See How They Grow: Studying Small Venture Growth Through a Qualitative Lens

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Abstract:

Much of the research work on small businesses and/or new ventures is dedicated to understanding success factors for firms that experienced growth. However, hindsight can only tell part of the growth story, and the how of firm growth has been neglected for the why (Gilbert et al., 2006). We surveyed 23 small companies, all with proven intent to grow, shortly after they had been trained in strategic growth. We explore how a firm’s characteristics affected the growth risk (whether targeting new customers, or offering new products or services to current or new customers) it selected. We find that the level of human and financial resources had a direct connection to innovation risk, and that firms that undertook multiple growth risks could be classified by resource level, growth planning type, and product/service.

I. Introduction

Many small businesses possess growth aspirations. After they have demonstrated their intentionality to grow, they begin the process of generating a strategic growth plan, whether it be
written or tacit. The firm must first make decisions regarding its tolerance for risk relative to its status quo in aiming for growth. Firms may approach growth from multiple angles. Some firms decide to grow via innovation and develop new products and/or services that will bring in more revenue from current customers. This approach could be particularly difficult given the threat of competition. Other firms may decide to grow via new customers, preferably in a blue-ocean setting (Kim & Mauborgne, 2005) free of rival firms. Besides risk, there is also the possibility that firms prefer a broad growth strategy, and thus pursue multiple customer segments (current or new customers) and/or also try to innovate through the development of new products and services. Each firm makes its decision based on its resources and its perception of markets, rivals, and the business environment in which it operates.

In analyzing the growth choices of small businesses, it still remains to be seen what influences a certain firm to select a certain method of growth. The chances of new product/service failure are high: 50% of market pioneers experience failure (Golder and Tellis, 1993). Attempting to attract new customers is also difficult, as the firm must build awareness and convince those new customers to purchase. Thus, it is worth knowing what commonalities exist that lead firms to target new customers without offering any new products or services, or alternatively target new customers while simultaneously producing new market offerings. In addition, the firm’s actual planning process may have a direct effect on the firm’s risk and focus. Some firms generate a written strategic growth plan, while others rely on tacit methods to generate a growth plan. If all firms have been trained in generating such a plan, it would be of interest to know whether the firm’s approach to planning increased the amount of risk a firm is willing to take on in its quest for growth.
Much literature has been generated in what factors actually lead to firm growth, whether the firm be a new venture, small business, or multinational corporation. However, as pointed out by Gilbert et al. (2006) in their review of the literature, the how and where of growth has often been neglected in favor of the why. The literature also tends to have a time bias in that it profiles the firms in hindsight, after the growth has taken place, rather than a cross-section of small businesses currently engaged in the midst of growth planning and execution. Data collected after the fact, due to lapses of human memory and the inevitable desire of managers to take credit for successful outcomes, is less likely to be as accurate. (For example, it seems safe to assume that most successful firms would prefer to state that their approach to growth was skilled, detailed planning from the top management team, rather than recall haphazard adjustments to market challenges that eventually resulted in growth). Finally, the literature has a survival bias in that it tends to focus on firms whose growth plans were successful (e.g., research done on Inc Magazine’s 500, an annual list of fastest-growing private American firms) rather than a cross-section of firms attempting to grow.

Our work contributes to existing literature by surveying twenty-three small businesses in an economically-disadvantaged area of the United States. The small businesses have all demonstrated a clear intent to grow, and our interviews help answer the how of growth by offering a snapshot in time of them engaged in attempting to turn strategic intentionality of growth into tactics. Rather than focusing on the actual outcomes of their attempts, we overcome the success and time biases by interviewing firms soon after they have selected growth tactics, before the full outcome of their decisions can be measured. Our work allows us to see what happens when a small business begins to count the benefits and costs of growth, after being unable (or unwilling)
to grow as a new venture. We believe that the actual adaptations a firm makes in an attempt to
grow can be best understood in real time rather than analyzing a success story in hindsight. We
examine what relationship is there between a small business’s characteristics and the growth
risk(s) it selects? And how does the process of writing a strategic growth plan affect how
aggressive the small business is in choosing growth risk?

