Growth Plans of Bulgarian Enterprises: An Empirical Investigation of Individual, Organizational and Environmental Influences

Desislava Ivanova Yordanova
Faculty of Economics and Business Administration, Sofia University “St Kliment Ohridski”
Email: d_yordanova@abv.bg

Abstract - Extensive research on firm growth has been done in Western market-based economies (Peng and Heath, 1996). However, the research findings in Western economies may not be applicable to transition economies due to differences in the institutional environments (Peng and Heath, 1996). The research objective of this study is to identify individual, organizational and environmental influences on the presence of growth plans in a sample of Bulgarian enterprises. Our findings reveal that several individual and organizational factors are associated with the presence of growth plans. The paper provides a discussion of implications for practitioners and suggestions for future research.

Keywords: growth plans, Bulgaria, determinants.

1. Introduction

During the last 20 years, Bulgaria and other countries in Central and Eastern Europe (CEE) experience profound reforms aimed at the democratization of society and the liberalization of economy that resulted in the formation of private business sector and entrepreneurial class. Entrepreneurship and private business is considered as an important factor for the transition from centrally-planned to market economy (McMillan and Woodruff, 2002; Smallbone et al., 2001). The World Bank classifies the Bulgarian economy as an upper middle income economy, which has improved gradually the conditions for doing business during the last five years (World Bank, 2006, 2007, 2008, 2009, 2010). The Bulgarian economy has experienced strong growth since a major economic downturn in 1996 and attracted significant amounts of foreign direct investment. Despite the steady economic growth in the recent past, Bulgaria still remains one of the least developed countries in the European Union.

The factors, which underline the growth of business firms have attracted significant research interest (Davidsson et al., 2002). Extensive research on firm growth has been done in Western market-based economies (Peng and Heath, 1996). However, the research findings in Western economies may not be applicable to transition economies due to differences in the institutional environments (Peng and Heath, 1996). Peng and Heath (1996) stress that the improved understanding of firm growth in transition economies has both theoretical contribution to the theory of firm growth and practical implications for improving effectiveness. It will also help to formulate policy measures for supporting firm growth in transition economies, which will eventually lead to higher economic growth.

The research objective of this study is to identify individual, organizational and environmental influences on the presence of growth plans in a sample of Bulgarian enterprises. In entrepreneurship research, growth intentions and plans are used as an indicator of entrepreneurial behaviour and performance (Rosa et al., 1996; Kozan et al., 2006). The use of growth intentions as a measure of entrepreneurial performance is justified because intentions are a good predictor of behaviour (Ajzen, 1991). In a transition context growth intentions and expansion plans, in particular, are found to be a good proxy measure of growth (Pistrui, 2003). As most entrepreneurial research has focused on past behaviour (Kozan et al., 2006) and determinants of firm growth are identified retrospectively, the investigation of growth intentions and plans may contribute to understanding firm growth by providing a different perspective on the growth phenomenon.

This paper is organized as follows. Section 2 presents the background and the hypotheses to be tested in this study. Section 3 describes research methodology of the study. Section 4 contains the empirical analysis and results. The last section presents discussion of the research findings and conclusions.

2. Background of the study and hypotheses

2.1. Individual Influences on Growth Plans

Drawing upon upper echelons theory (Hambrick and Mason, 1984) we argue that CEO’s age, gender, education level, previous management experience, and the organizational tenure affect the probability of the organization having growth plans. The upper
Central to the resource-based view of the firm are the assumptions that frame the organization's relationship with its environment but on constantly challenging the problems associated with growth. Empirical research demonstrates a link between human capital of the owner-manager and both growth motivation (Davidsson, 1991) and actual firm growth (Storey, 1994).

H4: Enterprises managed by CEOs with a university degree are more likely to exhibit growth plans than other enterprises.

H5: Enterprises managed by CEOs with previous management experience are more likely to exhibit growth plans than other enterprises.

