



# SMEs RENEWAL PROCESSES THROUGH GROWTH

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# Growth in the process of self-renewal

The problem of change in organizations is a relative one.

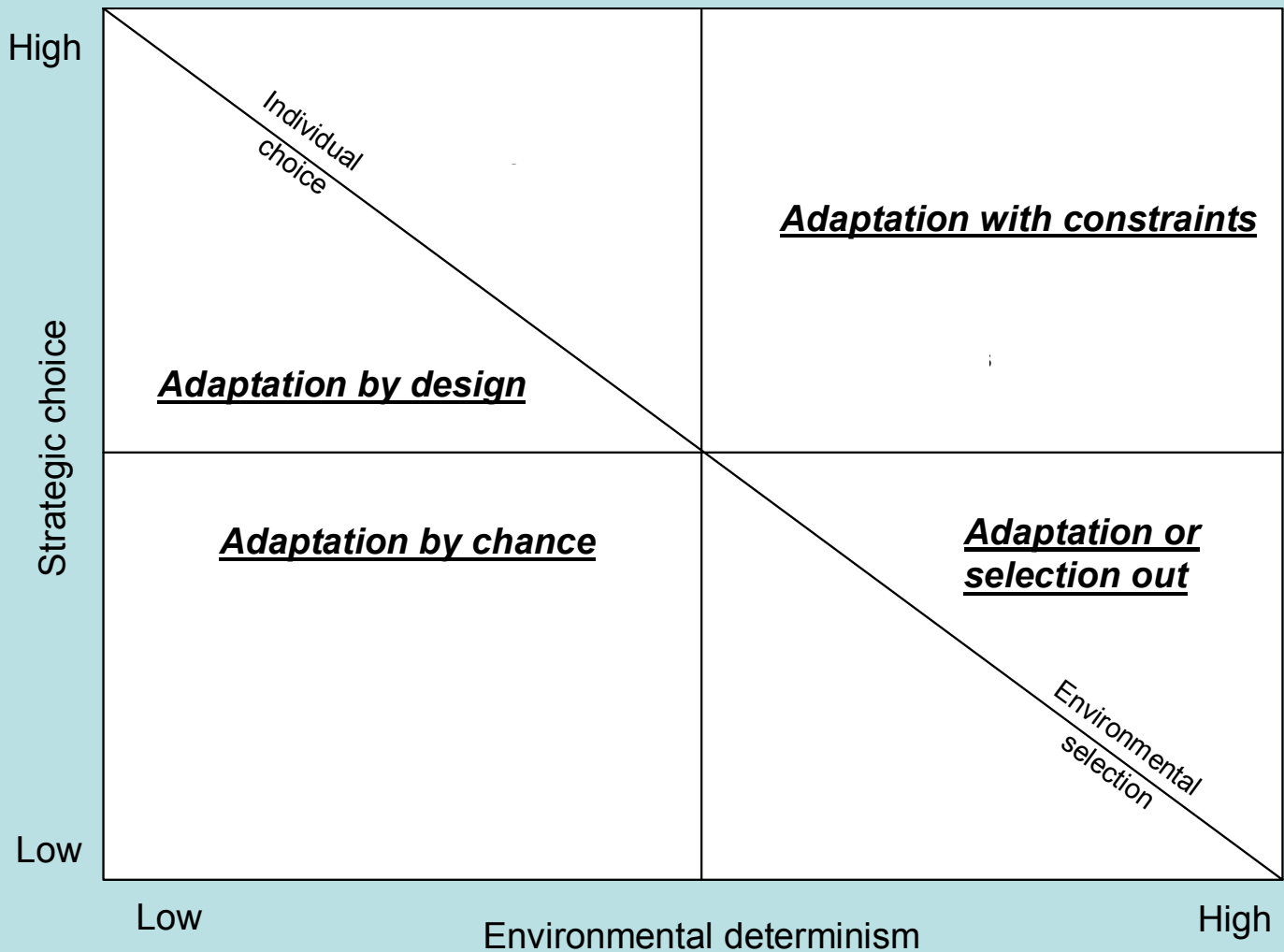
As many have pointed out, organizations **are always changing**, but the natural pace of change may be too slow, particularly in a hypercompetitive environment or one facing technological shifts.

- Competition threatens survival. But adjustment to competition is also risky; change may fail or firms may overreact, bringing even more severe consequences.
- Or change may come from a clear strategy design of organizations, willing to renew or change themselves.

**Growth** can be a typical change or renewal process for SMEs, where the pressure to grow comes not just from the threats to survival, but also from the desire to grow and be more successful.