The remainder of this paper is organized as follows. In Section II we review related
literature in order to clarify our contributions. The methods of our research are explained in
Section III. Section IV documents our findings on how writing a growth plan and other firm
variables influence growth risk. Finally, Section VI summarizes our results while offering
extensions for future research.

II. Literature Review

Our literature review surveys previous findings on small business growth, most of which
is concentrated in the new venture literature. We survey literature on growth risk, paying special
attention as to how strategic planning and product/service dominance may affect the firm’s
growth strategy.

A large literature exists to describe growth in new ventures (e.g., Gilbert et al., 2006;
Koeller and Lechler 2006; Baum et al., 2001; McDougall et al. 1994). New ventures often pursue
growth because of their liability of newness (Freeman et al., 1983) which puts pressure on the
firm to grow in order to sustain itself. Much of the extant research on new ventures is dedicated
to understanding which factors were critical to the success of a firm that has experienced rapid
growth. However, not all new ventures are growth-oriented. Cliff (1998) explains that the
entrepreneur may not be strongly inclined to grow the firm. An entrepreneur may be reluctant to
embark on a growth track because they fear adverse effects from growth (Wiklund et al. 2003) or because they are not sure of their capacity to manage growth (Box et al. 1993). In addition, the entrepreneur might have wished to grow, but lacked the resources or managerial acumen to do so. In our sample, the small businesses we investigate may have been viable for years without a growth focus, but are in the process of re-evaluating that stance as resources, profitability, or management evolves over time. The firms we surveyed have proven their commitment to growth via sending member(s) from the top management team to a special course in Strategic Growth.

A firm must select whether it can experience growth by maintaining the status quo (selling same products/services to existing customers) or increase its risk by attracting a new market segment and/or offering a new product/service. Gilbert et al. (2006) identify the question of market selection as a critically understudied area in new venture growth. However, external and internal constraints can force a small business to be creative merely to survive (Mambula, 2004) and may affect market choice. Vereshchagina and Hopenhayn (2009) find that poorer entrepreneurs are more willing to take risks. Thus, firms may have common attitudes towards risk based on constraints they face (alternatively, resources they lack). Or, demographic details such as age should lead to a greater propensity towards risk (e.g., higher level of entrepreneurial orientation for start-ups), although Vitale et al. (2003) detected little difference in EO between startups and established companies. We thus investigate whether firms possess certain levels of entrepreneurial orientation (finding and proactively exploiting opportunity through innovation) due to commonalities.

Breadth of growth risk is another issue for the firm, as the firm tries to decide whether it should focus on just one growth strategy (e.g., new products to one segment) or try multiple growth strategies. Miller and Camp (1985) indicated that a firm should serve a variety of customers with a broad product line. Abell (1980) indicated that firms entering a newer market should offer more products but firms
entering a more mature market should specialize. Kunkel (1991) found that new ventures should have a broad focus early on and a narrow focus once the product life cycle was near its end. We investigate what factors lead to firms selecting multiple growth strategies.

An important factor in growth risk selected may be the firm’s ability to create a strategic growth plan. All firms in our study had the same training on creating a strategic growth plan from the class. Previous studies such as Barringer et al. (2005) have examined factors that lead to rapid growth firms (defined as firms with a 3-year compound annual sales growth rate of at least 80%). He found that significant factors for a rapid-growth firm were a commitment to growth, a growth-oriented mission statement, and participation in interorganizational relationships. However, planning was not a significant firm attribute. We, however, are more interested in how the level of the strategic growth plan (whether written or tacit) may influence the level of growth risk a firm will select. For example, gaining additional information about constraints due to writing a strategic growth plan may make the firm less likely to take risks; but a written growth plan may also give a firm greater confidence to push forward towards new customers.

