



European School of Business

Christoph Schmid and Simon G. Fauser

Assessing the growth potential of small firms

Guiding young firms to higher growth

Schriftenreihe des ESB Research Institute

Herausgegeben von Prof. Dr. Jörn Altmann und Prof. Dr. Ottmar Schneck

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PREFACE

In an increasingly globalized world an overwhelming majority of young and small start-ups are in a decisive phase at the beginning of their venture. They struggle to get the first product or service ready for the market or to get the first customer on board. They fight for chances and small windows of opportunities while having long conversations with banks and other partners to get the necessary start-up capital. Many new start-ups already lose this first fight of survival and much literature exists on the various reasons why ventures did or did not fail. Those firms which survive are firms with a real entrepreneur on the front, convinced of his business idea and business model and pushing the next step with resounding energy. As a firm passed this survival stage, maybe a battle is won but the road to real victory is still a long way ahead. Having passed the survival phase small and young firms face another challenge which is often neglected: they are forced to achieve constant and high growth if they want to stay on the global marketplace by successfully defeating global competition. While much research has examined the challenge of economic survival of new ventures, only little literature can be found about this second challenge of small firms.

Based on a review of the current literature in this field, we developed an action-oriented model to assess the growth potential of young and small firms in this second stage. The model is based on eight defined dimensions of a firm: 'Business Model and Business Strategy', 'Product Development and Innovation Expertise', 'Market Definition and Internationalization', 'Organizational Development', 'Leadership and Human Capital', 'Customer Relations', 'Successful Networks' and 'Other Firm Relations'. Each dimension is analyzed regarding key factors for economic growth of such firms. We tested the model empirically using a sample group of 21 firms and found support for some dimensions of the model. Based on these findings we deducted management recommendations and revealed important factors which contribute to a positive development of small and medium-sized enterprises (SMEs) in the stage after the survival of the start-up.

The book aims at entrepreneurs, founders and managers of young and small firms which successfully survived the start-up phase, in an attempt to provide them necessary and hands-on management advice for the future economic development of their firms. It is also directed to venture capital firms, independent advisors, banks, consultants and politicians. The book illustrates the special situation of

these firms, calls for dedicated and special assistance and wants simply to increase the awareness for the related topic.

This work contributes to the current research in the field of entrepreneurship and calls for new research in this field. We believe that it is necessary to assist the many firms who are struggling to survive the start-up stage and who then find themselves left alone in the moment where it is certain that they need even more and qualified assistance to be able to set the course for sustainable long-term high growth.

Reutlingen, February 2008

Christoph Schmid, M.Sc.

Simon G. Fauser, M.Sc.

TABLE OF CONTENTS

ACKNOWLEDGEMENTS	VI
PREFACE	VIII
TABLE OF CONTENTS	X
LIST OF ABBREVIATIONS	XIII
LIST OF FIGURES AND TABLES.....	XIV
INTRODUCTION.....	12
1. SMEs AND ECONOMIC DEVELOPMENT	12
2. START-UPS AND HIGH GROWTH FIRMS.....	13
2.1. THE CHARACTERISTICS AND PROBLEMS OF A START-UP FIRM.....	14
2.2. THE CHARACTERISTICS AND PROBLEMS OF A HIGH GROWTH FIRM	15
2.3. THE NEED FOR AN INSTRUMENT TO ASSESS THE GROWTH POTENTIAL	16
3. RESEARCH OBJECTIVE	17
4. A CONCEPTUAL MODEL FOR ASSESSING THE GROWTH POTENTIAL OF SMES	17
4.1. A NEW MODEL FOR ASSESSING THE GROWTH POTENTIAL OF SMES.....	17
4.1.1. BUSINESS MODEL AND BUSINESS STRATEGY	22
4.1.2. PRODUCT DEVELOPMENT AND INNOVATION EXPERTISE	24
4.1.3. MARKET DEFINITION AND INTERNATIONALIZATION	25
4.1.4. ORGANIZATIONAL DEVELOPMENT	26
4.1.5. LEADERSHIP AND HUMAN CAPITAL	28
4.1.6. CUSTOMER RELATIONS	29
4.1.7. SUCCESSFUL NETWORKS.....	30
4.1.8. OTHER FIRM RELATIONS.....	31
4.2. SYNTHESIS	32
5. METHODOLOGY	32

5.1.	EMPIRICAL RESEARCH DESIGN	32
5.2.	GATHERING OF DATA	33
5.3.	RELIABILITY AND VALIDITY OF THE SAMPLE	34
6.	DATA ANALYSIS AND IMPLICATIONS	34
6.1.	SAMPLE.....	34
6.2.	PERFORMANCE DATA.....	36
6.3.	CORRELATIONS	41
6.3.1.	OVERALL MODEL	42
6.3.2.	BUSINESS MODEL AND BUSINESS STRATEGY	46
6.3.3.	PRODUCT DEVELOPMENT AND INNOVATION EXPERTISE.....	47
6.3.4.	MARKET DEVELOPMENT AND INTERNATIONALIZATION.....	49
6.3.5.	ORGANIZATIONAL DEVELOPMENT	51
6.3.6.	LEADERSHIP AND HUMAN CAPITAL	52
6.3.7.	CUSTOMER RELATIONS	54
6.3.8.	SUCCESSFUL NETWORKS.....	56
6.3.9.	OTHER FIRM RELATIONS.....	57
6.4.	SYNTHESIS AND MANAGEMENT RECOMMENDATIONS.....	59
7.	CONCLUSION.....	62
7.1.	SUMMARY	62
7.2.	SHORTCOMINGS OF THE STUDY AND OUTLOOK	63
	BIBLIOGRAPHY	65
	APPENDIX.....	71
	APPENDIX I: QUESTIONNAIRE	71
	APPENDIX II: DESCRIPTIVE STATISTICAL ANALYSIS OF THE SAMPLE GROUP	76
	APPENDIX III: FREQUENCIES IN THE SAMPLE GROUP	84
	APPENDIX IV: SPSS CORRELATION ANALYSIS FOR CORNERSTONE 1	87
	APPENDIX V: SPSS CORRELATION ANALYSIS FOR CORNERSTONE 2	95

