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Editorial

Strategic management of dynamic growth

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ABSTRACT

A great deal of theoretical and empirical work has been performed on firm growth following Edith Penrose's (1959) classic book, but there is growing concern among researchers and practitioners about the relevance of research as the business environment becomes increasingly dynamic. This Special Issue is motivated by concerns surrounding the need to rethink established theories of firm growth in the face of blurring boundaries among markets and technologies, increased competition, innovation, and intense competitive dynamics. Comprised of six articles, the Special Issue examines growth in a variety of ways and across industries and types of firms, showing how firm choices for pursuing growth extend beyond the dichotomy between internal and external growth. The contributions include a review of existing literature and new ideas on the role of human capital on firm growth, such as recruiting and retaining the right people, or developing managerial capabilities to direct limited resources to more productive uses. The impact of regulatory policies, industry life-cycle, and venture capital on firm growth are also investigated in novel ways.

Introduction

A great deal of theoretical and empirical work has been performed on firm growth following Edith Penrose's (1959) classic book, but there is growing concern among researchers and practitioners about the relevance of research as the business environment becomes more dynamic. For example, innovation continues to disrupt established industries at the same time that government policy and venture capital has developed to facilitate firm growth. Simply, change and its increased tempo can have a profound impact on firm growth strategies.

As a result, changes in the business environment have made the management of dynamic growth increasingly important to researchers and practitioners. The combined implication drives a need to consider new ideas and avenues for growth research.

The current Special Issue is motivated by concerns surrounding the need to rethink established theories of firm growth. We invited researchers to share their findings on how growth is sustained in the face of blurring boundaries among markets and technologies, increased competition, and intense competitive dynamics. We suspected that an increasingly fast and unpredictable business landscape exemplified by complex strategies, such as acquisitions, joint ventures, alliances, and private equity or venture capital funding, could overcome traditional limits of firm growth for both established firms and new ventures. We anticipated a fresh new look at long-standing strategy issues related to planning and implementing growth could facilitate an improved understanding of how firms, industries, networks, and ecosystems achieve growth in the global economy.

The special issue attracted a set of robust submissions that offer a well-balanced mix of papers using various methodologies (both quantitative and qualitative), as well as conceptual papers. Included works span applied research to samples and cases from high-technology settings, as well as work on more traditional industries that reveal new insights on dynamic growth. In providing an overview of this subject and the associated research, we first provide background on firm growth and the relevance of the Special Issue. We then turn to summarizing the research included in this special issue before identifying implications and avenues of future research.

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Foundations of firm growth

Managers face a continuous challenge of balancing between organic incremental growth, leveraging networks and alliances, and growing through mergers and acquisitions (Capron and Mitchell, 2010). While different strategic needs make different forms of growth more or less desirable (Moatti et al., 2015), a firm's environment often drives growth, though success depends on current resource endowments. For Penrose (1959), meeting external demands depended on managers to balance the rate and direction of firm growth with a firm's current resource endowments. As a result, the primary limit to firm growth involved the capacity to manage it.

According to Penrose (1959), substantial administrative problems restrain the rate of firm growth. Contrary to many other resources, managerial resources cannot immediately be increased through purchase on the factor market, because the market for such resources is imperfect. For example, the markets where a firm can operate may depend on accumulated organizational capabilities (e.g., Knudsen, 1995). While the release of new services makes it profitable for a firm to expand in certain directions, the recruitment of additional high-level human (or managerial) resources concurrently undermines the firm's long-term potential to grow. Subsequently, observed periods of firm high growth that were typically followed by periods of slower growth were termed the “Penrose effect”. Historically, there does appear to be a limit to firm size, as U.S. companies that achieve a market capitalization of over $500 billion have subsequently gotten smaller (Welch, 2012).

However, this view is not without opposition, as Geroski (2005) suggests the growth rate of firms is more or less random. Further, CEO Tim Cook has publicly stated that he does not believe in limits to Apple's growth (Milian, 2015). While the argument is based on an assumption of randomness, or it becomes increasingly unlikely that Apple will consistently report growth, it also reflects concepts of limits to firm growth. For example, Apple needs to identify where continued growth will come from, as achieving growth becomes more difficult as markets become saturated and the numbers involved get larger. For example, doubling sales of $1000 is fundamentally easier than growing Apple's 2015 revenue of $233.7 billion even 1 percent. A possible short-cut for continued firm growth would be to acquire it externally. Still, Penrose (1959) held external supply of managers could not remove administrative limits as managers needed experience working together (Tan and Mahoney, 2005). While acquisitions can alleviate some growth constraints, they also offer problems of assimilating new staff and moving into unrelated business markets. The conflicting perspectives motivated the Special Issue to aim at determining whether traditional limits to firm growth still apply in increasingly dynamic markets.

Dynamic growth: special issue

Motivated by major changes in the business environment that require reexamination of theories of firm growth, the Special Issue invited researchers to share their findings on how growth is sustained in the face of blurring boundaries among markets and technologies, increased competition, innovation, and intense competitive dynamics. We suspected that in the increasingly fast and unpredictable business landscape combinations of strategies such as acquisitions, joint ventures, alliances, and private equity or venture capital funding become means to stretch traditional limits to firm growth. The intent was for a fresh look at long-standing strategy issues to facilitate a better understanding of how firms, industries, networks, and ecosystems achieve growth in a global economy. Comprised of six articles, the special issue examines growth in a variety of ways and across industries and types of firms, and each is briefly summarized below.