Finally, another factor of special interest is the growth characterizations in traditionally service vs. traditional product type firms. It has been hypothesized that the growth of service firms are typically more predicated on the ability of the firm to maintain not only its own service orientation (Lytle, Hom et al., 1998) (which typically implies a focus on a high level of service delivery and service quality) but also upon its market orientation itself (Deshpande, Farley et al., 1993) (typically based upon the firm’s ability to understand, adapt to, and meet the needs of its clientele). Thus, it may be that service-oriented firms are less likely to offer new services.
III. Methodology

III.A Qualifying the Sample

The sample was composed of 23 small companies who had enrolled in a pilot program designed to foster growth in small sized enterprises supported by the US Department of Labor. Consistent with the literature, small sized enterprises were defined as companies with less than 500 employees. Sample companies employment levels ranging five to 320 individuals and estimated revenue ranged from $300,000 to $13 million.

To qualify for the program/study businesses had to possess the following characteristics. First, companies must express an intention to grow strategically. Strategic growth was defined as a company’s willingness to strategically shift to expanded or new markets or new products—in other words, a movement away from the current business model. Second, the expressed intent to growth was articulated by managers/entrepreneurs with the authority to lead such efforts. Third, companies had to have experienced volatile or decreasing revenues. The sample was intentionally focused on companies that were not consistently growing who required new revenue model approaches.

III.B Intro: The Strategic Growth Program

The Strategic Growth Program was a pilot initiative funded by the Department of Labor to encourage and facilitate growth in existing small businesses. The program was intentionally focused on firms experiencing stagnate, declining, or volatile revenue growth. In other words, these firms were not gazelle-like (fast growth) firms. The program was not designed or as a standard academic course or a consulting project. Instead the program integrated coursework,
consistent with graduate executive education with consulting and networking opportunities. It was structured to provide 40 contact hours over a ten week period to provide “growth appropriate” business tools to senior executive to understand the “how to” grow their business. The program was taught and led by a balanced team of experienced practitioners and applied academics. It taught tools and applied techniques to assist senior executives/entrepreneurs identify their internal strengths, existing markets and the benefits and costs of specific growth paths.

The learning was composed of three general components. First, executives were immersed in applied business tools associated with Strategy, Strategic Marketing, and Entrepreneurship, and Dynamic Strategic Planning. Each Monday from 4 to 8 p.m. participants meet with instructors to explore and applied pertinent business tools. Over the course of the following week, these executives worked with their companies’ leadership team to explore how these tools applied to their specific circumstance and situation. Second, senior leaders worked individually or within their corporate team (depending on company size) to apply these tools to their current situation. Third, executives were assigned mentors with experience in company growth. Finally, executives and teams were integrated into discussion networks of other executives to discuss similar problems.

III.C Data Collection and Analysis

The Strategic Growth Program was offered once a year from 2007 to 2009. Data was collected from senior executives at two alternative periods of time. Before entering the program executives were required to articulate their company’s growth challenges and revenue volatility.
At least one researcher was intimately involved with each of the companies prior to the conclusion of the program. After the completion of the course, individuals participating from all companies were interviewed face-to-face about the dynamics of their growth efforts. Interviews were based on semi-structured questions regarding their growth plans and the internal and external challenges and opportunities they faced. A research led all questioning but allowed for considerable flexibility for the participants. Interviews ranged from one to three hours with an average interview length of 90 minutes. Interviews were recorded and transcribed.

Multicase methods provided the primary mode of analysis for this study (Eisenhardt, 1989; Yin 1994). The data was content analyzed according the processes described in grounded study approaches (Glaser and Strauss, 1967 and Miles and Huberman, 1984). Such approaches are critical of footnote on footnote research that locks findings into pre-existing findings. All authors except the primary author were involved in the coding process. The process of using three judges is consistent with prior research and established norms for this method (Kassarjian 1977). The judges independently reviewed each interview and categorized the firms one of the four quadrants as described in Figure 1. Each judge was responsible for placing the firm into its respective quadrant based on the interviews along with aggregating information on the human and financial resources of the firm. The interjudge reliability averaged around 95%. This number is well within the 85% standard established by Nunnally (2003). For the few inconsistencies the judges met and discussed the interview until a consensus was achieved.

