Entrepreneurship: Successfully Launching New Ventures

Sixth Edition, Global Edition

Chapter 14

Strategies for *Firm Growth*

Pearson

About me

- BSc in Business and Management at the University of Trieste
- MSc in Strategic Management at the University of Trieste
- Currently attending a PhD Program in Management with double degree at:

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- Research interests: Business strategy; Strategic Management; Digital Innovation.

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Internal (or "Organic") and External Growth Strategies (1 of 2)

Internal (or Organic) Growth Strategies

- Involve efforts taken within the firm itself

External Growth Strategies

- Rely on establishing relationships with third parties

Internal and External Growth Strategies (2 of 2)

Figure 14.1

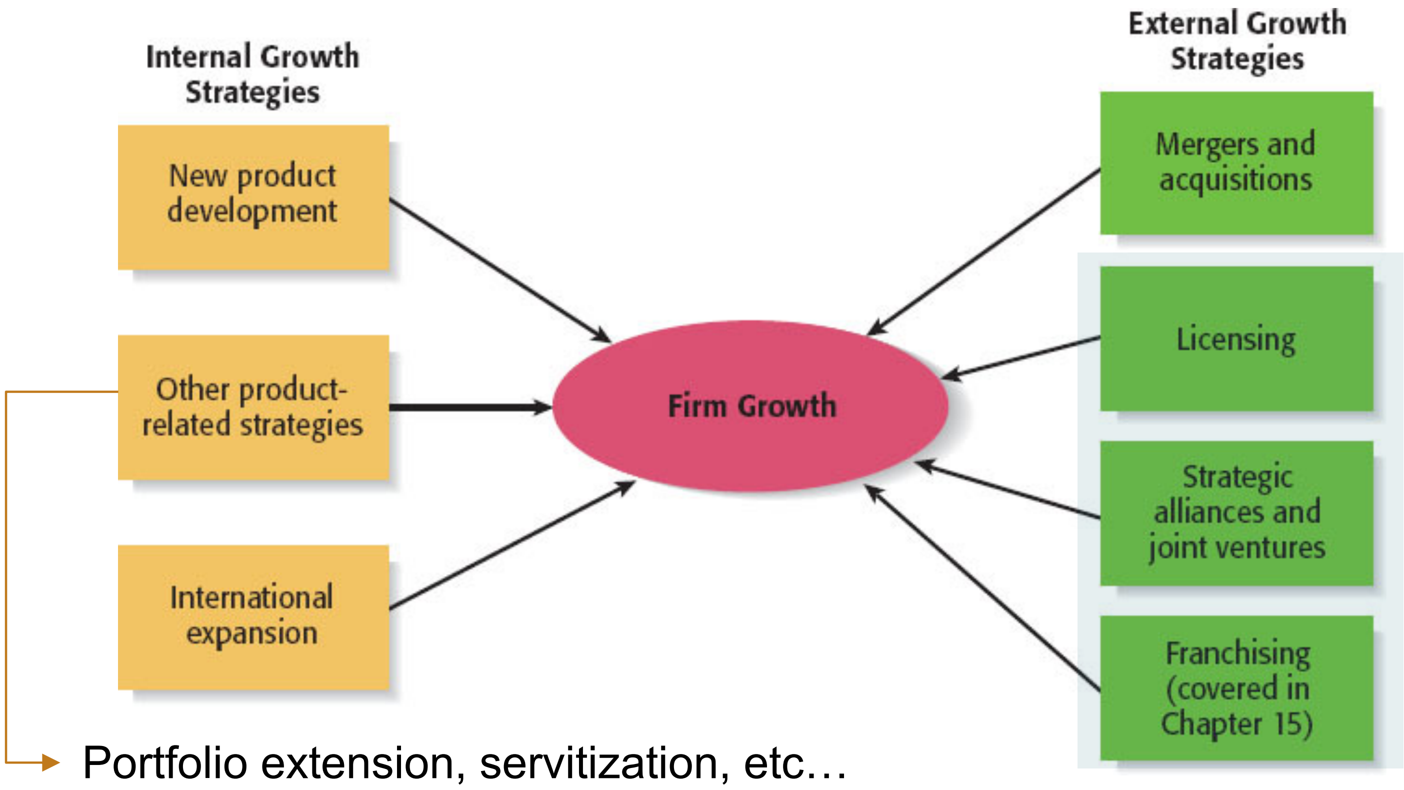

TABLE 14.1 Advantages and Disadvantages of Internal Growth Strategies

Advantages	Disadvantages
Incremental, even-paced growth. A firm that grows at an even pace can continually adjust to changing environmental conditions to fine-tune its strategies over time. In contrast, a firm that doubles its size overnight through a merger or acquisition is making a much larger commitment at a single point in time.	**Slow form of growth**. In some industries, an incremental, even-paced approach toward growth does not permit a firm to develop competitive economies of scale fast enough. In addition, in some industries it may not be possible for a firm to develop sufficient resources to remain competitive. A high level of merger and acquisition activity typically characterizes these industries.
Provides maximum control. Internal growth strategies allow a firm to maintain control over the quality of its products and services during the growth process. In contrast, firms that grow through collaborative forms of growth, such as alliances or joint ventures, must share the oversight function with their business partners.	**Need to develop new resources.** Some internal growth strategies, such as new product development, require a firm to be innovative and develop new resources. While internal innovation has many positive attributes, it is typically slow, expensive, and risky.
Preserves organizational culture. Firms emphasizing internal growth are not required to blend their organizational culture with another organization. As a result, the venture can grow under the auspices of a clearly understood, unified corporate culture.	**Investment in a failed internal effort can be difficult to recoup**. Internal growth strategies, such as new product development, run the risk that a new product or service idea may not sell, making it difficult to recoup the development cost the firm incurred.
Encourages internal entrepreneurship. Firms that grow via internal growth strategies are looking for new ideas from within the business rather than from outsiders. This approach encourages a climate of internal entrepreneurship and innovation.	
Allows firms to promote from within. Firms emphasizing internal growth strategies have the advantage of being able to promote within their own organizations. The availability of promotional opportunities within a firm is a powerful tool for employee motivation.	

