
Small Firm Growth

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Small Firm Growth

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Abstract

We review and discuss the literature on small firm growth with an intention to provide a useful vantage point for new research studies regarding this important phenomenon. We first discuss conceptual and methodological issues that represent critical choices for those who research growth and which make it challenging to compare results from previous studies. The substantial review of past research is organized into four sections representing two smaller and two larger literatures. The first of the latter focuses on internal and external drivers of small firm growth. Here we find that much has been learnt and that many valuable generalizations can be made. However, we also conclude that more research of the same kind is unlikely to yield much. While interactive and non-linear effects may be worth pursuing it is unlikely that any new and important growth drivers or strong, linear main effects would be found. The second ‘large’ literature deals with organizational life cycles or stages of development. While deservedly criticized for unwarranted

determinism and weak empirics this type of approach addresses problems of high practical and also theoretical relevance, and should not be shunned by researchers. We argue that with a change in the fundamental assumptions and improved empirical design, research on the organizational and managerial consequences of growth is an important line of inquiry. With this, we overlap with one of the 'smaller' literatures, namely studies focusing on the effects of growth. We argue that studies too often assume that growth equals success. We advocate instead the use of growth as an intermediary variable that influences more fundamental goals in ways that should be carefully examined rather than assumed. The second 'small' literature distinguishes between different modes or forms of growth, including, e.g., organic versus acquisition-based growth, and international expansion. We note that modes of growth are an important topic that has been under studied in the growth literature, whereas in other branches of research aspects of it may have been studied intensely, but not primarily from a growth perspective. In the final section we elaborate on ways forward for research on small firm growth. We point at rich opportunities for researchers who look beyond drivers of growth, where growth is viewed as a homogenous phenomenon assumed to unambiguously reflect success, and instead focus on growth as a process and a multi-dimensional phenomenon, as well as on how growth relates to more fundamental outcomes.

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1

Introduction

In the last decades, a large number of studies which focus on business growth have been published, with an increasing interest in small firms. As pointed out by previous reviews (Ardishvili et al., 1998; Coad, 2007; Delmar, 1997; Gilbert et al., 2006; Storey, 1994; Wiklund, 1998), dozens upon dozens of empirical research studies on this topic can be compiled. These studies represent a variety of academic specialty areas, including entrepreneurship, strategy, organizational theory, and industrial economics. Table 1.1 below lists some of the most cited studies on business growth, highlighting the fact that most studies on business growth are based on small and medium-sized firms. This collection of studies also illustrates the variety of perspectives and approaches applied to the study of growth.

Despite the fact that a large number of studies on small firm growth have been conducted, knowledge about the phenomenon is far from complete. The review authors just mentioned typically complain that a coherent picture is not easy to distil from the material. This is likely due to differences in theoretical and epistemological perspectives and interpretations; operationalizations; empirical contexts; modeling and analysis approaches, as well as the inherent complexity and heterogeneity

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Table 1.1. Journal publications containing the search term 'business growth' in the title (apparently incl. keywords), cited more than 50 times according to Harzing's Publish or Perish (as of July 2009).

Author(s) (year)	Title of publication	No. of citations	Type of publication	Type of study	How is growth measured?	Main findings regarding growth
Churchill and Lewis (1983)	The five stages of small business growth	787	Harvard Business Review	Questionnaire to owners and managers of small businesses, 83 responses	Composite of value added (sales less external purchases), geographical diversity, and complexity (number of product lines sold, extent to which different technologies are involved in the products and processes that produce them, and the rate of change in these technologies)	Five stages of development (existence, survival, success disengagement or growth, take-off, resource maturity); financial, personnel, systems, and business resources as most important company factors for growth; and the owner's goals, operational abilities, managerial abilities, and strategic abilities as the most important person-related factors
Cliff (1998)	Does one size fit all? Exploring the relationship between the attitudes toward growth, gender, and business size	180	Journal of Business Venturing	Personal interviews with 229 small business owners in Canada	Entrepreneur's growth decision and desired pace of expansion	Male and female entrepreneurs seem equally likely to desire business growth; females are more likely to establish maximum business thresholds and more concerned about the risks associated with fast-paced growth

(Continued)