IV. Findings
An analysis of the codified data yielded several interesting results. Of critical importance in this study was to analyze the mode of growth that the leadership of each firm envisions when describing their near-future endeavors for expansion. In the current research, we have taken two unique forms of firm growth strategy under consideration. The first, a strategy of maintaining the same customers we have now, but fostering growth through placing new products or services on the marketplace (a strategy we refer to as “current customer, new service” or “CCNS”, but is perhaps better known in the marketing literature (Ansoff 1957) as a \textit{product-development} strategy). This strategy allows for the firm’s clientele to simply reinvest in the offerings of the firm.

A different tactic on growth is to engage in what Ansoff (1957) referred to as a \textit{customer-development} strategy – making no changes to the market offerings, but instead, attempting to reach new customers with the firm’s current product offerings. In this particular situation, the firm may attempt to reach customers through an expansion into an unserved geographical area, targeting a different segment in the physical areas that are covered by the firm’s market offerings or perhaps through a hybridization of both means. This research refers to this growth possibility as “new customer, current service” or “NCCS.” Finally, a firm may also choose to engage a growth initiative performing both an adjustment to their service while simultaneously pursuing new customers. This research refers to this growth tactic as NCNS, or “new customers, new services.”

Critical to our understanding of these three means for growth is that they each represent incrementally increasing engagements of risk to the firms. Kotler (2003) agrees that for the
market-oriented firm, the lowest degree of risk is found in the creation of new products, and applying them to our existing customer base (CCNS). The market information for the customer is known, so changes to the product/service offering on the market would be done out of concern for the customer’s well being and need fulfillment. Representing more risk for the firm, however, is to apply the same customer-focused product offerings that are already on the market, and attempt to fit them to satisfy the utility of customers that the firm is not accustomed to serving (NCCS). This is a significantly more risky tact, as the firm now operates under the assumption of repositioning, but cannot do so effectively until a critical mass of information about the new customers is internalized at every relevant level of the market-oriented firm. Representing the highest degree of risk is for the firm to undertake the plan of creating new market offerings for altogether new customers (NCNS). In this situation the firm must both incur the costs of new product/service development, while simultaneously facing costs for market development as well.

Thusly, here we have organized the growth aspirations of the firm management members we consulted by arranging them in a 2x2 matrix (Figure 1). We illustrate the characterizations of the risk due to growth that each firm is assuming, which we term Growth Risk. The status quo is to only serve current customers with current products/services. The other quadrants represent the three types of growth risk a firm may assume in its desire to grow. Note that some firms are willing to take on multiple forms of growth risk (italicized names). Service-based firms are colored in red, while product-based firms are bolded. We also represent by Y/N which firms filed a growth plan.
We first considered whether the firm in question was a traditional product-focused or service-focused firm. Our view was consistent with Lusch and Vargo (2007) in that firms that saw its main mission in providing services would be more apt to be in tune with the needs and desires of their customers, making it more likely that they would be better able to seek new customers while maintaining similar service offerings. This view is contrary to product firms who rely on customers to self-select products based upon various signals of quality or effectiveness on the package, so are more apt to change its product offering while maintaining the same customer base. We then attempted to determine if the mode of growth would be different depending on whether the firm’s interviewed leadership actually filed a growth plan. We would assume, for various reasons, that firms that actually take the steps to file a growth plan would have internalized a realistic view of both the internal capacities of their own firm as well as the externalities of the industry in which they existed, making their growth intentionality more reserved, and less risky. Finally, we considered whether the leadership of the firm divulged that the firm held significant financial or human resources.

Our primary research question was to understand the similarities and differences between firms that indicated a strong intention to grow. A clear result of this study was that the overwhelming majority of product dominant firms completed a written growth plan. Similar results were not observed in firms with a service focus. This finding may actually support prior views regarding the difficulty of growth among service firms. While a struggle for resources is a common characteristic of most small businesses, it was also noted that product-dominant firms in our sample tended to enjoy stronger human and financial resources in relation to their service-dominant counterparts. See Figure 2 for more details, where firms that have low levels of both
human and financial resources are termed *limited*, while firms that have high levels of both human and financial resources are termed *significant*.

