Discuss the aphorism small firm growth being the only measure of an entrepreneurs...

Business, Entrepreneurship

INTRODUCTION Business growth is a good goal for most firms in general and is given great weight by the society. This could be seen with the list conjured up by the media, such as ' Forbes Fast-Growing Companies' and ' Inc Fastest Growing Companies' lists (Hupato 2011). The reason small firm growth has been prioritised by policy makers and the society is mainly due to its contribution to the economy (Bridge, O'Neill & Martin 2009). Small firm and entrepreneurship have so often been linked together, and it has become common to acknowledge that all small firms are established by entrepreneurs.

Hence, the terms such as growth, success and performance are often linked in the research of entrepreneurial success (Reijonen & Komppula 2007). However, if entrepreneurship is defined as creation of new economic activity, the aspect of firm growth is already defined the moment the entrepreneur introduced new products or services (Davidsson, Achtenhagen & Naldi 2010). In other words, growth is not an aspect of entrepreneurship if growth is measured solely on volume expansion of existing products or through acquisitions of existing business.

Schumpeter has also mentioned that one can be entrepreneurial without being self-employed and vice versa (Utsch, Rauch, Rothfufs & Frese 1999). Entrepreneurship remains an enigma till date and the assumption that all small firms are creations of an entrepreneur is arguable. Davidsson, Achtenhagen & Naldi (2010) has described, even a superficial reading on the complexity of small firm growth literature could easily leave the reader confused. Thus, the aphorism of small firm growth being the only measure of an entrepreneur’s success should be looked upon from different perspectives.

The dimensions of small firm growth and also the perspectives of entrepreneurial success will be analysed to see the degree of its correlation and to judge how true the mentioned aphorism is. What is small firm growth? Generally, growth of a business occurs in phases in a small business life cycle. A business venture would normally encounter three-stage development process, namely the ‘ seed’ stage, the ‘ start-up’ stage and the ‘ expansion’ stage (Mukherjee 1992).

The ‘ seed’ stage brings a well-conceived idea into existence, while the ‘ start-up’ stage included employment and accumulating business capital, and the ‘ expansion’ stage involves manufacturing or service capacity increment (Mukherjee 1992). On the other hand, Bridge, O’Neill & Martin (2009) has suggested five stages of small firm growth, namely ‘ existence’, ‘ survival’, ‘ success’, ‘ take-off’ and ‘ maturity’. Helms & Renfrow (1994) has supported the concept of the five stages of various developmental growth stages when they conducted a research in United States.

Bridge, O’Neill & Martin (2009) defined the five stages as the following: the ‘ existence’ stage is similar to the ‘ seed’ stage explained previously, while the ‘ survival’ stage involves customer familiarisation with the firm’s product or service. The ‘ success’ stage is when there are options for further growth, thus the ‘ take-off’ stage where the owner opted to grow the business larger. The business will reach the ‘ maturity’ stage when it displays the characteristics of a large company.

However, the mentioned researchers have concluded that it is difficult to clearly define the business development stages clearly during throughout the business cycle (Bridge, O'Neill & Martin 2009). Despite the challenging task to categorise growth, researchers would still generally use the small business growth as indicator of success since it is common parlance to suggest that success requires growth, to stand still is to die (Geneste & Weber 2011). There are enormous literatures on theories of growth and are most commonly associated with generation of jobs.

In the early years, entrepreneurship has been the main focus due to its significant employment opportunities that was created. This reason remained strong today thus gaining the attention from policy-makers in each country. In fact, the number of employees a firm has become an important factor for classifying a small firm (Helms & Renfrow 1994). Research shows that young high-growth firms (also commonly known as ' gazelles') generate a large share of all new net jobs (Roper 2012).

Robbins, Pantuosco, Parker & Fuller (2000) has also confirmed in their research that a state with large quantity of small business has lower rates of unemployment compared to other states that has little quantity of small businesses. The reason employment rates are valuable in measuring growth is because each firm will grow until they reach the optimal size that corresponds to minimum average cost (Hart 2000). Thus, each firm will continue to employ during its growth stage until it reaches the efficient scale or natural decay.

However, other research has proved that it is difficult to measure small firm performance by employee growth. This is due to moderating variables such as outsourcing activities, productivity changes and replacement of employees with capital investments (Fitzsimmons, Steffens & Douglas 2005). When business grow in this the rapid changing modem world, many production and service functions has been contracted out (Bridge, O'Neill & Martin 2009). In other words, a business can grow without having any increase in employment rate.

