WILLING TO GROW OR HAVING THE RESOURCES - WHICH AFFECTS SMALL FIRM GROWTH MORE (SUMMARY)

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SUMMARY

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Principal Topic

Resources and growth orientation are considered to be important factors of firm growth, and thus they have been targeted by several studies. Both resources and growth orientation have strong theoretical backgrounds and have obtained empirical support as determinants of growth. However, they have generally been studied separately and only rarely within a single study. In this paper, we construct a model for growth that combines the resource-based view of the firm and growth motivation approach, and test it on small high-technology ventures. We assume that the dimensions of firm resources and growth orientation can be conceptualized as two distinct higher level constructs, and we set forth to study their direct and interaction effects on firm growth.

Method

Sample for this study is composed of small and medium sized Finnish software companies. By choosing a single industry, we avoid several problems in operationalizing the resources construct. The primary data used in this study were collected in a survey in 2008 and complemented with financial information from Orbis database. The sample size was 305.

We used structural equation modeling as the main analysis method. The constructs were operationalized as a second-order factor model, where six first-order factors were used to measure two second order factors: resources and growth orientation. Hypotheses were tested with a structural model where a growth construct was regressed on constructs for resources and growth orientation and their interaction term. Resource construct was measured by the following latent constructs: firm’s human capital, social capital, and financial resources. Growth orientation construct comprised willingness to grow, aspired growth, and entrepreneurial orientation.

Results and Implications

The following results were obtained: First, growth orientation had a direct, positive, and statistically significant effect on growth. Second, the interaction term of orientation and resources had a positive, statistically significant effect. This means that the more resources are available, the greater the impact of growth orientation has on firm growth. Our study contributes to the literature by providing more support for the importance of growth orientation: Growth orientation should be treated as a prerequisite for growth as growth is unlikely to occur regardless of other determinants if growth orientation does not exist.

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