Eight of the nine small firms with limited resources selected the greatest growth risk of the three, NCNS. Kotler (2003, p. 341) suggests that small firms with limited resources attempting to launch new products/services should direct their efforts on identifying and serving a small niche market. However, contrary to Kotler’s recommendations, our findings (see Figures 1 and 2) indicate that half of the resource-limited firms that selected NCNS took on multiple growth risks (several niche markets, i.e., both CCNS and NCNS). This was true whether the firms were product or service dominant. This finding warrants special attention especially given the training that the firms completed. While the risks of targeting multiple segments should have been clear through the training the firms received, small businesses with limited resources still decided to take the most risky approach to growth.

Our findings also indicate that the firms with relatively higher human and financial resources tended to adopt the conservative and safe route by limiting themselves to a single growth risk (with the exception of firm AD). Intuition would suggest that these firms with stronger resources should be willing to take multiple growth risks, but this was not observed. For example, take the safest growth risk, CCNS, which was selected by seven firms. None of the five firms that also selected NCNS had significant resources, and none of the two firms that only selected CCNS had limited resources. This raises an interesting question. Does having significant resources make a firm more conservative? Our prevailing thought was that firms that held a significant degree of financial resources would be less willing to expose themselves to riskier
growth schemes, since they faced significantly much higher material losses, while those firms that did not hold such resources would, instead, be much more willing to engage in riskier growth schemes, since they themselves did not have as much to lose. An argument could also be made that firms that have little resources are in a battle for survival and make choices due to desperation.

In examining each single growth risk, the presence or absence of a written growth plan did not clearly impact the growth risk selected, nor determine whether a firm took multiple growth risks. We did note, however, that service firms that focused on new customers (NCCS and NCNS, the two highest sources of growth risk) wrote growth plans (and were not resource-limited) while service firms that focused on new services (CCNS and NCNS) did not write growth plans and were resource-limited. However, when examining service firms that selected the riskiest choice, NCNS, only half wrote a growth plan, so it cannot be speculated that a service firm that wrote a growth plan is willing to take on more growth risk in general.

V. Conclusion

V.A. Discussion

The proper public policy approach to the education and support of new ventures and small businesses is a matter of ongoing debate. One of the reasons it is so difficult to assess the true effect of public assistance is that the effects of education and support on the outcome (e.g., success or failure of the business) may take decades to appear and also suffer from hindsight bias and/or an overemphasis on success stories. Firms may have various motives for downplaying or overrating the effects of government intervention after the fact. Our paper makes a unique contribution to this discussion by looking at how an elite sample, all recent participants in a
strategic growth program, chose to begin the process of growth. By reporting on which type of growth plan the small businesses chose to create (whether written or tacit) and then describing how this decision may have affected the growth risks the firm selected, we provide additional insight into how the process of growth is affected by training and planning. We do find it of interest that nearly all product dominant firms, even if they possessed limited resources, created a written growth plan. Our speculation is that product-oriented firms in our sample may have lacked formal business training and the strategic growth course and growth planning exercise may have increased their intentionality to grow.

Small businesses often struggle due to a lack of resources, and our work describes a clear difference in the type of growth risks selected by resource-limited firms and firms with significant human and financial resources. We speculate that a threshold effect is at work, such that resource-limited firms tend to balk at selecting only a single, safer growth risk (CCNS or NCCS) due to concern that remaining in one niche market will not be enough to guarantee success. Counter-intuitively, firms with significant resources tended to balk at selecting multiple growth risks. We speculate that this result may be due to innovation inertia effects on the part of the firm with significant resources. In examining product and service dominance, we could not describe any clear relationships between orientation and the growth risk the firm selected.

V.B. Future Research

There exist several avenues for future research. Our study is an attempt to investigate plans of the firms at a specific juncture; immediately after the formal growth training. An
obvious area for examination is to further explore the growth process with firms of different sizes. We also encourage scholars to examine the outcomes of growth planning using a longitudinal approach. Specifically, identifying the intensity of commitment through proxies such as time or monetary investment could greatly help further knowledge in this area. Further, the notion of training and mentoring requires further scrutiny to identify the effects of formal training on growth decisions. Finally, we invite others to join us in further exploring how training small businesses affects their attitudes towards market and product/service innovation and risk.

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Figure 1. Growth Aspirations of Firms Sampled
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Figure 2. Resource Level and Growth Risk

References:
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