THE EFFECT OF ENTERPRISES’ GROWTH ORIENTATION AND ACCESS TO FINANCE ON SMALL FIRM PERFORMANCE IN A GLOBAL ECONOMIC RECESSION (SUMMARY)

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THE EFFECT OF ENTERPRISES’ GROWTH ORIENTATION AND ACCESS TO FINANCE ON SMALL FIRM PERFORMANCE IN A GLOBAL ECONOMIC RECESSION

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Principal Topic

It is widely recognised that entrepreneurial growth orientation has a positive effect on small firm performance. However, little attention has been paid to the stability of growth orientation and the “feedback” effect of past growth on the intention of entrepreneurs to grow in the future. Moreover, previous findings from the motivation-performance literature can be misleading or inconclusive due to the failure to consider the moderating role of human capital and financial resource. This moderating effect is especially important in a severe economic recession, when resources and growth opportunities become even scarcer for the already resource-limited small business sector. This study aims to fill this gap by investigating the longitudinal inter-correlation between growth performance and entrepreneurs’ growth orientations in a recessionary environment, taking into consideration the possible moderating effect of human capital (education and experience) and access to finance.

Method

We use a unique longitudinal data set drawn from the 2007/08 UK Annual Small Business Survey on a sample of 3506 firms. These firms were re-interviewed in a series of Business Barometer surveys between September 2008 and February 2010 to assess their performance during the latest recession, their levels of business confidence going forward, and barriers to the firms’ future growth especially in terms of access to external finance. We then estimate a set of cross-lagged regressions to determine the causal relationship between growth orientation and actual firm performance, measured as the percentage change in employment and sales.

Results and Implications

Our findings confirm the positive effect of growth orientation on firm growth as well as the ‘feedback’ mechanism of past growth to motivation. Both human capital and access to finance moderate the inter-relationship between growth orientation and growth. However, small businesses with scarce resource during the recession find securing enough finance a more important driver of growth performance and future growth aspiration. Our findings add to the debate on the extent to which top managers and resources influence the performance of their firms especially in a recessionary environment and therefore have important theoretical as well as practical implications.

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