expansion. The challenges in the handicraft market are similar for most of the firms but product innovation and marketing tend to provide definitive edge to one over another. Growth strategy adopted by each firm owner has a major impact on the growth of the firm – his/her ability to deal with change and take correct strategic decisions is a very strong factor influencing growth.
Factors promoting alternative growth behaviour – Small business firms do exhibit alternate growth behaviour at different stages of their growth. Being an export driven business, there are instantaneous changes that may come from unexpected order from the buyers, opening of a new market and foreign currency appreciation. This allows sudden changes in the level of assets and capital of the firm that can be reinvested into the business in the form of technology upgrade, sales in new markets, product innovations and diversification. These levers allow the firm to achieve turnover that exceeds their expectations to a very high degree. On the contrary, changes such as last minute cancellation of large orders, economic downturn, appreciation of rupee and sudden increase in raw material cost, may cause huge losses or even closure of these firm.

Conclusions

Growth is important for all the firms, however the definition of growth varies from firm to firm. Sales turnover, profitability and customer base are the three parameters that are considered benchmark of growth by all these firms – turnover being the dominant one. Small business firms in brassware sector do not follow the linear growth stages in their lifecycle beyond first two stages. From thereon, firms exhibit alternative growth behaviour such as jumps or skipping stages due to impact of the various internal or external factors. In such a case growth is largely driven by the personal characteristics of the firm owner/entrepreneur, events /triggers introduced by the firm’s social & market environment and the dynamic interplay of growth enablers.

The notion of maturity doesn’t exist among the firms in this sector as there’s continuous quest to grow amongst the firm owners. Firm owner’s vision and motivation to grow defines his firm’s business strategy. Impact of entrepreneur’s educational background/qualification on growth of firm is very limited. Instead his decisions regarding growth strategy are driven by the prior experience and ability to take risks.

Moradabad brassware sector has immense potential to grow. However, the perspective of growth amongst the business firms is fragmented and rooted in traditions. There is a need to change this perspective by introducing a structured model of growth suitable to the needs of these small business firms in this sector. The model proposed in this study (see section 7.3) will help firm owners and policy makers in changing their perspective towards growth of these firms. It will also
enlighten the entrepreneurs to follow a structured approach to develop required internal capabilities in order to handle impact of external factors. This will lead to two benefits for the entrepreneurs

- Enable them to pre-empt, plan and manage the risks to business growth that are posed by factors outside control of the firm (e.g. policy change, slowdown in market)
- Prepare them to leverage opportunities presented by favourable changes in business environment outside the firm (e.g. new markets/geography, technology changes)