2.2. Organizational Influences on Growth Plans

Drawing upon the Resource Based View of the firm (RBV) (Wernerfelt, 1984; Barney, 1991), we argue that learning orientation, entrepreneurial orientation, access to financial resources, and the presence of foreign owners influence the probability of reporting growth plans. The RBV emphasizes the strategic role of organization’s resources and capabilities for organizations and their strategy. Central to the resource-based view of the firm are the assumptions of heterogeneity and immobility of resources (Barney, 1991). Resources may differ across firms in an industry or a group and some firm may be unable to purchase or create strategic resources held by a competing firm (Barney, 1991). The theory advocates that rare, valuable, inimitable, and non-substitutable resources may be sources of sustained competitive advantage (Barney, 1991).

Davidsson (1991) posits that growth motivation is enhanced and firm growth is pursued if owner-managers feel that they are able to bring about the desired growth. Actual firm growth depends on availability of financial resources for growth (Covin and Slevin, 1997; Storey, 1994; Cooper et al., 1994). Becchetti and Trovato (2002) conclude that growth potential of small firms is limited by the availability of external finance. Carpenter and Petersen (2002) find that firms that are able to obtain external finance achieve growth rates far above what can be supported by internal finance. They conclude that the use of external finance may relax the internal finance constraint.

H6: Good access to financial resources increases the likelihood of having growth plans.

Learning orientation is a critical resource, which top managers may use in order to achieve growth in the organization. Learning orientation is conceptualized as “the value that a firm places not only on adroitly responding to changes in the environment but on constantly challenging the assumptions that frame the organization’s relationship with the environment” (Baker and Sinkula, 2006). Therefore, we suggest that:

H3: Enterprises managed by female CEOs are less likely to have growth plans than other enterprises.

Kolvereid (1992) suggests that highly educated and experienced owner-managers will exhibit high aspirations in general and will be able to perceive more easily growth opportunities and cope with problems associated with growth. Empirical research demonstrates a link between human capital of the owner-manager and both growth motivation (Davidsson, 1991) and actual firm growth (Storey, 1994).

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Entrepreneurial orientation may be necessary for achieving growth in organizations. There is a link between growth strategy and corporate entrepreneurship (Zahra, 1991:264). The realization of an internal-growth strategy requires extensive innovation and venturing in all functional areas within the organization, while the realization of external-growth strategy requires expansion of the scope of business and markets (Zahra, 1991:264). Empirical evidence confirms the positive association between growth strategy on and early introduction of new products (Zahra, 1993) and corporate entrepreneurship (Zahra, 1991).

H8: Higher entrepreneurial orientation of the enterprise increases the likelihood of having growth plans.

Companies in transition economies may lack managerial and entrepreneurial skills. Foreign investors in Central and Eastern Europe may transfer products and marketing skills, technology and management skills, and know how to local companies, which may improve their product lines and market penetration (Uhlenbruck & De Castro, 2000) and thus may increase both their growth aspirations and actual growth rates. Foreign ownership in companies operating in Central and Eastern Europe may be associated with high learning, high efficiency governance, and high corporate restructuring effectiveness (Filatotchev et al., 2003).

H9: The presence of foreign owner(s) increases the likelihood of having growth plans.

2.3. Environmental Influences on Growth Plans

In this sub-section we suggest that environmental dynamism and industry sector may affect the presence of growth plans. The Population Ecology Theory posits that environmental characteristics largely determine the survival of organizations through selecting the fittest organizational forms (Hannan and Freeman, 1977, 1984). Organizations face both internal and external constraints on their capacity for adaptation (Hannan and Freeman, 1977, 1984). The presence of considerable structural inertia in organizations makes adaptation less likely than environmental selection (Hannan and Freeman, 1977, 1984). Structural inertia derives from various internal and external factors. Selection favours organizational forms with high inertia because they exhibit high reliability, accountability, and reproducibility (Hannan and Freeman, 1984).

Industry and industry attributes affect firm growth (Audretsch, 1995; Saemundsson and Dahlstrand, 2005; McPherson, 1996; Davidsson et al., 2002; Weinzimmer, 2000; Almus and Nerlinger, 1999). Industry characteristics may be relevant indicators for opportunity for growth, which in turn affects growth motivation (Davidsson, 1991). As some industries provide more opportunities for firms to achieve growth, entrepreneurs may enter industries, where they are more likely to achieve their aspirations regarding growth (Kolvereid, 1992). Empirical research demonstrates that entrepreneurs’ growth intentions are significantly related to industry choice (Kolvereid, 1992).