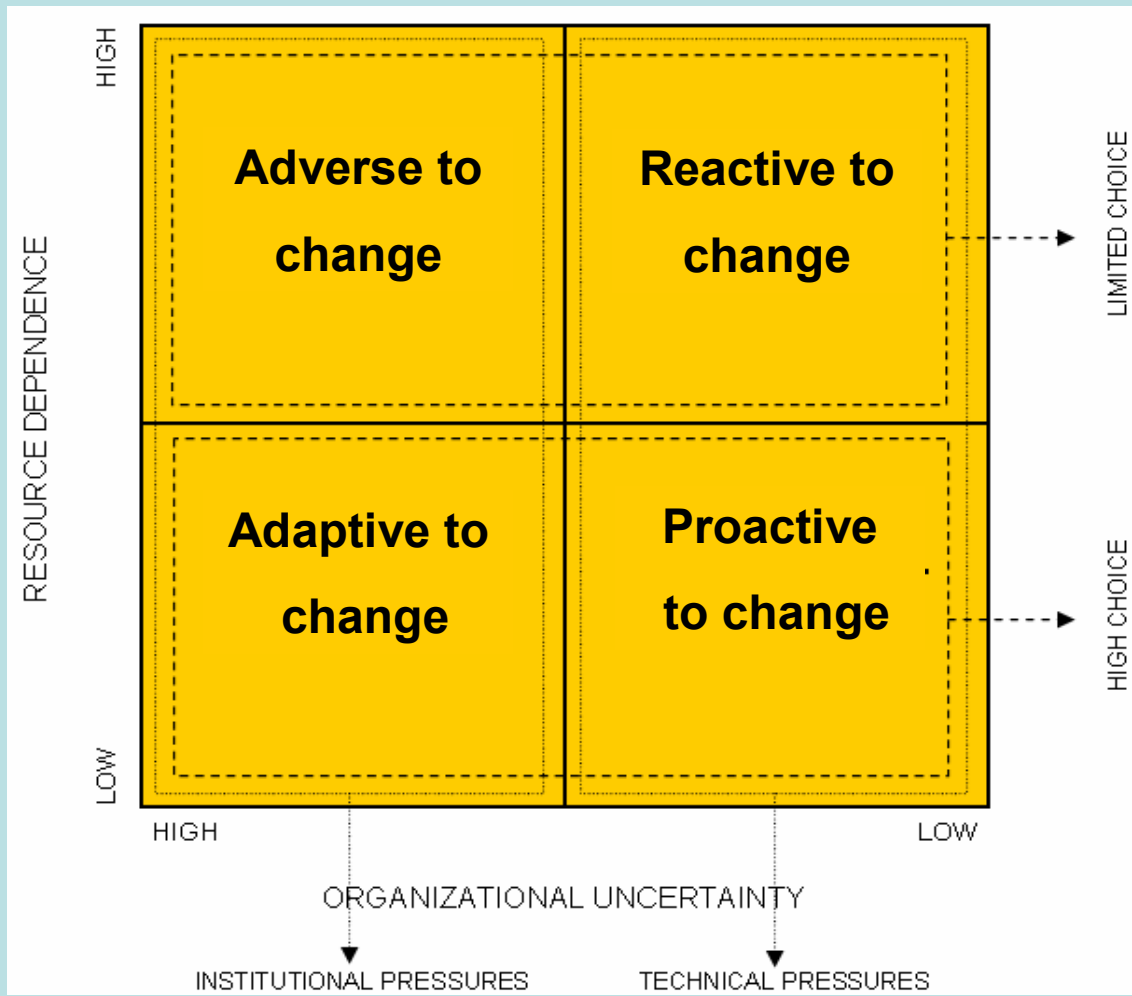


# The model of Hrebiniak and Joyce

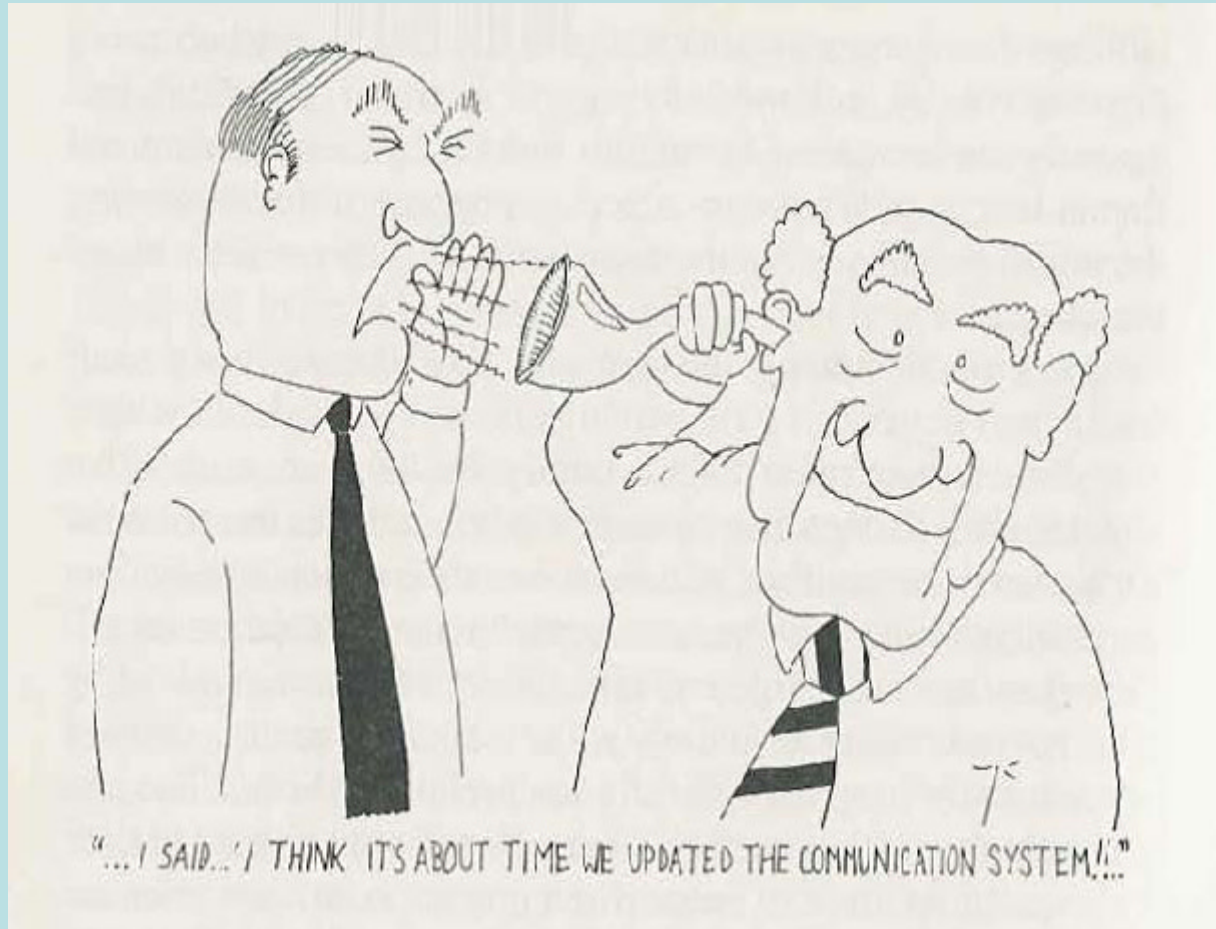




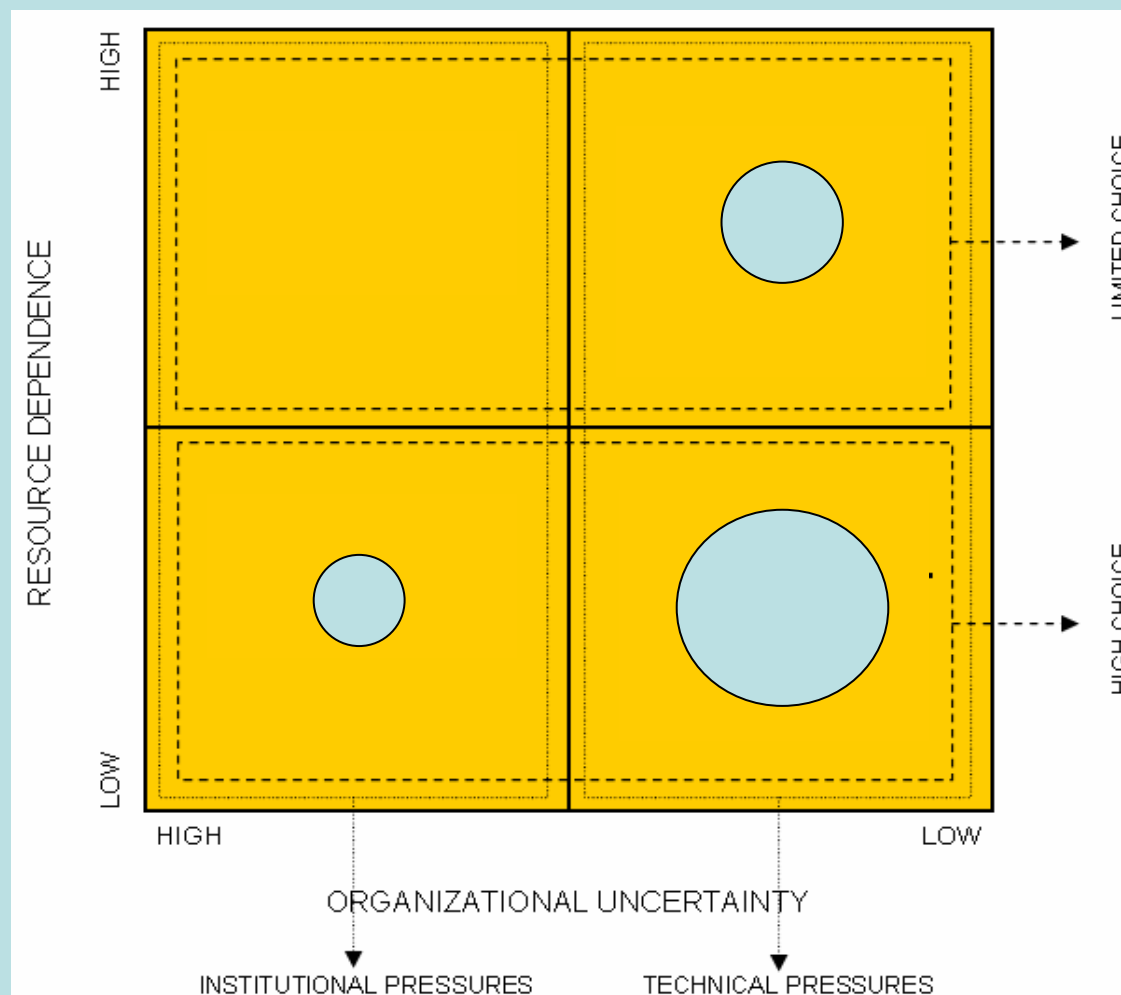
# A complementary model of SMEs change



# SMEs are typically reluctant to change



# Where is growth?





# Orientation towards growth in SMEs

According to Gray (1999) the proportion of owner-managed firms that see employment growth as an important goal:

0%

Thus, growth emerges as an “**acquired taste**”. Initial aspirations, in most of the cases do not predict growth.