Several academicians argued that sales precede other yardsticks for business growth, as pointed out that it is the increase in sales that necessitates the increase in the number of employees hired (Davidsson, Achtenhagen & Naldi 2010). Sales revenue performance is used as small firm's growth because it mirrors the consumer's demand for the product or services provided by the firm (Fitzsimmons, Steffens & Douglas 2005). In this world of constant returns, the consumer's demand for the product or services determines the limit on the firm's growth.

Sales figures easily reflect both short-term and long-term changes in the firm, hence measuring the growth and performance. However, there are two reasons that deviate sales as business growth yardstick. Firstly, the typical downward sloping demand curve is not applicable in practice. Just as a habitual entrepreneur starts more than one business, a firm can also have product differentiation (Hart 2000). Hence, it is difficult to determine the demand and cost curves in imperfect competition market condition.

Secondly, sales are not an accountable measure during first few stages of the business cycle. During the seed and the start-up stage, employment and assets may grow more extensively before any significant sale has been done (Fitzsimmons, Steffens & Douglas 2005). In this context, assets are in the form tangible ‘ fixed’ assets and intangible assets such as of entrepreneur’s knowledge asset, the reputation of the firm (Bridge, O’Neill & Martin 2009) and quantity of registered patents. Hence, business growth could not be measured by sales alone.

Looking from another dimension, a firm’s profitability could be suggested as an important measure of growth for the simple reason that a firm is unable to sustain without profits. The difference between maximised sales and maximised profit is that the marginal revenue is zero when sales are maximised but the marginal revenue is positive when profits are maximised (Hart 2000). A firm’s growth on profitability can be considered in term of the net profit margins, return on assets (Fitzsimmons, Steffens & Douglas 2005) or return on equity (Durguner & Katchova 2009).

High profit margins, return on assets and return on equity provide more confidence for shareholders and potential investors to invest in the firm, enhancing business growth. However, growth rates are highly volatile over duration of time and research has shown that there is no evidence of a relationship between growth and profitability (Fitzsimmons, Steffens & Douglas 2005). In accordance, many articles have reached a conclusion that financial measures alone are not sufficient as business growth and performance measure for small firms (Reijonen & Komppula 2007).

This is due to the fact that, just as entrepreneurship, small business sector is hardly homogeneous, and not all of these businesses are operating in the same direction. Some research has even shown that not all small firms are even capable or willing to grow (Papadanki & Chami 2002). What is entrepreneurial success? The capability and willingness to grow of small firms are directly influenced by the business owners' intention to grow and their self-perception of success.

In other words, the growth of small business is not a self-evident phenomenon, but it is actually driven by the business owner's motivations and intentions (Morrison, Breen & Ali 2003). Most business decisions are made by owners, and their own personal judgement will impact on the business growth orientation (Geneste & Weber 2011). Consequently, it can be considered that the role of the entrepreneur should be emphasized as the dominant factor of growth (Reijonen & Komppula 2007). An entrepreneur'smotivationfor business growth has to be complemented by his or her willingness to grow and assume risks.

The risks involved are such as willingness to delegate control functions to others and the uncertainty to produce more output. The researchers found that due to the risks, small business owners are reluctant to grow and perceives profit-maximisation as only one of the motives for business growth (Papadanki & Chami 2002). This argument draws down to the psychological theories of motivation. The McClelland's theory of needs defined ' need for achievement' as " the drive to excel, to achieve in relation to a set of standards, and to strive to succeed" (Robbins, Judge, Millet & Boyle 2011).

Hence, characteristics of the business owners are linked to the business growth aspirations. In other words, each entrepreneur has their own perception of success depending on their own standard for ‘ need for achievement’. To understand the business growth aspirations deeper, the owner’s clusters of traits and behaviours which affect the way they engage in their business activities are examined. The characteristic of the firm owner can be divided into three broad categories, namely ‘ life-style’, ‘ comfort-zone’ and ‘ growth’ (Bridge, O’Neill & Martin 2009).

The ‘ life-style’ owners are defined to be those who establish the business to provide them a level of income and have no intention for business growth. Geneste & Weber (2011) has identified owners that are not keen to expand their business due to deliberate ‘ life-style’ choice, such as the small business atmosphere that engenders comradeship and job satisfaction. The ‘ comfort-zone’ owners establish the business and focus on the benefits it can provide for the comfort he or she wants in life and the business growth will be stagnant once the desired comfort level has been achieved.

The ‘ growth’ owners are the almost ideal business person who maximises the earning potential and continue to grow the business further for the future. Clearly again, the intrinsic motivation of the owner should be examined further in order to understand what entrepreneurial success is. There are many studies that have been conducted to explore an entrepreneur’s intrinsic motivation for his or her business. One piece of research conducted was to compare the start-up motivations and growth intentions between African-Americans (titled as ‘ black’ by the researchers) and Americans (titled as ‘ white’ by the researchers).

