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RESPONDING TO KEY CHALLENGES AND CRISES IN HIGH-VELOCITY ENVIRONMENTS: COPING MECHANISMS OF HIGH GROWTH FIRMS (SUMMARY)

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SUMMARY

RESPONDING TO KEY CHALLENGES AND CRISES IN HIGH-VELOCITY ENVIRONMENTS: COPEING MECHANISMS OF HIGH GROWTH FIRMS

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Principal Topic

Despite a growing body of literature on high-growth firms many questions remain open as to how firms cope with key challenges and deadly crises in growth phases. Past research on turnarounds has mainly focused on large corporations and scholars have concentrated on manufacturing businesses. There is a lack of research with regard to young technology firms. Measures to define ‘turnaround situations’ used in the past are inappropriate for high-growth firms operating in high-velocity environments. Young innovative firms can find themselves in turnaround situations within very short time frames. Therefore we focus on turnarounds from near-death experiences triggered by unexpected events. While scholars have mentioned several factors for declining performance, there is not much research on ‘contamination processes’ once a firm enters into a downward spiral. Literature describes a two-tiered response, consisting of an initial retrenchment phase and a long-term recovery phase. This might be different for young firms. Guiding research questions are: What are triggers of crises? How do ‘contamination paths’ and strategic responses look like? Are there patterns?

Method

The level of analysis is the ‘near-death episode.’ Settings are the mobile technology and software service solutions industries. Our approach: grounded theory-building. We monitored 50 ventures from a peer-group forum by spending 2.5 days with the CEO, every 4 months for 4 years. We developed seven in-depth case studies of firms that went through near-death experiences. Information was collected using semi-structured/open interviews, and secondary sources such as company documents. Multiple techniques were then used to analyze the data, including data sequencing and pattern matching.

Results and Implications

Our research shows that any core element of a firm/its ecosystem can be a trigger into crisis, but eventually the subsequent ‘contamination path’ is the same. This contamination takes place at a very rapid speed. We do not find a clearly separated/partly overlapping 2-stage response to the turnaround as the literature suggests, but one that aims at many levels (operational, strategic, political) simultaneously. Literature suggests several recovery strategies – one being ‘continuous retrenchment’ – this is not a realistic option for the firm types in our sample. As VC-backed ventures, they are forced to go back on a (high-) growth path as quickly as possible and strategic responses need to allow firms to quickly scale up again. Executives operating in high-velocity environments must evaluate the ‘infection potential’ of the various elements.

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