APPENDIX VI: SPSS CORRELATION ANALYSIS FOR CORNERSTONE 3	103
APPENDIX VII: SPSS CORRELATION ANALYSIS FOR CORNERSTONE 4.....	111
APPENDIX VIII: SPSS CORRELATION ANALYSIS FOR CORNERSTONE 5	119
APPENDIX IX: SPSS CORRELATION ANALYSIS FOR CORNERSTONE 6	127
APPENDIX X: SPSS CORRELATION ANALYSIS FOR CORNERSTONE 7	135
APPENDIX XI: SPSS CORRELATION ANALYSIS FOR CORNERSTONE 8	143

LIST OF ABBREVIATIONS

Bio Tech	Biotechnology
CAGR	Compound Annual Growth Rate
Dev.....	Development
e.g.	exempli gratia (for example)
EMEA	Europe - Middle-East - Asia area
EU	European Union
et al.	et altri (and others)
i.e.	id est ('that is')
inc.	Incorporated
IT	Information Technology
High Tech	High Technology
K EUR	thousand Euros
Med Tech.....	Medical Technology
p.	page
pp.	pages
SA	Société Anonyme (Incorporated)
SME	Small and Medium-Sized Enterprise
SPSS	Software Package for Social Sciences
USA	United States of America

LIST OF FIGURES AND TABLES

Table 1: Cornerstones and previous research of the new model.....	18
Table 2: Comparison between Klofsten’s Business Model and our model	21
Table 3: Cumulative sales growth over the last three years of the sample group...	39
Table 4: Sales growth of last year (CAGR) of the sample group	40
Table 5: Cumulative employee growth over the last three years of the sample group.....	41
Table 6: Means of single dimensions and aggregated means of sample	42
Table 7: Correlation analysis of overall model	44
Table 8: Correlation analysis: Dimension Business Strategy and Business Idea	6
Table 9: Correlation analysis: Dimension Product Dev. & Innovation Expertise..	48
Table 10: Correlation analysis: Dimension Market Dev. & Internationalization...	49
Table 11: Correlation analysis: Dimension Organizational Development	51
Table 12: Correlation analysis: Dimension Leadership and Human Capital.....	53
Table 13: Correlation analysis: Dimension Customer Relations	54
Table 14: Correlation analysis: Dimension Successful Networks	56
Table 15: Correlation analysis: Dimension Other firm relations	58
Table 16: Summary of important correlations in our sample	60
Table 17: Summary of management recommendations of our study	61
Figure 1: Turnover classes of the sample.....	34
Figure 2: Employee classes of the sample	35
Figure 3: Business sectors of the sample	36
Figure 4: Performance of the sample firms in according to the respondents.....	38

INTRODUCTION

Every now and then it comes to our attention that some young and small firms realized a spectacular growth and became major players in their industry sector. A recent example is Skype Technologies SA. Founded in August 2003, this company experienced a rapid and impressive growth ending up in its acquisition by eBay inc. in September 2005. In the press release dated of September 12, 2005 which announced the deal, Skype states revenues of \$ 7 million in 2004 and expected revenues of \$ 60 million in 2005¹. Besides all appreciation and glorification of such examples of good entrepreneurship, the reasons behind such extraordinary entrepreneurial successes are often reduced to one widespread view: rather than good tactics and training, such successes are believed to be lucky punches which occur every once in a while exactly as they do in boxing.

The present work starts from a different philosophy and investigates in this research field how small and young firms can achieve high growth rates, which levers have to be enabled and which problems have to be resolved. We believe that good tactics and training does not only help the boxer to succeed but also the young and small firms to perform well and to realize high growth rates.

The present work is composed of two parts. After a general introductory chapter which describes the complexity of problems, we perform an extensive literature review to analyze the growth trajectories of small firms and to identify the different growth stages. Based on existing studies and literature in this field we develop a conceptual and action oriented model which provides a deeper understanding for the reasons behind the high growth of young firms.

The second part presents a first empirical application of this model and a thorough analysis of its elements. We deduct from the results valuable management recommendations which can represent a guiding line for founders and managers of young firms of how to capture more growth. At the end a conclusion summarizes the results and gives an outlook of further and more detailed research.

1. SMEs AND ECONOMIC DEVELOPMENT

For a long time small and medium-sized enterprises (SMEs) have not played an outstanding role in economic policy and their impact on economic development has

¹ http://www.skype.com/intl/en/company/news/2005/skype_ebay.html (last access 08/23/2007)