*“Growth is not the answer to the founder’s initial aspirations, but the solution to the ‘problem’ of excess retained earnings”*



# Ambitions for business development

Research by Hakim (1989)

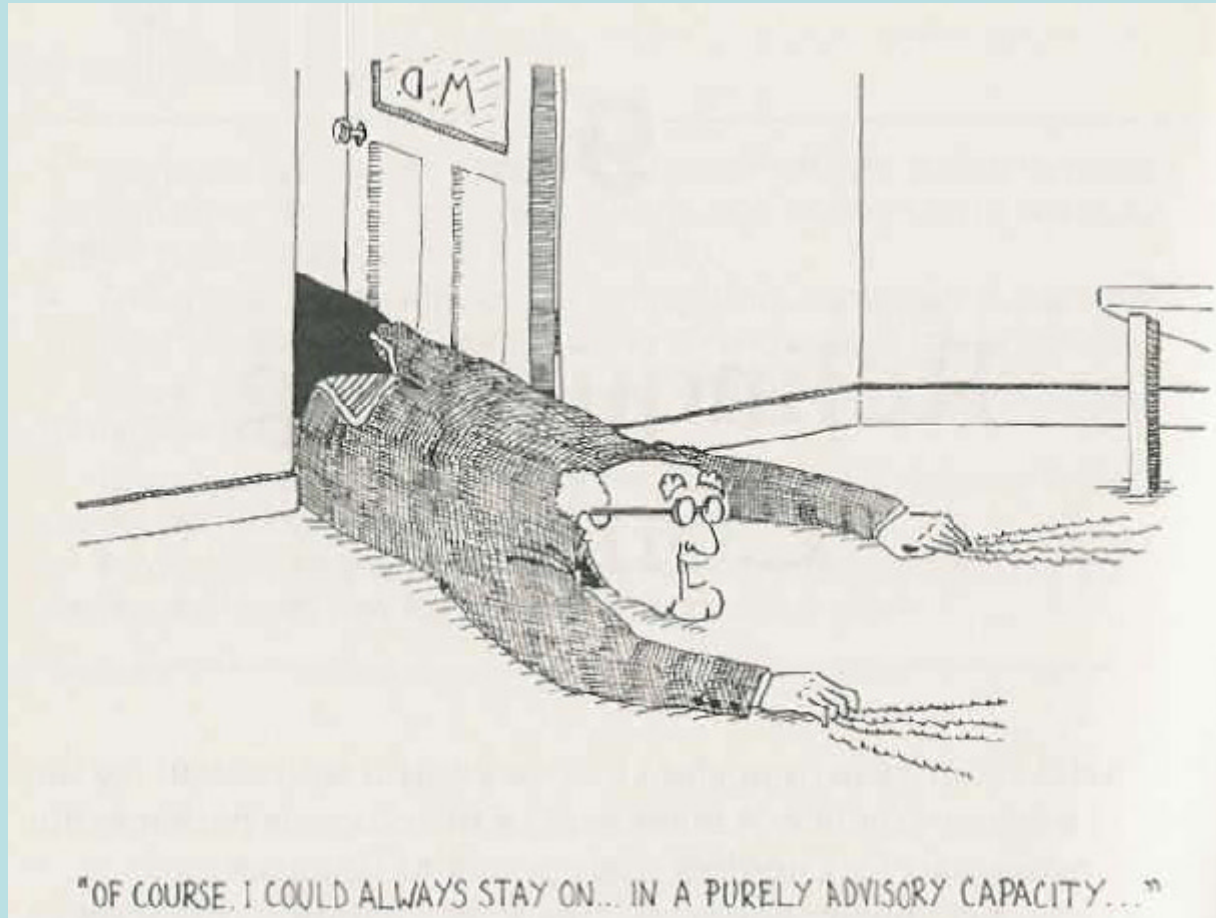
55% - no growth ambitions

35% - slow steady growth

10% - fast growth

For many SMEs – clear intention on business start-up not to achieve growth in order to retain hands-on control of daily activities

# Growth=lose control





# Many new ventures do not grow, why?

## **Barber et. al (1989) suggest**

- ❖ management & motivation
- ❖ resources
- ❖ market opportunities

## **Barrow (2000/01) proposes**

- ❖ the planning vacuum
- ❖ muddled marketing
- ❖ mismanaged change

- ❖ meddling and mis-spent time
- ❖ the wrong objectives
- ❖ no financial strategy

**Birley (2000a)** emphasises the importance of motivation and identifies 4 types of owner-manager

- ❖ protectionist
- ❖ business-oriented
- ❖ dynast
- ❖ family business



# Perceived barriers to growth

- ❖ Fierce competition 40%
- ❖ Insufficient profitability 40%
- ❖ Insufficient demand 38%
- ❖ Lack of external equity 26%
- ❖ Lack of bank loans 19%
- ❖ Lack of management skills 9%



