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Established SMEs Growth: Exploring Firms and Innovation

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ABSTRACT

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

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

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

Keywords: Innovation, Entrepreneur ambitions, Established SMEs growth.

1 | INTRODUCTION

The rate of growth of some organization is very high than other organizations as the firms with high growth rate knows the needs of their customers and fulfill them while other do not. A firm's growth is very complex but its role to the stakeholders is very important, like investors who want the return of it, its owners, and the society in which firms give job opportunities. A large number of research is done on firms' growth and the factors related to the growth of firms but there is very less research on established firm's knowledge as the factors associated are increasing day by day but still average firm is not growing (Westhead et al., 2004; Coad, 2009). If we look at its picture on a large scale almost 90% of Pakistan firms consist of small and medium enterprises (SMEs) and have employed a huge number of people. Owners of SMEs if understood underline factors will help them to decide for growth and will put on growth direction every time.

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

Established SMEs are a significant subset of the economy of a country by its growth and on the other side, large firms' growth is the success of new ventures due to its attention in the recent years as it has given to growth in SMEs. Different factors have been associated with the growth of the firms and argued how these factors affect the firm growth process in which two are recourses availability and finance on those firms which are growing and focusing on growth. A positive relation was found between a firm's growth and resource availability

(Wiklund and Shepherd, 2003; Hutchinson and Xavier, 2006), and other researchers (Storey and Greene; 2010; Gundry and Welsch, 2001) argued the same findings. Besides finance, the market (external factors) segment has also been linked to the growth of the firms. Internal factors (structure of organization) of the firm determine the growth outcomes and the firm's structure is found to play an important role, like using the firm's goals for linking with its growth (Locke and Latham. 2002; Wiklund, 1998; Baum, Locke and Smith 2001; Janssen, 2009).

Innovation and its relation with the growth of the firm in the SME context is an important characteristic because it provides more interpretation in research. Innovation gave huge results in every field in the communication, transportation, and automobile industry (Fagerberg, 2003), but there is still a need for research innovation and growth of a firm. The relation between the growth of firms and innovation is not in a straight line: Studies have found positive and significant relationships has been found (Coad, 2009), but a significant impact was not found (Demirel and Mazzucato 2012), and even negative significant impact relation has been found o firm's growth (Demirel and Mazzucato 2012). In conclusion to these studies, it can be interpreted as more research is needed on a firm's innovation for finding why some innovative firm grows and others do not.

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

Firm Growth and Innovation

Although attention has been seen to a very large extent towards innovation but the relationship with SMEs in high growth has still not reached the mark where it should be. For innovation understanding first, we should know what innovation is. OECD (2005) gives a detailed definition.

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

An important feature of this is that it must be implemented into the business which makes itself apart from the invention. To enhance the firm performance that is the main aim or goal of putting efforts into innovation. The innovation process is one of the areas which is included in many studies about a firm's growth and performance (Freel and Robson, 2004; Dobbs and Hamilton, 2006; Moreno and Casillas, 2007; Storey, 2010 ;). The findings of the study are not in agreement but still, innovation's effect on growth and performance is under debate. The effect of innovation maybe not be directly on the growth of firms but rather be mediating or moderating by others factors. Some studies say there is no correlation between the growth of a firm and innovation (Storey and Greene, 2010). These results tell us that the road toward the growth of firms through innovation is very difficult as there may be other factors but innovation stills come at the top level.

H_1: *Innovation affects the growth of established SMEs and has a significant relationship*

Firm growth and Entrepreneur attitude

In every firm, the top management plays a key role that affects the outcomes which help in shaping the firm operations, goals, strategies et. This is the same in the case of SMEs (Soufani, 2001; Quader, 2007; Delmar & Wiklund, 2008) with one difference that the leading figure in SMEs is smaller than other firms. But the owner is still active and holds many designations in the firms like Board chairman, and CEO. This can be understood by SMEs' amount of resources which it has. If some hold a larger figure so the simple question arises; how do their ambitions and motivation affect the firm's performance and growth?