In the first article, Robert Demir, Karl Wennberg and Alexander McKelvie take stock of extant research on high growth firms. Based on their extensive review, the authors identify five key drivers (human capital, strategy, human resource management, innovation, and capabilities) as strategically important. To take the discussion forward, they combine these drivers to forge a conceptual model of how the identified factors can predict high firm growth. Research on each factor is summarized and direct and moderating effects on high firm growth developed. While evidence suggests a clear role of human capital on firm growth consistent with Penrose (1959), the underlying elements of what make up needed human capital for firm growth are in need of further inquiry. Further, how firms limit too much growth is identified as an important area for future research. The authors suggest further empirical research examining identified drivers of growth would enable testing inferred relationships and later aggregation of research using meta-analysis.

The second article by Leona Achtenhagen, Olof Brunninge and Leif Melin uses a longitudinal qualitative inquiry that suggests the current concepts of a trade-off between internal and external growth are oversimplified. Using case studies of small to medium-sized fast growth firms, the authors identify and illustrate eight different growth modes that firms can combine. Developed evidence suggests that patterns of dynamic growth in medium-sized firms are more diverse and complex than is generally understood. Again, consistent with Penrose (1959) recruiting and retaining the right people is observed as a key challenge for dynamically growing firms. However, a clear implication of this research is a need for research to go beyond a dichotomy of internal and external growth.

In the third article, the issue of firm life-cycle on growth is empirically tested from primary data collected from managers of U.S. and Italian firms by Christina Matz Carnes, Francesco Chirico, Michael A. Hitt, Dong Wook Huh and Vincenzo Pisano. The authors contribute to our understanding of how firms manage their resources to remain innovative at different stages of their development. Using resource orchestration and contingency theory, the authors develop how managers orchestrate firm resource portfolios and capabilities. Innovation in growth and mature firms are compared to identify differences, including a preference in growth stage firms for resource accumulation and pioneering. Counter to expectations, the authors find that both growing and mature firms emphasize resource divestment. Consistent with Penrose (1959) this is inferred as attempts by managers to redirect limited resources to more productive uses.

Meanwhile, in the fourth article, Panayotis Georgallis and Rodolphe Durand focus on the European solar photovoltaic industry to examine the impact of government policy on firm growth. Reinforcing the need for government support and consistent policy toward nascent industries, the authors find firm growth is positively linked to policy generosity, and negatively linked to policy discontinuity. Further, corporate-backed ventures in comparison to entrepreneurial startups are less affected by policy generosity and policy discontinuity. These outcomes point to boundary conditions or importance of considering country- and firm-level differences in analyzing regulatory policies on firm growth. Further, there is a need to better understand both intended and unintended consequences of policies developed to shore up new industries. This represents an important extension of Penrose (1959) that did not explicitly consider the impact of government policy.

The fifth article directly examines Penrose's (1959) assertion that managerial limits to growth still apply to acquisitions. Specifically, the impact of an industry's life-cycle on acquisitions as a form of dynamic growth is examined by Florian Bauer, Mai Anh Dao, Kurt Matzler and Shlomo Tarba. The authors compare acquisitions in growing, stable, and declining industries, and find that degree of integration and coordination mechanisms can have beneficial or detrimental effects depending on industry life-cycle. As a result, they suggest there is no “one size fits all” approach for integration but rather suitable acquisition decisions are tied to an industry's lifecycle, or they are context specific. For example, deeper integration of a target firm has significant beneficial effects in mature industries, while no effect is observed for declining and fast growing industries. With respect to Penrose (1959), the amount management constraints apply to acquisitive growth may depend on these external conditions.

The final article by Olimpia Meglio, Arabella Mocciaro Li Destri and Arturo Capasso investigates the conditions where venture capital contributes to entrepreneurial firm growth. Complementing extant research on venture capital and capitalists with resource-based research, the authors theorize that venture capitalists have beneficial effects on the growth of new ventures. This results from venture capitalists having developed venturing capabilities, or a distinctive set of skills and processes. Relevant venture capitalist capabilities include: 1) scouting (i.e., the ability that develop to identify attractive new ventures), and 2) coaching (i.e., the ability to extend the new ventures' bundle of strategic resources). A set of propositions are developed and offered for empirical testing. With respect to Penrose (1959), venture capital is a new phenomenon and it suggests external relationships can mitigate administrative limits to growth.

Conclusion

In considering Edith Penrose's (1959) seminal book entitled “Theory of the growth of the firm”, the articles comprising the Special Issue confirm the continued relevance of her ideas. For example, contributing authors find a continued importance of human capital on firm growth (e.g., Demir et al.; Achtenhagen et al., this issue), and that managers redirect resources to more productive uses (Carnes et al., this issue). However, included articles also stress the need to consider contemporary issues, such as government policy (Georgalis and Durand, this issue) and venture capital (Meglio et al., this issue), as well as fundamental concepts associated with industry life-cycle (Bauer et al., this issue) not directly considered by Penrose (1959). Overall, it is clear that firm choices for pursuing growth extend beyond the traditional dichotomy between internal and external growth (Achtenhagen et al., this issue). The combined implication of the contributions is that the Special Issue reinforces the relevance of Penrose's (1959) initial insights, while identifying and developing important nuances that relate to contemporary managers and dynamic external conditions that they confront.

We believe that this direction of inquiry provides a foundation for future research on the issue of dynamic growth in the years to come. In particular, it is our feeling that ecosystem- platform- and network-driven growth, as well as the proper treatment of firm dimensional issues (i.e., the interplay between SMEs and large firms in prompting dynamic growth), and the balancing of the rate and pace of growth, are some of the intriguing themes that deserve further investigation in the growth realm. In closing, our intent is that the Special Issue spurs additional impactful research on the important topic of firm growth.

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