# Small business owner vs. Entrepreneur

## **Small Business Owner**

Primary objectives

- ❖ Survival
- ❖ Maintaining the status quo

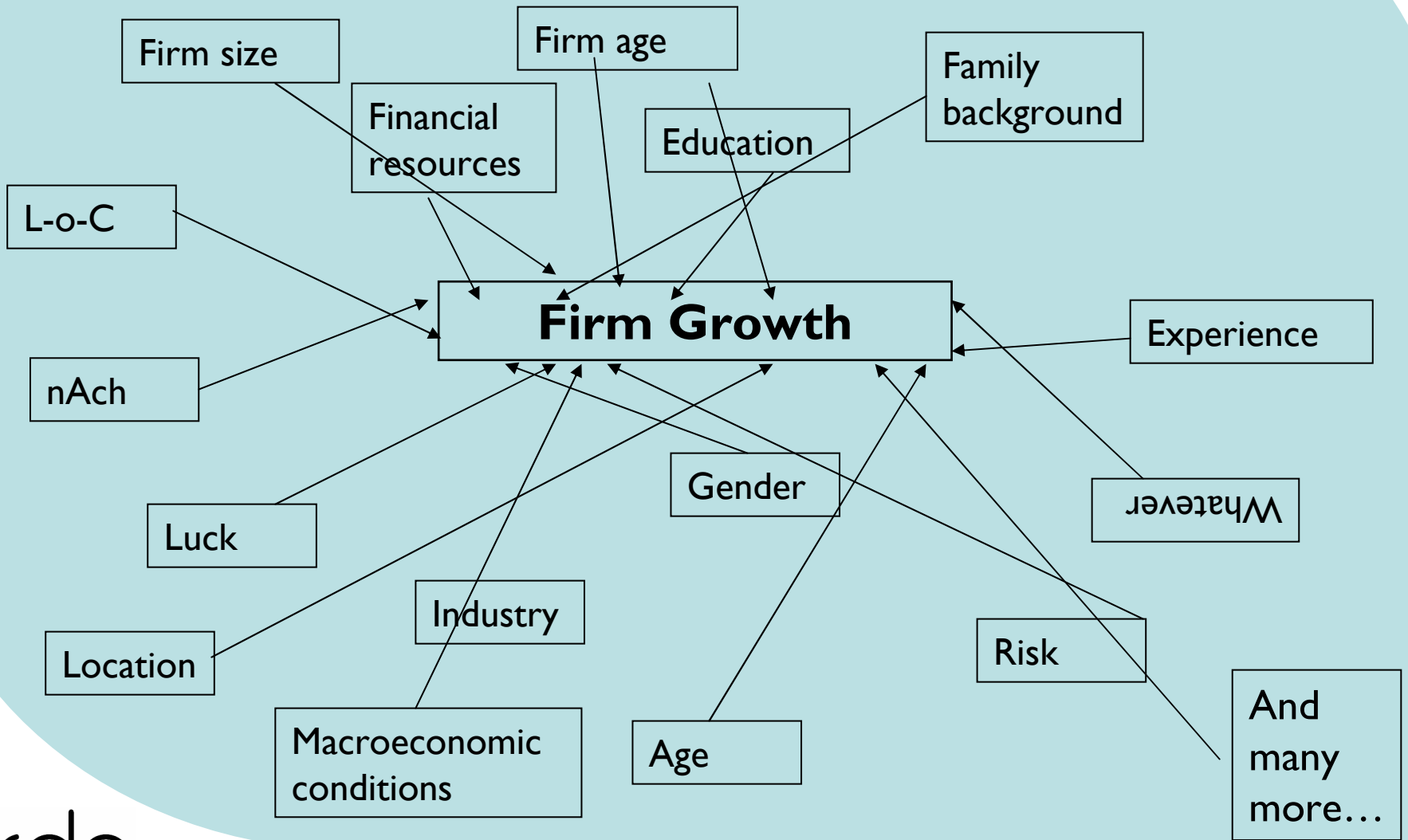
## **Entrepreneur**

Primary objectives

- ❖ Growth
- ❖ Expansion



# A 'no model' of SMEs growth





# What Makes Firms Grow?

## Received view

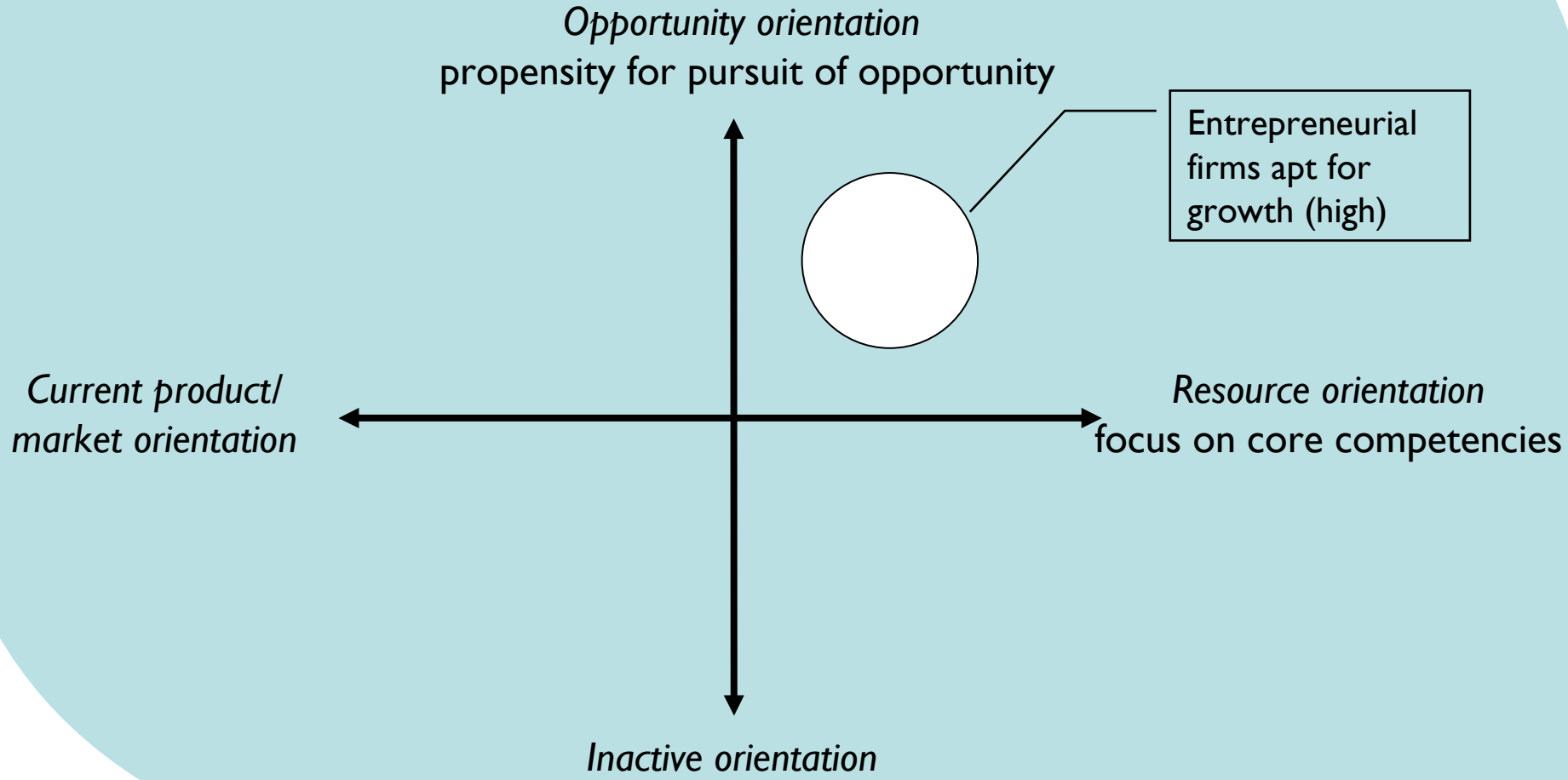
- They all want to grow
- They should all grow
- Growth is growth

