

Resources-based hyper-growth of firms

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Abstract

High-growth firms deserve a relevant role in the ‘real-world’ economy: many scholars have proved that these firms create employment, wealth, and economic growth. For example, in the US, the ‘gazelles’ (i.e., firms in the highest percentiles of the growth rate distribution) account for the largest part of the total increase in the employment rate, although they represent only a very small share of all companies (Birch, 1987). Many scholars have also suggested and proved that firm growth creates employment, wealth and general economic development (e.g. Birch, 1979), so that by understanding high-growth firms, researchers may better understand the features involved with growth and success in general.

A significant interest in high-growth firms from academics occurred in the late 90s (e.g. Blixt, 1997; Cooper et al., 1994; Davidsson and Delmar, 1997; Lohmann, 1998; Storey, 1996; Welbourne, 1997; Zhao and Aram, 1995) focusing mainly on two aspects: (a) the heterogeneity of growth patterns (Delmar and Davidsson, 1998; Chan et al., 2006) and whether those firms are inherently different from those that grow more modestly from a process perspective (Delmar et al., 2003); (b) determinants analysis in search for factors explaining (e.g. Wiklund et al., 2009; Moreno and Casillas, 2007; Baum and Smith, 2001; Feeser and Willard, 1990).

High-growth firms represent a challenging research topic, particularly relevant to SMEs since the high-growth phenomenon may not be fully described by the structured consequential stage suggested by corporate life cycle models (Miller and Friesen, 1984) and is still largely disregarded by academic research, especially in EU. Hyper-growth, as a specific case of high and abnormal growth was first introduced by Markman and Gartner (2002) stating that ‘a very surprisingly conclusion is that despite its economic upside potential, growth research has focused predominantly on ‘normal’ to ‘high’ growth rates ... while overlooking formidably high growth or hyper-growth firms’ (Markman and Gartner, 2002).

In our empirical analysis we chose sales growth as growth indicator, mainly because it is the most common indicator used in literature and because it can be shown that growth in sales are antecedent of other forms of growth (employees, profit, assets,...) (Flamholtz, 1986). Our definition of hyper-growth, which is coherent with Birch (1979), suggested firms had to show a minimum of 20% annual growth, at least 5 year consecutively. In addition, since we were interested in SMEs hyper-growth, firms had to be small-sized at t0 (i.e., firm’s turnover should be lower than 10 mln €), but it should be large at t4 (i.e., turnover should be higher than 50 mln €).

Seminal work by Delmar et al. (2003), who provided an interesting and new contribution to the understanding on how different firms can experience rapid growth, based on a study of demographics of firms in Sweden, conclude suggesting that causal explanations for why firms end up with different (rapid) growth patterns, should be a

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relevant topic for future research. All this creates, as suggested by Eisenhardt and Graebner (2007), the condition for the present research, which aims to move, from qualitative research based on multiple case studies, some steps for a theory building process.

The present research addresses a topic that has been largely ignored by extant literature, although relevant both in terms of managerial understanding of firm development and from policy perspective. Many researchers suggest that a particular strategic orientation, referred to as Entrepreneurial Orientation (EO), may play a key role in enhancing performance (e.g., Brown, 1996; Covin, Slevin and Covin, 1990; Dess, Lumpkin and Covin, 1997; Lumpkin and Dess, 1996; Merz, Weber and Laetz, 1994; Zahra and Covin, 1995). EO represent a complex and articulated theoretical framework, built on different variables regarding strategic posture and behaviour, that capture the entrepreneurial attitude of a firm, and aims at explaining firm performance dynamics. The EO concept is very useful because it's meant to capture entrepreneurship as a firm-level behaviour (Covin and Slevin, 1991). Considering the level-of-analysis issue first, a firm-level model is appropriate because entrepreneurial effectiveness is arguably a firm-level phenomenon. That is, an entrepreneur's effectiveness can best be measured in terms of his or her firm's performance. Second, and related to the first point, firm performance is a function of organizational-level behaviour. Third EO as firm behaviour can be to a certain extent managed and reproduced. No research exercise has been performed so far on the explicit link between EO and hyper-growth. The first research question this paper addresses is how much of hyper-growth can be explained by entrepreneurship (EO).

