FUTURE: PATH DEPENDENT OR UNDETERMINED? REFLECTION ON CORPORATE GROWTH POTENTIAL (SUMMARY)

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SUMMARY

FUTURE: PATH DEPENDENT OR UNDETERMINED?
REFLECTION ON CORPORATE GROWTH POTENTIAL

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Principal Topic

This paper focuses on firm-level growth implications of knowledge strategies in order to investigate the question why so many successful ventures stop growing and why some begin to decline. Existing organizational capabilities function as enablers when they provide opportunity for expansion by exploiting firm-specific knowledge. Firm specific knowledge, however, is only valuable when expansion occurs into fields that are already in some way related to the domain of current operations. As a result most firms tend to favor and pursue opportunities only if that follows the path they originally took. Growth opportunities that fall outside of or only marginally relate to firm-specific knowledge are likely to be perceived as outside of reach. Hence, early investment into intellectual capital increases the firm’s ability to learn and harvest knowledge that is new to the firm, improving corporate entrepreneurship capacity. Knowledge – especially in young firms – is a key determinant of a firm’s growth potential: how fast (what rate) and at what direction (path dependent or undetermined) a firm is likely to grow.

Method

In order to obtain reliable and representative insights, a random sample of 452 Hungarian enterprises from a cross-section of industries was studied. Data collection was realized through structured interviews; senior managers were asked. The survey took place between November 2004 and February 2005 leaving insufficient time lag to distort results. Subjectivity was controlled by the selection 30 enterprises where research questions were further elaborated by in-depth interviews conducted after June 2005. In the second sample those enterprises were selected, which exhibited extreme situations. The knowledge strategies were examined by principal component analysis with varimax rotation and two-step cluster analysis. In addition growth path was revealed by longitudinal inquiries.

Results and Implications

The study extends our understanding of corporate entrepreneurship with three important insights. First, it provides an empirical evidence for effect of Knowledge strategy on Growth path. Second, it shows that path dependency declines, as the relative weight of intellectual capital as well as its perceived importance increases in strategic planning. Third, findings have implication for practitioners, venture capitalists and business incubators suggesting to directing financial support and surveillance toward investment into intellectual capital besides investments into tangible assets.

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