Table 1.1. (Continued)

Author(s) (year)	Title of publication	No. of citations	Type of publication	Type of study	How is growth measured?	Main findings regarding growth
Steinmetz (1969)	Critical stages of SME growth: when they occur and how to survive them	123	Business Horizons	No empirical data	Increase in personnel, and improved profitability	Small business is forced to pass through three critical phases of growth or else will die. Phase 1: direct supervision stage; phase 2: supervised supervision stage; and phase 3: indirect control stage
Davis et al. (1996a)	Volatility and dispersion in business growth rates: publicly traded versus privately held firms	87	NBER Macro- economics Annual	Employs COM- PUSTAT and the Longitudinal Business Database (LBD), which contains annual observations on employment and payroll for all firms in the private sector in the US	Employment growth rate	The volatility and dispersion of business growth rates are considerably greater for privately held firms than for publicly traded firms. Volatility and dispersion decline sharply among privately held and increase sharply among publicly traded firms in the studied period (1976-2001)

(Continued)

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Table 1.1. (Continued)

Author(s) (year)	Title of publication	No. of citations	Type of publication	Type of study	How is growth measured?	Main findings regarding growth
Wiklund et al. (2003)	What do they think and feel about growth? An expectancy-value approach to small business managers' attitudes toward growth	76	Entrepreneurship Theory Practice	Three independent phone interview studies over a ten-year period; 1,248 cases	Attitude toward growth as dependent variable: whether a 100% increase in the number in five years time would be seen as mainly positive or negative	Non-economic concerns are more important than the possibility of personal economic gain or loss, particularly the well-being of the employees
Roper (1997)	Product innovation and small business growth: a comparison of the strategies of German, UK, and Irish companies	79	Small Business Economics	Product Development Survey with 533 responses in Ireland; 1,374 in Germany; and 1,722 in UK	Turnover and employment	Strong positive association between innovation and turnover growth, less direct link between innovation and employment growth
Robson and Bennett (2000)	SME growth: the relationship between business advise and external collaboration	71	Small Business Economics	2,474 SMEs in Britain	Three measures of SME growth: % change in employment; and % change in firms' turnover; % change in profitability per employee	Collaboration with suppliers (nationally and internationally) has strong positive relationship with employment and turnover growth; collaboration with local suppliers has strong positive relationship with

(Continued)

Table 1.1. (Continued)

Author(s) (year)	Title of publication	No. of citations	Type of publication	Type of study	How is growth measured?	Main findings regarding growth
Keeble et al. (1991)	Small firms, business services growth, and regional development in the UK	66	Regional Studies		Growth in firms and employment in information- intensive businesses	Growth in profitability; and little evidence of impact of government-backed providers of business advice on performance
Davidsson et al. (2002b)	Empirical analysis of growth factors using Swedish data	64	Journal of Small Business Management	Census of all businesses with 20+ employees in Sweden in 1996; annual data for 1987–1996 (11,196 companies)	Total employment growth	Business age (younger firms grow more); beginning size (smaller firms grow more), independence of ownership; and type of business activities (industrial sectors), and legal form most important factors related to growth
Upton et al. (2001)	Strategic and business planning practices of fast growth family firms	61	Journal of Small Business Management	65 fast-growth family firms from a sample of winners of the Ernst & Young Entrepreneur of the Year Program in the US	Growth in sales	The majority of high-growth family firms prepared written plans; shared information with employees; focused on high quality producing

(Continued)

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Table 1.1. (Continued)

Author(s) (year)	Title of publication	No. of citations	Type of publication	Type of study	How is growth measured?	Main findings regarding growth
Roper (1999)	Modeling small firm growth and profitability	55	Small Business Economics	Competitive Analysis Model (CAM) Project database of 785 small firms in Northern Ireland	Turnover growth rates	Firms' turnover growth and return on assets are only weakly related in the short term, above-average growth rates are therefore no guarantor of high profitability; small firm performance is shown to strongly depend on strategic choice, with turnover growth being particularly strategy dependent
Donckels and Lam- brecht (1995)	Networks and small business growth: an explanatory model	53	Small Business Economics	Phone interviews with 900 Belgian entrepreneurs	Dichotomous variable (growth/no growth)	Contacts with national and international entrepreneurs found to be the most important network determinant for growth
Weinzimmer (1997)	Top management team correlates of organizational growth in a small business context: a comparative study	50	Journal of Small Business Management	Comparative partial correlation analysis on samples of 74 small firms and 114 large firms	Sales growth rates, standardized for size	Functional heterogeneity of the top management team positively related to growth in small firms; TMT size is positively related to small firm growth;