Edelmen, Brush, Manolova & Greene (2010) has conducted a research to investigate new venture among black and white nascent entrepreneurs. In their research, they have discovered three important findings related to business growth. Firstly, nascent entrepreneurs do not associate business establishment outcomes with business growth intention. Secondly, entrepreneurs are motivated to start ventures to fulfil a need for self-realisation. Lastly, it is found that whites are more strongly motivated by the desire for financial success while blacks had higher levels of personal self-confidence.

Hypothetically, the findings of this research suggested that blacks inherited the ‘ life-style’ motivations while the whites are ‘ comfort-zone’ motivated. This research has proved that expected financial outcomes are not as important as noneconomic concern in determining the entrepreneur’s attitude towards growth. The entrepreneurial success is not related to the growth of the firm but for intrinsic satisfaction instead; hence small firm growth should not be the only measure for the entrepreneur’s success.

In another piece of research, (Utsch, Rauch, Rothfufs & Frese 1999) has investigated the rapid emergence of entrepreneurs and small firms in East Germany. During the research, the role ofpersonalitytraits has been clarified and the researchers found an encouraging convergence result in two areas, namely the need for achievement and need for autonomy. In other words, entrepreneurs with high need for autonomy will be more motivated to begin small-scale business ventures and will develop the business further only if they have high need for achievement as well.

In parallel to that, Lee & Tai (2010) has conducted a research to investigate the motivators and success of small business in Kazakhstan. Empirical evidence has suggested the entrepreneurs are motivated to achieve financial independence and also to obtain social recognition. This is due to the fact that entrepreneurial endeavours are considered as honourable and also an upgrade on social-status activities. This theory is shows that entrepreneurs in Kazakhstan are more aligned towards the ‘ comfort-zone’ characteristics.

The mentioned researchers have also concluded that the success of some small firm growth is contributed by the creativity and commitment of all the entrepreneurs. From these two pieces of research, it is further confirmed that entrepreneurs have their own perceptions of success but each individual has different intrinsic motivation to achieve his or her goal, albeit from different geographic locations. Another aspect to consider on perception of entrepreneurial success should be the gender of the owner. Research shows that there are differences across entrepreneur’s gender on perceptions of success.

Male and females entrepreneurs differ in the way they measure their extrinsic and intrinsic dimensions. Previous study has verified that male entrepreneurs tend to emphasize on quantitative measures and economic values while female entrepreneurs emphasize on qualitative measures and social values (Justo, Cruz, de Castro & Coduras 2006). Hypothetically, male entrepreneurs describe success in term of achievinggoalswhile female entrepreneurs define success in terms of doing something fulfilling. The research has also iscovered that the motivation for business success is moderated by the parental status of the entrepreneur. Female entrepreneurs are more motivated venturing into self-employment if they have dependent children under their care and perceived success when they are able to fulfil the need of independence. This hypothesis has been confirmed by Ahmad (2011) when he conducted a research on female entrepreneurs in Kingdom of Saudi Arabia. In this piece of research, female entrepreneurship has proved to be influenced by the female entrepreneur wanting to spend more qualityfamilytime.

For these female entrepreneurs, the perception of success was when the desire for autonomy, independence, self-fulfilment and wealth has been achieved. In short, the gender status of the entrepreneur significantly impact on the perceptions of entrepreneurial success where female entrepreneurs depict more on social values as success. Conclusion In conclusion, the dimensions of small firm growth and the perspectives of entrepreneurial success have been discussed to judge how true the aphorism of entrepreneurial success can only be judged by small firm growth.

The different stages of business cycle have been identified and the growth of the business occurs in almost all the phases in the five stages of small firm growth in their own way. Growth is included in many aspects, such as growth of the idea, or the growing numbers of customers, or generating more returns from the business. Generally, the measurement of growth is mainly based on quantitative values such as employment rate, business sales and profitability among other yardsticks. However, research shows that small firm growth could not be measured on financial and economical terms only.

The rate of employment becomes insignificant as the business can grow without hiring any new employees, while sales do not account for the first couple stages of the business cycle and there might be owners who deviate from the main product or service line. Research has also shown that there are no relationship between profitability and growth. Therefore, the entrepreneur’s perception of success should be moderated to measure small firm success. Three types of small firm owner’s characteristics has been identified, namely the ‘ life-style’, ‘ comfort-zone’ and ‘ growth’.

