Small Businesses and Firm Growth
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Keywords: Small Businesses, Growth, Firm Characteristics.

Abstract. This study explores answers to the question—what are the drivers of firm growth? The authors used the World Bank’s Management, Organization and Innovation (MOI) survey data collected on a sample of 1777 firms in 12 countries, which include Belarus, Bulgaria, Kazakhstan, Lithuania, Poland, Romania, Russia, Serbia, Ukraine, Uzbekistan, and Germany. The analyses are focused on 905 small to medium sized firms that are initially fewer than 500 employees and founded after 1960. The dependent variable, firm growth was measured using the increase in the number of full time employees. The authors applied multilevel analyses using country as the grouping variable. The analyses of this article generated interesting results. First, whether the firm is/was partially owned by the state is not significantly related to firm growth, suggesting institutional effects are limited. Second, whether the managing director is also the founder of the business does not have significant effect on firm growth. Third, it can be found that firm age is a significant factor in firms’ growth such that younger firms grow faster. Fourth, in terms of organizational structure, the authors found that the changes in the number of levels between the frontline employee and the top managers in the last three years is significantly negatively related to firm growth suggesting a stable organizational structure helps firm growth. Lastly, in terms of organizational hierarchy, it can be found that the number of levels between top manager and a typical frontline employee is marginally positively related to firm growth, suggesting that a multilayered structure may assist firm growth.

Introduction and Background

“Now this is important because small businesses produce most of the new jobs in this country. They are the anchors of our Main Streets. They are part of the promise of America - the idea that if you’ve got a dream and you’re willing to work hard, you can succeed. That’s what leads a worker to leave a job to become her own boss. That’s what propels a basement inventor to sell a new product - or an amateur chef to open a restaurant. It’s this promise that has drawn millions to our shores and made our economy the envy of the world.” [8]

Unquestionably, small businesses have become an increasingly pervasive and popular organizational form for two primary reasons. First, new technologies have reduced the importance of scale economies. Second, hypercompetitive environment has increased innovation speed and shortened the product life cycles, thus favoring innovation and flexibility that characterize small businesses.

Scholars have studied the relationship between small business and job creation in two disparate approaches. The first approach adopting a microeconomic perspective examines the number of new small businesses and jobs created thereafter at a state or country level. This line of research is based on the concerns that (a) since small businesses may displace existing businesses, the net job growth may not be positive; and (b) even if there is a job growth due to small business creation, this job...
growth may be only short lived because the survival rates of small businesses are low. The preponderance of these studies has supported the claim that small business creation is positively related to job growth. Yet, the strength and time effects of small business creation on job growth vary in different institutional contexts (Baptista, Escária, & Madruga, 2008; Bilsen & Konings, 1998; Davis, Haltiwanger, & Schuh, 1996; Kirchhoff & Phillips, 1988).

Not all small businesses create jobs at similar speed. The second approach is mostly found in small business management and entrepreneurship research in management literature, which investigates the firm level drivers of small business growth in size. For example, Barringer and his colleagues have found that delegation of responsibility, prior industry experience, and college education of founders are all positively related to small business growth (Barringer & Greening, 1998; Greening, Barringer, & Macy, 1996).

While job creation by small businesses has been examined at both the firm and country level, multilevel and cross-country analysis of the two has been underexplored. Studies spanning multiple levels provide powerful approaches for studying job growth, yet multilevel research on this topic is remarkably rare. In particular, a comprehensive and theoretical understanding of the characteristics of firms that create jobs is needed for policy making. Using longitudinal archival data of World Bank, this research project investigates the antecedents to firm growth such as firm age and organizational structure etc.

**Project Description**

The information pertaining to firm level variables in this paper comes from the World Bank’s Management, Organization and Innovation (MOI) survey data collected in 2008 and 2009. The MOI survey collects data from 1777 small businesses in manufacturing sectors in 12 countries, which include Belarus, Bulgaria, Kazakhstan, Lithuania, Poland, Romania, Russia, Serbia, Ukraine, and Uzbekistan, along with Germany as a benchmark of developed country and India as a benchmark of developing country. The MOI survey provides rich information regarding small business management practices, organizational structures, innovation and research and development, market competition, and employment. The objective of this survey is to “assess the constraints to private sector growth and enterprise performance resulting from management practices and to stimulate policy dialogue on the management practices and innovation and to help shape the agenda for reform.” [9]

**Independent Variables**

Founder/manager: moib2a, which denotes the corresponding item number on the MOI questionnaire, is the top manager the founder of the firm, that is a short version of the corresponding MOI question item;

State ownership: moib9a, was the national firm ever fully or partially state owned?

Hierarchy: mois10, number of levels between the typical production employee and the top manager;

Level change: mois11 change in the number of levels between the typical production employee and the top manager changed in the last three years;

Firm age: b5, in what year did this establishment begin operations.

**Dependent Variables**

Firm growth (difference between the two following variables)
11: number of full time employees at the end of the fiscal year
12: number of full time employees three years ago
Table 1. Multilevel Mixed Effects Regression Results.

<table>
<thead>
<tr>
<th>Mixed-effects ML regression</th>
<th>Number of obs = 905</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group variable: countryid</td>
<td>Number of groups = 12</td>
</tr>
<tr>
<td>Obs per group: min = 15</td>
<td>avg = 75.4 max = 129</td>
</tr>
<tr>
<td></td>
<td>prob &gt; chi2 = 0.0000</td>
</tr>
</tbody>
</table>

Log likelihood = -5085.5993

| jobgrow         | Coef. | Std. Err. | z     | P>|z| | [95% Conf. Interval] |
|-----------------|-------|-----------|-------|------|----------------------|
| hierarchy       | 2.821404 | 1.672113 | 1.69  | 0.092 | -4.558763 to 6.098685 |
| fnndmgr         | -4.322512 | 4.778879 | -0.90 | 0.366 | -13.68894 to 5.04392 |
| firmage         | 0.862156  | 0.229284 | 3.76  | 0.000 | 0.4128536 to 1.311452 |
| stateown        | 0.6569607 | 3.396318 | 0.19  | 0.847 | -5.999701 to 7.313622 |
| levelchange     | -9.887929 | 4.532613 | -2.18 | 0.029 | -18.77169 to -1.004171 |
| _cons           | -1608.674 | 453.6519 | -3.70 | 0.000 | -2569.815 to -791.5324 |

Summary

In sum, we found that firms that grow faster in terms of number of employees in the last three years tend to be young firms and have a stable multilayers organizational structure. State ownership and founder/manager status do not show significant effects.

References