H10: The industry, in which the enterprise operates, affects the likelihood of growth plans.

Environmental dynamism refers to instability and continuous change in the firm environment (Wiklund et al., 2009). In dynamic environments, social, political, economic and technological changes provide windows of opportunity for firm growth (Wiklund et al., 2009). Firms may respond to changes in the demand created by social, political, economic and technological changes in the environment by supplying the demanded products and services (Wiklund and Shepherd, 2003).

H11: The level of environmental dynamism affects the likelihood of growth plans.

3. Research methodology

3.1. Sample

This study uses a sample of 120 companies operating in Bulgaria. Data was acquired through a survey conducted at the end of 2008 among 350 enterprises randomly selected from a database of more than 73000 Bulgarian enterprises extracted from the voluntary unified trade register of the Bulgarian chamber of commerce and industry and other sources. The response rate is approximately 34.3%. Some of the companies who refused to participate in the study have been contacted by e-mail or phone. They have reported that the main reasons were lack of time or reluctance to reveal business information. Respondents are the chief executive officers (CEOs) of the companies. The survey uses a structured questionnaire containing questions about the characteristics of the organization, the characteristics of the chief executive officer, and the environment.

More than 60% of the sample companies operate predominantly in the service sector, while about 20% of the sample companies are manufacturing businesses. Small and medium-sized enterprises (SMEs) represent 77.5% of the sample firms (26.7% – micro-enterprises; 31.7% - small enterprises; 19.2% - medium-sized enterprises). The rest of the sample firms have more than 249 employees. Half of the sample firms are registered after 1997 and only 7.5% operate for more than 20 years. The great majority of
the sample firms (93.3%) are private enterprises, while the rest of the sample firms are either state-owned enterprises or enterprises with mixed ownership. About 34% of the sample companies report having foreign legal entities or individuals among owners. More than 57% of CEOs have ownership in the company they manage. Less than 26% of the CEOs are women.

3.2. Variables

Table 1 presents description of the variables used in the study. The dependent variable in this study is GROWTH. It indicates whether the company aims to expand its business activities (value 1) or not (value 0).

Several individual characteristics of CEOs are hypothesized to influence the presence of growth plans in the sample firms. CEO_age indicates the age of the CEO in a number of years. The variable GENER shows whether the CEO is a woman (value 1) or a man (value 0). CEO_edu indicates the level of education acquired by the CEO of the company (1 = university degree, 0 = other). CEO_exp reveals if the CEO has previous management experience (value 1) or not (value 0). CEO_tenure is measured with the length of CEO’s tenure in the organization in a number of years.

Table 1: Description of the variable used in the study.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>GROWTH</td>
<td>1 = the company aims to expand its business activities; 0 = other</td>
</tr>
<tr>
<td>CEO_age</td>
<td>the age of the CEO in a number of years</td>
</tr>
<tr>
<td>GENDER</td>
<td>1 = woman 0 = man</td>
</tr>
<tr>
<td>CEO_edu</td>
<td>1 = university degree, 0 = other</td>
</tr>
<tr>
<td>CEO_tenure</td>
<td>CEO’s tenure in the organization in a number of years</td>
</tr>
<tr>
<td>CEO_exp</td>
<td>1 = the CEO has previous management experience 0 = otherwise</td>
</tr>
<tr>
<td>FIRM_AGE</td>
<td>the age of the company in a number of years</td>
</tr>
<tr>
<td>SIZE</td>
<td>1 = more than 249 employees (large company); 0 = less than 250 employees (micro, small or medium-sized enterprise</td>
</tr>
<tr>
<td>EO</td>
<td>9-item, 7-point Likert scale (Covin and Slevin, 1989)</td>
</tr>
<tr>
<td>RESOURCES</td>
<td>1 = the company has good access to financial resources; 0 = otherwise</td>
</tr>
<tr>
<td>LO</td>
<td>11-item, 7-point Likert scale (Sinkula et al., 1997)</td>
</tr>
<tr>
<td>FOREIGN</td>
<td>1 = the presence of foreign owners; 0 = other</td>
</tr>
<tr>
<td>MANUFACTURING</td>
<td>1 = the company operates mainly in manufacturing sector, 0 = otherwise</td>
</tr>
<tr>
<td>SERVICES</td>
<td>1 = the company operates mainly in service sector, 0 = otherwise</td>
</tr>
<tr>
<td>DYNAMISM</td>
<td>4-item, 7-point Likert scale (Miller, 1987)</td>
</tr>
</tbody>
</table>