## Reality

- Many are reluctant to grow -- and sometimes for good reasons
- Maximizing growth is not necessarily the best for firm nor society
- Growth is *not* one, coherent phenomenon



# A common characteristic of growth





# The importance of a growing market niche

- ❖ Demand of existing customers increases
- ❖ Number of customers increases
- ❖ Firms grow **WITHOUT** taking market shares from competitors
- ❖ No fierce price competition



# Case example: Microsoft



# Case example: Spin Vending Machines

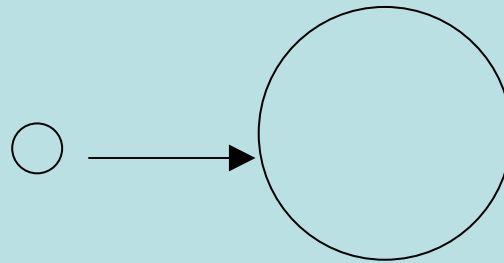




# Two fundamental modes to grow

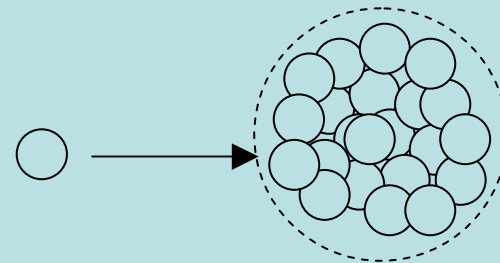
## Organic growth

The internal creation of new business activities within one's own organisational structure



## Acquisition growth

The takeover of already existing business activities within existing organisational structures, in different ways...





# Empirical evidence

- ❖ Among young HGF's (<5 years) 5% of the growth is through acquisition
- ❖ Among older HGF's (<5 years) 85% of the growth is through acquisition
- ❖ Among small HGF's about 5% of the growth is through acquisition
- ❖ Among the largest HGF's more than 100% of the growth is through acquisition (i.e., they shrink in organic terms)



# Why do small firms grow organically and large firms by mergers and acquisitions?

## **Organic growth** (creation of new business activity)

- ❖ Entrepreneurial ability necessary
- ❖ Must perceive new opportunities
- ❖ Must be willing to take advantage of the opportunities
- ❖ Must be able to take advantage of the opportunity
- ❖ Small firms are better at this

## **Acquisition growth** (takeover of existing business activity)

- ❖ “Big chunk” at once requires substantial slack managerial capacity
- ❖ Extensive financial resources necessary
- ❖ More diversified resource base facilitates the use of alternative growth strategies
- ❖ Competence to perform merger etc.
- ❖ Possible synergies



# Advantages of opposites

## Small sized firms

- ❖ Motivation
- ❖ Flexibility
- ❖ Closeness to customer

## Large sized firms

- ❖ Economies of scale (Marketing, Production, Finance, Training)
- ❖ Resourcefulness

*So, how to grow remaining small?*



# Possible solutions

- ❖ De-hierarchization of large firms
- ❖ “Bunsha Management”
- ❖ “Networkization” of the small firm sector
- ❖ Franchising
- ❖ Venture capital & Portfolio firms



