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

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Overview

- Small business growth is key to economic development and profitability
- Emphasis on successes and outcomes (What/Why) fails to appreciate processes and methods (How)
- We apply grounded theory to the experiences of 22 small businesses in the WIRED program.

Lit Review

- Small businesses suffer from liability of newness (Freeman et al. 1983)
- Small businesses suffer from lack of resources (Hausman 2005; Romano 1990)
- Small businesses suffer from lack of strategic vision for growth and innovation (Wiklund et al. 2003; Verhees and Meulenberg 2004)
- Thus small businesses tend to be risk averse (File and Prince 1996)

WIRED Program

- Pilot program, supported by US Department of Labor
  - Designed to foster growth in small enterprises
    - Selected SBEs must have strategic growth focus and demonstrate top management commitment.
    - Selected SBEs must have had volatile or decreasing revenues and commit to new methods of growth.
- Selected SBEs participated in 10 week class.
  - Tools and Applied Techniques
  - Mentorship and Peer Networks

Longitudinal Snapshots

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Planning:
Firms formulate growth plan, select target market(s), offer new/old products/services

→

Process:
Firms decide whether to implement growth plan or scrap it.

→

Outcome:
Result of growth plan investment is measurable

t_1 t_2 t_3

- What relationship exists between a SBE's characteristics and growth risks it selects?
  - Does writing a growth plan make a firm more risk averse?

Research Methods

- Program offered annually, 2007-2009.
- Data collected after the course via face-to-face interviews with researcher.
- Multicase methods were used for analysis.
  - Three judges coded transcribed interviews.

Growth Risk Matrix

	CURRENT SERVICES	NEW SERVICES
CURRENT CUSTOMERS	Status Quo	*KE (N)* *RS (N)* SG (Y) ***AS (Y)*** ***CL (Y)*** ***JM (Y)*** **SY (Y)**
NEW CUSTOMERS	*AD (Y)* *LP (Y)* A2 (N) HR (Y) IN (N) VA (Y) WI (N) **GA(Y)** **OP (Y)** **PI (Y)**	*AD(Y)* *KE (N)* *LP(Y)* *RS (N)* DM (Y) NY (N) PD (Y) RO (N) ***AS (Y)*** ***CL (Y)*** ***JM (Y)*** **SO (N)**

Dependent Variable of Interest

- Growth Risk
  - CCNS< NCCS< NCNS
- Multiple Growth Risk
  - Of the 22 firms, 7 chose to go after more than one quadrant (e.g., CCNS and NCNS).
- Factors of Interest
  - Product/Service Dominant
  - Human and Financial Resources
  - Written Growth Plan (Yes or No)
    - Formalized Plan, Early Stage Concepts

Product/Service Dominance

- No conclusive relationship between p/s and growth risk.
- Some clustering exists for p/s and multiple growth risk
    - KE, RS
        - Service, no growth plan, resource-limited, NS
    - AD, LP
        - Service, growth plan, not resource-limited, NC
    - AS, CL, and JM
        - Product, growth plan, some resource-limited, NS

Human and Financial Resources

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- Limited-resource firms were defined as firms that had low levels of both human and financial resources.
  - Kotler (2003) suggested that such firms launching new products/services should focus on niche market.
- However, limited resource firms took on significant growth risk
  - Eight of the nine resource-limited firms were in NCNS
  - Four of the nine were also willing to take on multiple growth risks

Human and Financial Resources

- Significant-resource firms were defined as firms that had high levels of both human and financial resources.
- Such firms tended to take safer growth risks
  - Only two of the four significant-resource firms were in NCNS
  - Only one of the four significant-resource firms took multiple growth risks.

Human and Financial Resources

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Companies	Resource Level, Growth Risk
RO, NY, DM, PD, WI	Limited, Single
RS, KE, AS, CL	Limited, Multiple
SG, SO, GA, UN	Significant, Single
AD	Significant, Multiple

Growth Plans

- No relationship was observed between writing a growth plan and being growth risk averse.
- Most of the product-dominant firms wrote a growth plan.
  - However, a higher proportion of such firms tended to have significant resources.
- Preliminary data from second snapshot indicates that firms that did not write a formal growth plan did not fund their growth plan.
  - Thus writing growth plan is strongly linked to actual intentionality of firm to grow.

Conclusion

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- Financial/Human Resources have counter-intuitive effect on growth risk
  - The weakest firms seem most determined to take large risks, even though trained in proper strategy
    - Survival Maximization vs. Nothing to Lose
    - Spreads risk around
  - The firms with significant resources tend to be focused and conservative
    - Following Kotler vs. More to Lose
    - Innovation Inertia

Conclusion

- Training programs similar to WIRED seem to be of most value to two categories of firms:
  - Product-dominant firms (which perhaps lack business expertise)
  - SBEs with significant resources (which can write and implement growth plans)
- Written growth plans have some impact
  - Does not seem to open eyes towards “blue oceans” (Kim and Mauborgne)
  - Does make firm much more likely to fund future growth efforts

Questions?