The organizational characteristics that are expected to influence the presence of growth plans include learning orientation (LO), entrepreneurial orientation (EO), access to financial resources (RESOURCES), and the presence of foreign owners (FOREIGN). EO is measured with 9-item, 7-point Likert scale proposed by Covin and Slevin (1989), which contains items adapted from Khandwalla (1976/1977) and Miller and Friesen (1982). The items are of the forced choice type, with pairs of opposite statements. The scale reveals the extent to which the firms innovate, take risk and behave proactively. Wiklund (1998) identified several studies using this instrument, which provide evidence of its validity and reliability. In this study the EO scale reports acceptable reliability (Cronbach alpha’s value is 0.857). The variable LO reveals the level of learning orientation of the company. It is measured through a 11-item, 7-point Likert scale developed by Sinkula et al. (1997). The scale is retested by Baker and Sinkula (1999) who provide further evidence for its validity and reliability. The Cronbach’s alpha of the learning orientation scale is 0.836. The variable FOREIGN indicates the presence of foreign owners (value 1) or otherwise (value 0). The variable RESOURCES reveals whether the company has good access to financial resources (value 1) or not (value 0).

The environmental characteristics included in this study are environmental dynamism and industry sector. MANUFACTURING is a binary variable (1= the company operates mainly in manufacturing sector, 0 = otherwise). SERVICES is a binary variable (1= the company operates mainly in service sector, 0 = otherwise). Environmental dynamism (DYNAMISM) is measured with the 4-item, 7-point Likert scale proposed by Miller (1987). The items are of the forced choice type, with pairs of opposite statements. The value of the Cronbach’s alpha of the scale is 0.635.

Businesses with different age and size may differ in their growth aspirations (Davidsson, 1991; Kolvereid, 1992). Therefore these variables are included in the analysis as control variables. In this paper we adopt the European Commission’s employment criterion for an SME. The variable SIZE is a binary variable (1 = more than 49 employees
(large or medium-sized enterprise), 0 = less than 50 employees (micro- or small enterprise). The variable FIRM_AGE indicates the age of the company in a number of years.

3.3. Data Analysis

Data are analyzed using multivariate statistics. As defined above, GROWTH, the dependent variable is dichotomous. It expresses the likelihood that the company has growth plans. A logistic regression model was therefore employed to deal explicitly with that type of dependent variable (Greene, 1999). Logistic regression is a more robust method since it does not require independent variables to be normally distributed error terms are not assumed; normally distributed error terms are not assumed; it does not require independent variables to be interval or unbounded.

The application of non-parametric techniques is adequate when the independent variables are predominantly categorical. The use of the maximum likelihood approach is recommended when sample selection bias is possible (Nawata, 1994).

Binary logistic regression provides a framework that indicates if and how well independent variables can adequately predict the presence of growth plans (Greene, 1999). The estimated binary logistic models take the following form:

$$\text{Prob} \ (\text{the presence of growth plans}) = 1 / (1 + e^{-Z})$$,

where $Z = f (X_i, C)$, i.e. a linear combination of independent variables $(X_i)$ and a constant $(C)$.

The research hypotheses will be supported if regression analysis provides an acceptable accuracy of classification of cases and of goodness of fit measures. In addition, the impact of explanatory variables should be statistically significant at least at the 10 percent level (two-tailed test) with the predicted sign. Wald statistics will be used to estimate the significance of the independent variables. Data analyses are performed with the statistical package SPSS version 15.0.

4. Empirical results

In this section we present the empirical results of hypotheses test in our sample of 120 Bulgarian enterprises. A logistic regression model has been estimated to identify which independent variables predict the presence of growth plans. The Variance Inflation Factor (VIF) is calculated in order to check for the presence of multicollinearity problems. The values of the Variance Inflation Factor (VIF) for all regressors included in Table 2 do not exceed 2.2, which excludes multicollinearity. The overall predictive ability of the regression model in Table 2 to classify correctly companies by the presence of growth plans is more than 81%, which is much higher than the random chance (50%).

