THE PENROSE EFFECT’ AND NEW VENTURE GROWTH (INTERACTIVE PAPER)

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Principal Topic

This study explores how the founders of high potential ventures acquire the managerial talent required to grow their firms. Founders bring entrepreneurial resources to the firm in many forms, but founders will differ in the amounts of managerial expertise they contribute. Managerial capability can be thought of as the binding constraint that limits the rate of the growth of the firm—the so-called “Penrose Effect” (Penrose 1959: 48). For many firms, the transition from the startup to the growth stage is extremely difficult (Kor 2006), and it is in this transition that managerial expertise is vitally important.

This paper explores firm growth as a dynamic process of managerial talent acquisition within the entrepreneurial team. Using qualitative data collection and analysis techniques, we inductively generated new theory as to how founders acquire managerial talent within their organizations to enable rapid growth.

Methods

We used an inductive, multiple case research design and interviewed a total of 54 founders of high potential ventures. We sampled only private firms which were identified as very high potential by outside sources. Third party classification as high potential ensured we were sampling firms which had both the capability and the desire for growth. For example, some of our firms were featured in Entrepreneur Magazine’s “Hot” lists or had founders who won “Entrepreneur of the Year” competitions. Interviews were semi-structured and allowed us to delve into the nuances of each situation while also collecting similar information from each entrepreneur.

Results and Implications

Building a managerial team is one of the most important and challenging tasks for founders of high growth companies. Many founders had to make at least two hires before satisfactorily filling key management positions, and some reported having to make up to 5 hires. Founders with industry experience and those who founded their firms with another entrepreneur were especially effective at growing their firms.

This study highlights how founders’ unique resources, dispositions, and passions influence firm growth. It also begins to shed light on how the kind of expertise required to give birth to a gazelle is many times different from the skills needed to ride it to the top.

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