# Greiner's model

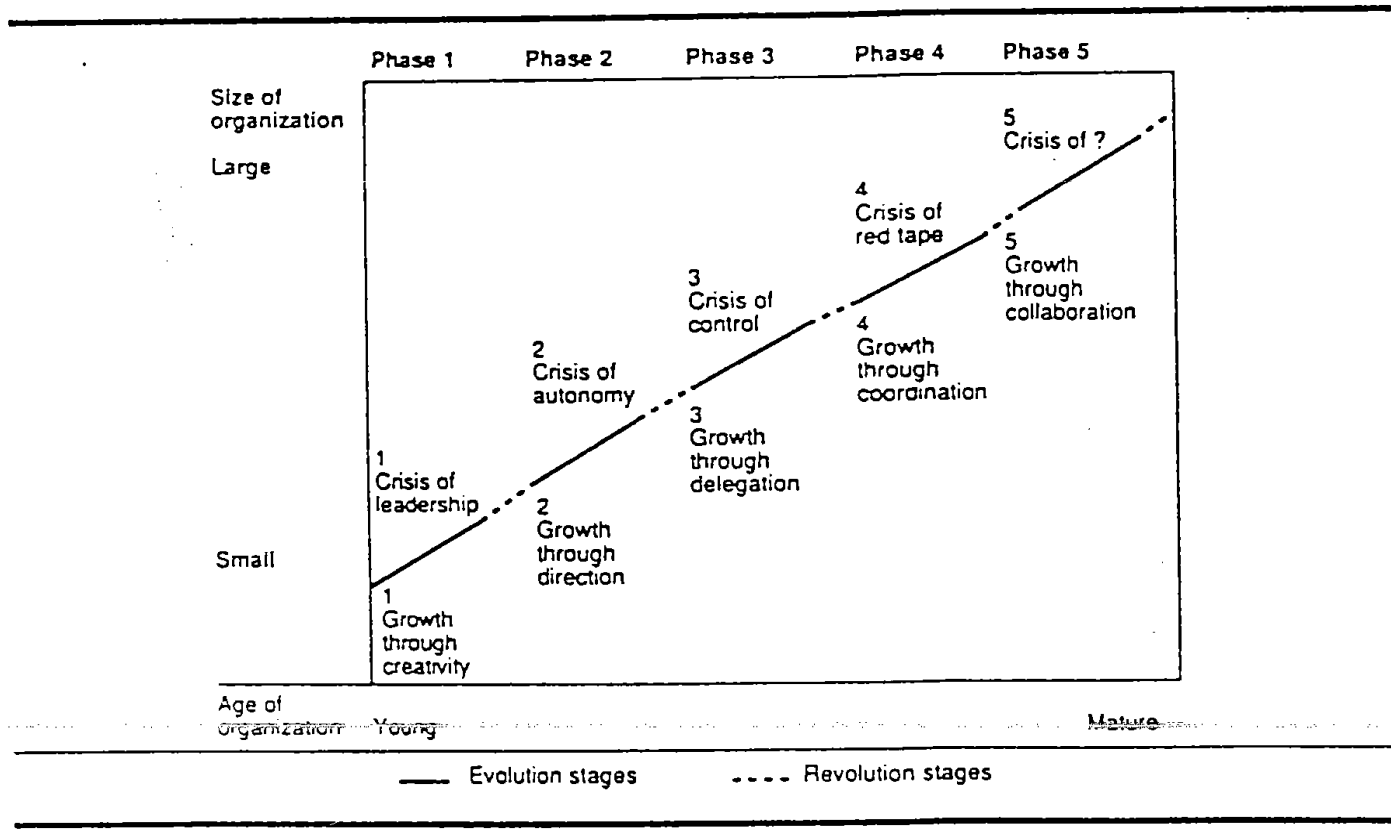
According to Grenier, who refers to an organic growth, firms evolve/grow through stages. In each stage there are the seed for the change expected in the next stage.

- ❖ Basically change/renewal is based on growth in size
- ❖ Same size = same organizational structure/style
- ❖ 1st growth is an evolution of the firm which does not imply organizational changes
- ❖ 2nd growth is different thanks to increased size and requires changes in organizational structures and style, in order to afford a 3rd growth and so on
- ❖ Every evolution has its own management style
- ❖ Every revolution has its own organizational problems to solve