Consistent with the seminal work by Penrose (1959), Moreno and Casillas (2007) suggest that rapid-growth can be explained in terms of existence of unallocated resources within the firm; these (non financial) indivisibles resources, available in quantities greater than necessary, are called slack resources, and are one of the main causes and incentives for growth. Firms are in fact forced to find a use for these resources; this helps firms to increase their efficiency. The existence of slack resources, and especially of those characterized by higher indivisibility, is proposed as major cause of higher growth performances for the SMEs. Stemming from the different type of research available to the hyper-growth of firms, we come back to the Resource Based View (RBV) of firm and its empirical formulation by Moreno and Casillas (2007). Slack is an available resource that can be used to improve organizational performance (George, 2005); asset turnover (ratio of firm sales and total assets) can be used as a measure of the efficiency in the use of a firm resources and therefore a suitable indicator of the amount of slack resources in the firm. Our second research perspective addresses therefore potential differences as to the availability of slack resources between hyper-growth firms and non- hyper-growth firms.

The paper is based on a multiple case study on three Italian hyper-growth firms. The selection strategy followed the indications of Pettegrew (1988), who suggested the importance of choosing cases diametrically opposed ('Polar Type' theoretical sampling approach) to facilitate the emergence of conflicts in the data, for an overall view of the problem and to generalize the emerging theory. Company 1 is a highly internationalized leading player in the added value service and content for mobile industry which exploited the dot com bubble, Company 2 is a local low tech private ferry service provider and Company 3 is a very interesting case of a furniture

designer, which switched to yacht furniture design and then integrated competencies and engineering know-how in order to become yacht designer and eventually manufacturer in the very promising market of luxury yacht.

The companies are defined by common features; first, they all show a tremendous access to resources, both financial and not, as well as a higher investment intensity compared to industry average. The abnormal rate of access to resources appears to be the first factor which significantly may distinguish hyper-growth firms from other firms. From the financial point of view it can be stated that firm have in common a low (or negative) profit growth, are cash starving and show quite risky behaviour (in terms of exposure to external capital). We also checked for the indicator of slack resources which in all the three cases robustly respects the pattern suggested by Moreno and Casillas (2007): the efficiency of hyper-growth companies is strongly lower than other firms in the industry and increases during the growth, suggesting slack resources are put in use and exploited to grow.

As to the strategic posture of firms, which is the main focus of this paper, we must acknowledge that selected companies have grown through very different approaches. There is an entrepreneurial approach to hyper-growth in Companies 1 and 3, which are characterized by relevant EO, change driven management style and which move in a dynamic and hostile environment. A different approach is shown by Company 2, whose main focus is on exploitation of accumulated resources: the firm is unambiguously not well provided with EO and its competitive environment is rather munificent.

We have analyzed very detailed information on the companies and have shown different paths to hyper-growth. We have verified the consistency of extant literature, and in agree with it we could suggest that in any case both EO and resource can play a role in explaining firm hyper-growth. What sounds as an interesting evidence, though, is the fact that we don't assist to the typical and well known in literature juxtaposition (Moreno and Casillas, 2007; Harms and Ehrman, 2009) between entrepreneurial behaviour dedicated to opportunity exploitation and managerial one, stressing resource accumulation and optimizing. Conversely, entrepreneurial companies have both a strong asset accumulation and a high value for the slack resources indicator. Therefore we add to literature by suggesting that it's the alignment between EO and resource, and the use of EO as antecedent to resource acquisition, that may really explain firm extra performance.

The paper is organized as follows: in section 2 we present a review of research literature investigating high-growth and rapid-growth phenomena, which positions our contribution and the novelty of the approach. Section 3 formulates, based on extant research, the framework for our analysis and suggests the inquiry perspective. Section 4 describes the methodology and reports in detail the data collection and main evidences from selected companies; Section 5 discuss main evidences emerging from the case studies, through commonalities and differences and concludes with the suggestion of a novel research framework as main contribution of this paper. Section 6 concludes, acknowledges for limitation and suggests future research development.

Keywords: hyper-growth, SMEs growth, Entrepreneurial Orientation, RBV, contingent approach, strategic management, strategic entrepreneurship