of the phenomenon itself. Thus, not only a superficial but also a rather deep reading of the extant literature easily leaves the reader confused and wondering. It seems that merely adding more studies will not solve this problem. Instead, a conceptual and empirical reorientation is likely to be needed in order to advance this area of research. Therefore, we comprehensively review the empirical literature on small firm growth in an effort to not only highlight and integrate what is known about this phenomenon but more importantly to take stock of what past experiences of researching this area implies for how the phenomenon can or should be studied in future research.

Thus, this survey has two purposes. The first is to review the extant empirical literature on small firm growth. Our review will focus on small and medium-sized firms (SMEs). This is a relevant empirical context as in most national economies SMEs make up more than 95% of the firm population and account for 60–70% of employment (OECD, 2004). Further, it is obviously through growth that small firms become large organizations. Yet, theories and models developed for large firms do not necessarily apply to SMEs. Small firms have been found, for instance, to differ in their competitive behavior from large firms, which has important implications for their performance and growth (Brouthers and Nakos, 2004; Chen and Hambrick, 1995; Moen, 1999). Coad (2007) investigated the differences in growth of small and large firms and found that the growth of small firms appears to be marked by a negative autocorrelation which becomes very strong for the fastest growing small firms. He attributes this to a more erratic nature of growth for small firms, while larger firms appear to have smoother growth patterns, with positive — albeit small — autocorrelation of one year's growth to the next.

Our review is based on a large number of studies of small firm growth, published not only in leading management journals but also in books, monographs, and other less accessible outlets. This is for two reasons. First, academics in all countries do not operate under the same incentive system. Therefore, important studies from outside North America do not necessarily appear in the 'usual suspects' set of journals. Secondly, otherwise marginal, 'non-standard' studies may point at important new avenues for the development of research on

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small firm growth. Thus, our review will be more comprehensive than that of predecessors which are typically based on studies published in a limited number of management journals.

The second purpose is to suggest a framework for integrating our knowledge on small firm growth to guide future research. This latter aim is particularly important because many previous reviews tend to see ‘the glass half empty’, emphasizing problems and shortcomings rather than suggesting concrete opportunities for future research. In particular, we will emphasize (a) using growth as an intermediary variable rather than the ultimate, dependent variable; and (b) paying more attention to different *modes* of growth. This entails considering differential antecedents as well as inter-relationships among growth modes, and disparate effects of different forms of growth.

From our review of the extant literature on small firm growth we have identified a number of key themes which we present. For each theme, we highlight points of convergence and divergence. This discussion will show not only the complexity and fragmentation of the phenomenon, but also the considerable body of generalizable knowledge about small firm growth that now exists. The key themes are the conceptualization of small firm growth; assessing small firm growth; factors driving or hindering growth; modes of growth (such as organic growth versus acquisitions); growth stages and transitions; and the effects of small firm growth. Thus, this monograph is organized as follows. After first discussing the nature of the phenomenon of small firm growth and its relation to entrepreneurship we move on to how growth can best be assessed. A major section, comprising several sub-sections, is devoted to findings on factors that contribute to or hinder firm growth. Following this we offer a section on *how* small firms grow, if and when they grow at all. In particular, we discuss organic growth versus acquisitions; growth through networking and alliances, and international expansion. The next topic we treat is ‘growth stages and transitions.’ This has overlaps with several of the issues dealt with in other sections but as it represents a relatively separate stream in the literature we keep it as such. Before concluding, we also treat the effects of growth in terms of profitability and job creation. We choose to focus on these two aspects as they arguably represent the most important outcomes on the firm

and societal levels, respectively. Then, by integrating what researchers have learnt so far with issues that have been overlooked we propose a framework for guiding future research and furthering management theory and practice (and, hence, education) on small firm growth.

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