# Greiner's model

EXHIBIT 1  
Growth Phases

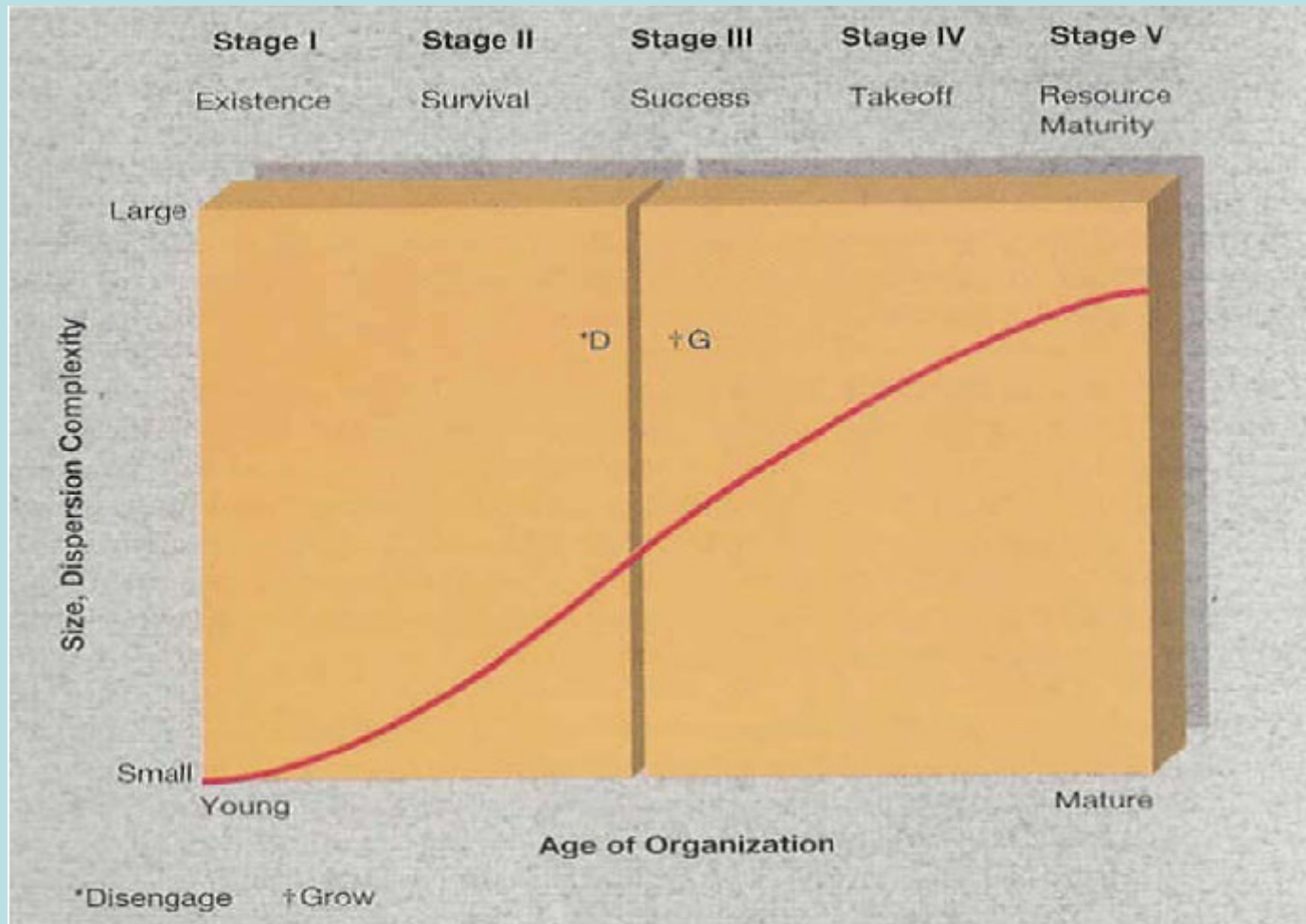




# Churchill & Lewis' model

- ❖ Growing ventures differ in many respects, but they experience common problems and challenges at similar stages of their development.
- ❖ Growth is not only related to a new size but also to dispersion and complexity
- ❖ Each stage of growth is described through five variables:
  - ❖ Management style
  - ❖ Organization
  - ❖ Extent of formal systems
  - ❖ Major strategy
  - ❖ Business and owner

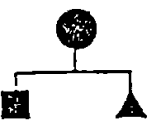
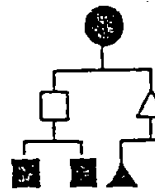
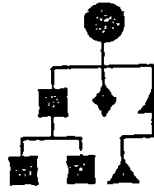
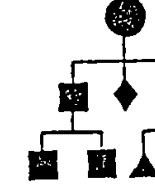
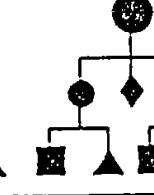
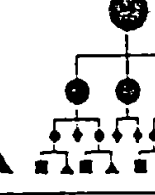






# Churchill & Lewis' model





# Churchill & Lewis' model

EXHIBIT 3  
Characteristics of Small Businesses at Each Stage of Development

	Stage I Existence	Stage II Survival	Stage III-D Success- Disengagement	Stage III-G Success- Growth	Stage IV Take-off	Stage V Resource Maturity
Management style	Direct supervision	Supervised supervision	Functional	Functional	Divisional	Line and staff
Organization						
Extent of formal systems	Minimal to nonexistent	Minimal	Basic	Developing	Maturing	Extensive
Major strategy	Existence	Survival	Maintaining profitable status quo	Get resources for growth	Growth	Return on investment
Business and owner*						

\*Smaller circle represents owner; larger circle represents business.



# Criticisms to the stage model approach

- ❖ All models present 4 to 5 stages of growth
- ❖ There is the assumption of a linear progression of growth
- ❖ Majority of businesses do not achieve beyond survival
- ❖ Linear forward progression – no opportunity for backwards movement or skipping stages
- ❖ Linear progression – no opportunity to pick characteristics from more than one stage at once
- ❖ Labels / classifications – do not reflect operational & strategic realities

*Some empirical evidence confirmed that SMEs do not pass by the all stages but are likely to remain small even in a maturity phase of their business*



# Commonalities in the stage model approach: renewal implies crisis

- ❖ Start-up crisis: refers to initial mistakes of the founding members
- ❖ Cash flow crisis: excess in orientation towards growth
- ❖ Delegation crisis: inability to delegate tasks, typically entrepreneurial
- ❖ Leadership crisis: do instead of plan, or management-entrepreneur conflicts
- ❖ Equity crisis: low orientation towards debt and venture capital
- ❖ Self-celebration crisis: success brings to misinterpretations
- ❖ Expansion crisis: success brings to uncontrollable expansion plans
- ❖ Succession crisis: unplanned shift from generation to generation
- ❖ Involvement crisis: entrepreneurial detachment from the business



# Some “truths” about SMEs growth

1. Growth in small and new firms is the most important source of new employment;
2. Younger firms grow more and faster than older firms;
3. Firms in industries with high entry of new firms grow more than firms in more stable industries;
4. Younger and smaller firms grow organically whereas older and larger firms grow through acquisitions;
5. Growing firms have higher probability of survival than non-growing firms;
6. Only a small proportion of all firms grow at all;
7. In order for the firm to grow, the owner-manager must want growth



# A suggested final model