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>S.E.</th>
<th>Wald</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-5.013**</td>
<td>2.362</td>
<td>4.504</td>
</tr>
<tr>
<td>CEO_age</td>
<td>-0.055*</td>
<td>0.032</td>
<td>3.067</td>
</tr>
<tr>
<td>GENDER</td>
<td>0.711</td>
<td>0.604</td>
<td>1.384</td>
</tr>
<tr>
<td>CEO_edu</td>
<td>-1.523</td>
<td>1.463</td>
<td>1.083</td>
</tr>
<tr>
<td>CEO_tenure</td>
<td>0.109*</td>
<td>0.062</td>
<td>3.080</td>
</tr>
<tr>
<td>CEO_exp</td>
<td>1.235**</td>
<td>0.576</td>
<td>4.598</td>
</tr>
<tr>
<td>FIRM_AGE</td>
<td>-0.013</td>
<td>0.016</td>
<td>0.586</td>
</tr>
<tr>
<td>SIZE</td>
<td>-0.350</td>
<td>0.591</td>
<td>0.352</td>
</tr>
<tr>
<td>EO</td>
<td>0.111***</td>
<td>0.034</td>
<td>10.977</td>
</tr>
<tr>
<td>RESOURCES</td>
<td>0.036</td>
<td>0.588</td>
<td>0.004</td>
</tr>
<tr>
<td>LO</td>
<td>0.081**</td>
<td>0.035</td>
<td>5.301</td>
</tr>
<tr>
<td>FOREIGN</td>
<td>1.228*</td>
<td>0.671</td>
<td>3.352</td>
</tr>
<tr>
<td>MANUFACTURING</td>
<td>-0.753</td>
<td>0.883</td>
<td>0.727</td>
</tr>
<tr>
<td>SERVICES</td>
<td>-0.830</td>
<td>0.810</td>
<td>1.048</td>
</tr>
<tr>
<td>DYNAMISM</td>
<td>-0.006</td>
<td>0.069</td>
<td>0.008</td>
</tr>
</tbody>
</table>

**MODEL FIT**

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<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Nagelkerke R-square</td>
<td>0.491</td>
</tr>
<tr>
<td>-2Log likelihood</td>
<td>101.466</td>
</tr>
<tr>
<td>Chi-square</td>
<td>52.464</td>
</tr>
<tr>
<td>Overall % correct predictions</td>
<td>81.7%</td>
</tr>
<tr>
<td>Number of cases</td>
<td>120</td>
</tr>
</tbody>
</table>

* p < 0.1, ** p < 0.05, *** p < 0.01

Several individual characteristics have a statistically significant effect on the dependent variable GROWTH. The coefficients of the variables CEO_tenure and CEO_exp are statistically significant and positive (p < 0.1), while the coefficient of the variable CEO_age is statistically significant and negative (p < 0.1). Companies with younger CEOs are more likely to exhibit growth plans. Hypothesis H1 cannot be rejected. Contrary to our expectations, longer tenure of the CEO increases the probability of reporting growth plans. Hypothesis
H2 is rejected. CEOs with previous management experience are more likely to operate enterprises with growth plans. Hypothesis H5 cannot be rejected. The coefficients of the variables GENDER and CEO edu are not statistically significant. There are no significant differences in the likelihood of having growth plans between companies managed by female and male CEOs. There are also no significant differences in the likelihood of having growth plans between the companies managed by CEOs with a university degree and the rest of the studied companies.

Three organizational characteristics seem to impact significantly the probability of reporting growth plans. The coefficients of the variables EO, LO and FOREIGN are statistically significant and positive, while the coefficient of the variable RESOURCES is not significant. Companies with higher learning orientation and higher entrepreneurial orientation are more likely to have growth plans. The presence of foreign owner(s) increases the probability of reporting growth plans. Hypotheses H7, H8, H9 cannot be rejected. There are no significant differences in the likelihood of having growth plans between the companies with good access to financial resources and the rest of the studied companies. Hypothesis H6 is rejected.

