

A FRAMEWORK FOR MICRO FIRM GROWTH PROCESSES: THEORY AND PRACTICE

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Introduction

Firm growth has been and is a popular topic in entrepreneurship literature. The piling stock of growth studies does not, however, guarantee a good quality or cumulative knowledge about growth processes. Surprisingly many studies collect quantitative data about growth firms using cross-sectional designs (Wiklund 1998; Davidsson & Wiklund 2000), which do not allow us to study growth processes (Merz, Weber, & Laetz 1994; Garnsey, Stam, Heffernan & Hugo 2003). All this even though the scholars seem to acknowledge the fact that there are many factors affecting a firm's growth and that growth processes are different from each other (Delmar, Davidsson & Gartner 2003). For these reasons it becomes a necessity for the growth studies to look for and develop more holistic approaches on firm growth. In addition, longitudinal designs are needed for process studies (Davidsson & Wiklund 2000).

While small and medium size firms get more and more attention in growth studies, an interesting sub-group of firms are *micro firms*, which employ less than 10 persons. It is our own collective experience that makes us to claim that it is often inside these micro firms that we have the most growth potential. Micro firms are generally relatively young, and they have already recruited employees, which is a sign that the business has at least some potential. However, it seems to be very common to entrepreneurs of micro firms that they fear for losing control over the firm if their firm grows from micro firm to a small or medium size firm. One of our central interest lies in the following question: How do micro firms overcome growth deterrents and become small/medium size firms?

The purpose of this study is to increase our understanding about the growth processes of micro firms. More specifically, the first objective of our study is to describe the growth paths of firms as they grow from small size to medium size company. Moreover, **the second and main objective of our study is to propose a more general framework of micro firm growth process**, and to discuss the practical implications of the proposed framework.

A preliminary framework of micro firm growth was developed based on literature review related to growth factors, growth deterrents, available growth strategies and growth management. For example, we know that firm growth seem to have many antecedents. Davidsson (1991) speaks about growth ability, need and opportunity as determinants of growth motivation, which in turn explains actual growth. In addition, a number of characteristics related to the entrepreneur and the firm has been cited to be connected to growth. The board of directors and board of advisors have also been cited to be connected to firm growth (Naldi & Sjöberg 2003). Moreover, as much as we need to be aware of the success factors of growth, to get a more comprehensive picture about growth processes, we also need to look at growth deterrents. It has been detected that one of the biggest reasons for the fact that small firms do not grow is that they do not want to grow (Delmar 1996). Negative growth willingness is generally related to entrepreneurs' fears of

consequences of growth, such as loss of supervisory control and/or employee well-being (Davidsson 1989; Wiklund, Davidsson, & Delmar 2003).

Method

The review of existing literature on firm growth allowed us to form a preliminary framework of micro firm growth. At the second stage we wanted to apply the developed framework in empiric. For this purpose, we selected seven cases, each representing a growth process from a micro enterprise to small/medium size firm. All the cases came from the same industry (metal industry). We used the cases to illustrate different paths and strategies to growth used by these seven micro firms. The data was collected through semi-structured interviews with the owner-managers of the case companies. All the interviews were recorded with the permission of those interviewed. As soon as possible after an interview, usually on the same day, the interviews were transcribed. The reports were also sent to each respondent and thus they had an opportunity to comment on the interpretations. The respondents were asked to contact the researcher if they did not agree with the case descriptions. A few respondents contacted the researcher and they requested some changes in details concerning the data of their own firm or themselves. The collected data was analysed by applying a technique called content analysis. The classification of the data was made as a synthesis of the loose interview themes and those that emerged from the data gathered. The overall approach of our study can be termed as abductive, which combines inductive and deductive reasoning.

Results

In the empirical part, we applied the preliminary framework of micro company growth process to seven cases. According to our observations, the growth processes of the seven cases differed from each other, but still they had certain similarities. Most of the companies had chosen organic growth strategy but some had grown also externally. In each case, the critical drivers, which led to growth process, were identified to be connected either to the entrepreneur himself and his/her high motivation or to environmental factors, such as positive development in the industry. Moreover, all the growth micro firms had been profitable before they started to grow. We also noticed that the board of directors of these micro firms and responsibility delegation to employees or professional management had an important role in explaining the success in managing the growth process. The most usual growth obstacles were related to the lack of professional employees, lack of competence in marketing and growing capability, or fear of increasing bureaucracy and inflexibility. In the end, we present the final framework of successful micro firm growth.

Contribution

The contribution of our study is mostly related to the practical implications. First of all, the developed framework will help practitioners to identify some of the central issues related to micro firm growth. Our study has demonstrated that micro firms, which want to grow, have alternative paths to realize the growth willingness. Second, according to many studies, small firms do not even recognize their own growth potential (Scott & Rosa 1996). The results of our study may help to reduce some of the growth deterrents of micro firms, and therefore help to increase the amount of potential growth firms.

Literature

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