MAKING DO WITH LESS: FIRM GROWTH AND FINANCIAL PERFORMANCE UNDER RESOURCE CONSTRAINTS (SUMMARY)

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SUMMARY

MAKING DO WITH LESS:
FIRM GROWTH AND FINANCIAL PERFORMANCE UNDER RESOURCE CONSTRAINTS

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Principal Topic

A continuing debate in the literature is whether more resources are better than less for enhancing firm growth and performance. All else being equal, prior research has assumed that more resources are usually better than less for promoting firm growth (Mishina, Pollock & Porac, 2004). In addition, a firm considering embarking on a growth trajectory must take into consideration how that growth is to be financed. An important factor often overlooked is the concept of the sustainable growth rate, which is the maximum rate at which the firm can grow before needing to consider external financing (Smith & Smith, 2003). Where firm financial resource demands exceed financial resource supplies, a firm attempting to grow from internal means must adopt short-run measures such as reducing cash cycles (hence working capital requirements) or improving margins via price increases or cost cuts. By examining sustainable growth rates (for a given leverage) from the previous year’s financial data and by comparing these to actual growth rates we are able to determine the degree of financial resource excess or deficiency in a given year and uncover the underlying financial resourcing behaviour of the firm. In addition, by examining the patterns of change in key financial data we expect to be able to uncover valuable information on the resource leveraging and financing behaviour of an individual firm and determine the extent to which a firm makes use of financial bootstrapping techniques.

Method

The research utilises panel data from the Business Longitudinal Survey (BLS) conducted by the Australian Bureau of Statistics (ABS) over the period 1994-95 through to 1997-98. The surveys collected firm level longitudinal data on a large and diverse sample of Australian Small and Medium Enterprises. Regression analysis was used to investigate the drivers of growth for those firms growing faster than their sustainable growth rate.

Results and Implications

Overall we find that firms growing faster than their sustainable growth rates adopt short term measures to fund this growth. Few firms in this high growth category made significant use of additional equity or debt in order to fund the growth. Overall it raises questions about the sustainability of high growth behaviour.

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