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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.

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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

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