From the few pieces of research that has been examined, most of the entrepreneurs are found to be ‘ life-style’ and ‘ comfort-zone’ and rarely the ideal ‘ growth’ motivated characteristics. The gender of the entrepreneur will also affect the measuring manner of small firm growth success. Each attribute shows the willingness and capability of each owner to further grow their business. Hence, the entrepreneur’s intrinsic motivation plays a vital role in judging and predicting the small firm success.

In this context, the intrinsic motivations are such as the need for achievement, autonomy and self-realisation are more important than business growth intentions. In a nutshell, it can be concluded that small firm growth can be a way to measure entrepreneurial success, but it should be based on the standard or level that the entrepreneur has placed emphasis on instead of strictly on monetary values only. REFERENCES Ahmad, SZ

2011, ‘ Evidence of the characteristics of women entrepreneurs in the Kingdom of Saudi Arabia’, International Journal of Gender and Entrepreneurship, vol. 3, no. 2, pp. 123-143.

Bridge, S, O’Neill, K & Martin, F 2009, Understanding enterprise: entrepreneurship and small business, 3rd edn, Palgrave Macmillan, Hampshire. Davidsson, P, Achtenhagen, L & Naldi, L 2005, ‘ Research on small firm growth: a review’, 35th EISB Conference, Barcelona. Durguner, S & Katchova, AL 2009, ‘ Measure of small business financial performance from a lender and a borrower perspective’, The Business Review, vol. 13, no. 2, p. 24. Edelman, LF, Brush, CG, Manolova, TS & Greene, PG 2010, ‘ Start-up motivations and growth intentions of minority nascent entrepreneurs’, Journal of Small Business Management, Vol. 8, no. 2, p. 174. Fitzsimmons, JR, Steffens, PR & Douglas, EJ 2005, ‘ Growth and profitability in small and medium sized Australian firms’, AGSE Entrepreneurship Exchange, Melbourne. Geneste, L & Weber, P 2011, ‘ Relating small business growth with success: some findings from the 2008 Western Australian small business benchmarks survey’, 8th AGSE International Entrepreneurship Research Exchange, Melbourne. Hart, PE 2000, ‘ Theories of firms’ growth and the generation of jobs’, Review of Industrial Organization, vol. 17, no. 3, p. 229.

Helms, MM & Renfrow TW 1994, ‘ Expansionary process of the small business: a life cycle profile’, Management Decision, vol. 32, no. 9, p. 43. Hupalo, PI, TiE Islamabad, 2012, ‘ Measuring success in small business and entrepreneurship’, TiE Islamabad, 12 October 2012,< https://islamabad. tie.

org/article/24/measuring-success-small-business-and-entrepreneurship>.

Justo, R, Cruz, C, de Castro, J & Coduras, A 2006, ‘ Entrepreneurs’ perception of success: examining differences across gender and family status’, IE working paper, Instituto de Empresa Business School.

Lee, JW & Tai SW 2010, ‘ Motivators and inhibators of entrepreneurship and small business development in Kazakhstan’, World Journal of Entrepreneurship, Management and Sustainable Development, vol. 6, no, p. 61. Morrison, A, Breen, J & Ali, S 2003, ‘ Small business growth: intention, ability and opportunity’, Journal of Small Business Management, vol. 41, no. 4, p. 417. Mukherjee, TK 1992, ‘ Financing the three stages of the small business cycle: a survey’, Journal of Business and Entrepreneurship, vol. 4, no. 1, p. 33.

Papadanki, E & Chami, B, Industry Canada, 2012, ‘ Growth determinants of micro-business in Canada’, Government of Canada Publications Ottawa, ON, viewed 12 October 2012, . Reijonen, H & Komppula R 2007, ‘ Perception of success and its effect on small firm performance’, Journal of Small Business and Enterprise Development, vol. 14, no. 4, pp. 689-701. Robbins, DK, Pantuosco, LJ, Parker, DF & Fuller, BK 2000, ‘ An empirical assessment of contribution of small business employment to U.

S. state economic performance’, Small Business Economics, vol. 15, no. 4, p. 293. Robbins, SP, Judge, TA, Millet, B & Boyle, M 2011, Organisational Behaviour, 6th end, Pearson Australia, French Forest, NSW. Roper, Stephen 2012, Entrepreneurship : a global perspective, Routledge, Abingdon, Oxon ; New York, NY. Utsch, A, Rauch, A, Rothfus, R & Frese, M 1999, ‘ Who becomes a small scale entrepreneur in a post-socialistenvironment: on the differences between entrepreneurs and managers in East Germany', Journal of Small Business Management, vol. 37, no. 3, p. 31.