FOUR YEARS ON – ARE THE GAZELLES STILL RUNNING? A LONGITUDINAL STUDY OF FIRM PERFORMANCE AFTER A PERIOD OF RAPID GROWTH (SUMMARY)

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FOUR YEARS ON – ARE THE GAZELLES STILL RUNNING?
A LONGITUDINAL STUDY OF FIRM PERFORMANCE AFTER A PERIOD OF RAPID GROWTH

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Principal Topic

This study investigates how the long-term impact of growth on profitability is moderated by a firm’s strategic orientation and market position.

Firm growth has been central to entrepreneurship research for decades (e.g. Penrose 1959; Birch 1987; Storey 1994; Davidsson, Delmar and Wiklund 2006). Particular attention has often been paid to the fastest growing “gazelle” firms. However, although firm growth may be portrayed as a pathway to profitability, recently more skepticism has emerged (e.g. Davidsson, Steffens and Fitzsimmons 2009). Our literature review show two divergent theoretical perspectives coupled with inconsistent and inconclusive empirical evidence regarding the impact of growth on profitability. In this paper we question – when is too much growth a bad thing? Thus we investigate how the impact of growth on profitability is moderated by strategic orientations and market position for gazelle firms. We hypothesize that growth impacts profitability (H1) and that this impact is moderated by market strategy (H2), source of competitive advantage (H3) and market position (H4).

Method

We test our hypotheses using longitudinal data (2003 – 2010). From the population of 2,074 Danish gazelle firms over the period 2003-2007, 1,182 firms responded to a survey in 2007 measuring our strategic variables (response rate 57 %). Subsequent growth and profitability have been traced for the consecutive years (2007 - 2010) allowing us to investigate performance consequences of strategies in 2007.

Results and Implications

The study shows that the value of growth depends on contingent factors and more specifically ‘how much of the market is left to fight for’. It seems like those firms who target a narrow segment or are market leaders are less likely to gain value from growth. The remaining market shares to fight for, to these firms, are not large enough to compensate for the cost of growing. For firms, CEOs, board members etc. The study shows that the value of growth depends on a number of strategic factors and there is a trade-off between the cost of growing and the value of growing.

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