Contrary to what was suggested, environmental characteristics included in this study have no statistically significant influence on the probability of reporting growth plans. The coefficients of the variables DYNAMISM, SERVICES, and MANUFACTURING are not statistically significant. There are no significant differences in the likelihood of having growth plans between the companies operating in service or manufacturing sector and the rest of the studied companies. The level of environmental dynamism is not associated with differences in the likelihood of having growth plans in the studied companies. Hypotheses H10 and H11 can be rejected.

5. Conclusions

The shift from centrally planned economy to market economy in the countries in Central and Eastern Europe has led to the emergence of a large number of privately owned enterprises, which play important role for countries’ economic development. In order these enterprises to remain competitive in both local and international markets it is of the utmost importance to gain understanding what factors encourage the development of growth plans and the achievement of high growth rates. Our research is among the incipient investigations that attempt to identify individual, organizational, and environmental factors that affect the presence of growth plans in a sample from Central and Eastern Europe. Our hypotheses are guided by previous theoretical and empirical research on firm growth. The results reported in this study advance our knowledge about growth aspirations within organization operating in a transition context.

This study reinforces previous findings (Davidsson, 1991; Kolvereid, 1992) that individual characteristics of the owner-manager affect growth aspirations. The findings about the effects of CEO’s age and previous experience on the likelihood of having growth plans are consistent with predictions. Our study finds no effect of CEO’s education and gender on the probability of having growth plans. Contrary to our expectations, longer tenure of the CEO increases the probability of reporting growth plans. These contradictory findings could be explained institutional and cultural differences between Western and transition economies as well as among transition economies, which may have differential impact on CEO’s behaviour and decisions related to pursuit of growth.

Concerning organizational factors, our results point to the importance of learning orientation, entrepreneurial orientation and the presence of foreign owner(s) for adopting growth plans. We find that learning orientation is interrelated with growth aspirations, which is in accordance with the argument of Slater and Narver (1995) that learning orientation should eventually lead to superior growth. The finding that firms with higher entrepreneurial orientation are more likely to develop growth plans than the rest of the firms is consistent with previous research (Zahra, 1991). The presence of foreign owner(s) is related to greater likelihood of having growth plans, which may be explained with the transfer of important management know-how and resources to local firms (Uhlenbruck & De Castro, 2000; Filatotchev et al., 2003). Contrary to our predictions, however, the good access to resources does not increase the probability of establishing growth plans, which may be associated with specific barriers, costs and difficulties related to the use of external financing in transition economies.

Contrary to what was suggested, environmental characteristics included in this study have no statistically significant influence on the probability of reporting growth plans, which contradicts previous empirical findings about the effect of environmental variables on growth intentions (Kolvereid, 1992).

Before discussing the implications of our findings, some limitations of our study should be noted. First, our sample is not representative and the findings should be interpreted with caution. Thus, our results may no be generalized to the population of Bulgarian enterprises. Second, data was collected through a self-reported survey and thus may be subject to cognitive biases and errors. Third, a number of other individual, organizational, and environmental factors, which are not included in this
study, may be related to the presence of growth plans. Forth, our findings may be influenced by specific features of the Bulgarian cultural and institutional environment and therefore may not be applicable to other transition or mature economies. Finally, due to the cross-sectional design of the research we cannot deduce causal relationships. The multiple measurements of independent and outcome variables in the study over time will allow examining the bidirectional relationships between the variables studied.

In order to enhance the understanding of growth aspirations in companies operating in a transition context, future research needs to examine the following aspects. First, future research should examine the effects of other factors posited by theoretical and empirical literature as affecting growth aspirations, which are not included in this study. Second, the proposed hypotheses should be verified in a representative sample of Bulgarian enterprises. Third, future research should also examine to what extent the findings of this study can be generalized to firms in other transitional countries. And finally, a longitudinal analysis should complement the findings in this research in order to confirm causal relationships.

Our findings have several important implications for practitioners. Loan institutions, risk capitalists, and business angles trying to identify growth oriented businesses in a transition context should pay more attention on organizational variables and CEOs’ individual characteristics. Managers, who want to enhance the EO of their companies, should be aware of the interrelation between growth aspiration and learning orientation and entrepreneurial orientation. The development of higher learning orientation or higher entrepreneurial orientations may lead to the development of growth plans. It should be noted that the presence of foreign owner(s) may bring important resources and eventually lead to higher growth aspirations.

References