In literature, the entrepreneur is often linked to leading figures like the owner, chairman, and CEO. Different definitions have been proposed for several years (Stam et al. 2012). According to Leibenstein (1968) entrepreneur is the one who has some unique characteristics in gap-filling, i.e. being the one who finds the required resources for producing a marketable product or service. This shows us that entrepreneurs are responsible for exploitation and facilitating the market. Stam et al (2012) define ambitious entrepreneurs as "someone who engages in the entrepreneurial process intending to create as much value as possible". This builds a behavioral perspective in which entrepreneurship is processed opportunities are discovered for producing goods and services, then evaluated and exploited. Storey and Greene (2010) said, aside from suggesting that growth intentions should be researched in firms there may also be given some focus to examine the entrepreneur's growth intention unless other factors have been tanked into account as the intention might be the condition to firm's growth.

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

H_2: *There is a positive and significant relationship between entrepreneur ambitions and an increase in the growth of established SMEs.*

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

Research Objectives

- To investigate the role of innovation in the growth of established SMEs.
- To check the effect of entrepreneur ambitions on the growth of established SMEs.

2 | METHODOLOGY & DESIGN

The study was based on the growth of established SMEs and those were selected for the research whose growth rate was high and it is limit to its size was set up to 30 employees, which were checked from the national database (SMEDA) Pakistan. Those firms were selected which were located in Khyber Pukhtunkhwa province of Pakistan and the rationale for selection from a single location was to ensure the business environment. The manufacturing industry was chosen as there will be no issues of crossindustry and the number of manufacturing industries is high.

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

Measures

Innovation:

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

- "Is the industry mainly conservative or is it possible to succeed by delivering new offerings that are not similar to those already existing?"

The scale was measured through a five-point scale

Entrepreneur Ambition:

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

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.918[a]	.843	.841	.25270
a. Predictors: (Constant), Ambition, Innovation				

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

Organization Growth:

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

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

3 | ANALYSIS AND FINDINGS

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

Table 1: Correlations

	Innovation	Ambition	Growth
Innovation	1	.965**	.905**
	.000	.000	.000
	210	210	210
Ambition	.965**	1	.913**
	.000	.000	.000
	210	210	210
Growth	.905**	.913**	1
	.000	.000	
	210	210	210

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

Table 1 indicates the correlation of the variables of the study. In the table, a positive and strong correlation (r = .905) can be seen between innovation and established SME growth. And established SMEs growth has also a strong and positive correlation (r = .913) with entrepreneurs' ambitions.

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

Coefficients				
Unstandardized Coefficients		Standardized Coefficients	t	Sig.
B	Std. Error	Beta		
.091	.160		.570	.570
.416	.125	.351	3.343	.001
.547	.100	.575	5.480	.000

a. Dependent Variable: Growth

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

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

The unit of change measure is indicated by the standardized beta values and in this, the independent variable shows an effect of the dependent variable. Sig (p) and t show the significant values of research, a small or low value of "P" and a high value of "t" indicate that independent variables have a large effect on the dependent variable.

Innovation is an independent variable and its significant predictor is = .351, P< .001, showing our first hypothesis is accepted, and also entrepreneur ambition is the other independent variable and the significant predictor is = .575, P< .000, showing that our second hypothesis is also supported.

4 | Discussion

Based on previous studies the current study focused on the effects of innovation and entrepreneur ambition on established SMEs growth in KPK, Pakistan. According to the data results, it was evident that focusing on innovation not only is good for new SMEs but also for the growth of established SMEs and is in support of results that were found positive and significant relationships by (Coad, 2009). Some researchers have a fond relationship between growth and innovation (Littunen and Tohmo 2003) and some others did not find any relationship (Hoffman et al., 1998), meaning that it is difficult to find the relationship but still when it comes to growth innovation is at the top (Coad & Rao, 2008). On the other side entrepreneur's ambitions also plays a vital role in established SMEs' growth. From previous research, we can see that intentions toward growth are seen important factor, and ambition is seen as an antecedent of growth (Hermans et al., 2012) and is in line with the study of (St-Jean et al. 2008).

5 | Conclusion

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

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