New Product Development (1 of 3)

- Involves the creation and sale of new products (or services) as a means of increasing firm revenues.
- In many fast-paced industries, new product development is a competitive necessity.
  - For example, the average product life cycle in the computer software industry is 14 to 16 months.
  - As a result, to remain competitive, software companies must always have new products in their pipeline.

New Product Development in low-tech industries

Do they still exist?

Digitalization and hybrid products make more and more the distinction between “high” and “low” tech industries antihistorical

When digital technologies ”cross” traditional products, the pace of innovation is determined by digital technologies, not products.

New Product Development (3 of 3)

Table 14.2 The Top 5 Reasons New Products Fail

1. The potential market was overestimated.
2. Customers saw the product as too expensive.
3. The product was poorly designed.
4. The product was no different than the competition’s (“me too” products).
5. The costs of developing the product line were too high.

All the reasons are “product” or “market” related. That’s why it’s crucial to assess the product and market feasibility during the development phase

Additional Internal Product-Related Strategies

Product Strategy	Description
Improving an Existing Product or Service	Often a business can increase its revenues by simply increasing the quality of an existing product or service.
Increasing Market Penetration	Increasing the sales of a product or service through greater marketing efforts or through increased production capacity.
Extending Product Lines	Making additional variations of a product so it will appeal to a broader range of clientele.
Geographic Expansion	Growth via expanding to additional geographic locations.

Additional Internal Product-Related Strategies

Product Strategy	Description
Servitization	The shift from selling products to offering ‘bundles’ of customer-focused combinations of goods, services, support, and knowledge in delivering value in use* * Vandermerwe, S., & Rada, J. (1988). Servitization of business: Adding value by adding services. European Management Journal, 6(4), 314–324.

International Expansion (1 of 3)

- A more common form of growth for entrepreneurial firms.
- International new ventures (or "born globals") are businesses that, from their inception, seek to derive significant competitive advantage by using their resources to sell products or services in multiple countries.

International Expansion: most popular modes

- Exporting
  - Producing a product at home and shipping it to a foreign market.
- Joint Ventures
  - Involves the establishment of a firm that is jointly owned by two or more otherwise independent firms.
- Wholly Owned Subsidiary (FDI)
  - A company that has made the decision to establish a permanent presence in a foreign market
    - Greenfield
    - Brownfield

External Growth Strategies (1 of 2)

- Mergers and Acquisitions
- Licensing
- Strategic Alliances and Joint Ventures
- Franchising (included in Chapter 15 – not to study)

TABLE 14.5 Advantages and Disadvantages of Emphasizing External Growth Strategies

Advantages	Disadvantages
Reducing competition. Competition is lessened when a firm acquires a competitor. This step often helps a firm establish price stability by eliminating the possibility of getting in a price war with at least one competitor. By turning potential competitors into partners and through alliances and franchises, the firm can also reduce the amount of competition it experiences.	**Incompatibility of top management.** The top managers of the firms involved in an acquisition, an alliance, a licensing agreement, or a franchise organization may clash, making the implementation of the initiative difficult.
Getting access to proprietary products or services. Acquisitions or alliances are often motivated by a desire on the part of one firm to gain legitimate access to the proprietary property of another.	**Clash of corporate cultures.** Because external forms of growth require the combined effort of two or more firms, corporate cultures often clash, resulting in frustration and subpar performance.
Gaining access to new products and markets. Growth through acquisition, alliances, or franchising is a quick way for a firm to gain access to new products and markets. Licensing can also provide a firm an initial entry into a market.	**Operational problems.** Another problem that firms encounter when they acquire or collaborate with another company is that their equipment and business processes may lack full compatibility.
Obtaining access to technical expertise. Sometimes, businesses acquire or partner with other businesses to gain access to technical expertise. In franchise organizations, franchisors often receive useful tips and suggestions from their franchisees.	**Increased business complexity.** Although the vast majority of acquisitions and alliances involve companies that are in the same or closely related industries, some entrepreneurial firms acquire or partner with firms in unrelated industries. This approach vastly increases the complexity of the combined business. The firm acquiring a brand or partnership with another company to gain access to its brand may subsequently fail to further develop its own brand and trademarks. This failure can lead to an increased dependency on acquired or partnered brands, reducing the firm's ability to establish and maintain a unique identity in the marketplace.
Gaining access to an established brand name. A growing company that has good products or services may acquire or partner with an older, more established company to gain access to its trademark and name recognition.	**Loss of organizational flexibility.** Acquiring or establishing a partnership with one firm may foreclose the possibility of acquiring or establishing a partnership with another one.
Economies of scale. Combining two or more previously separate firms, whether through acquisition, partnering, or franchising, often leads to greater economies of scale for the combined firms.	**Antitrust implications.** Acquisitions and alliances are subject to antitrust review. In addition, some countries have strict antitrust laws prohibiting certain business relationships between firms.
Diversification of business risk. One of the principal driving forces behind all forms of collaboration or shared ownership is to diversify business risk.	

Mergers and Acquisitions

Mergers and Acquisitions

- A merger is the pooling of interests to combine two or more firms into one.
- An acquisition is the outright purchase of one firm by another.

Purpose of Acquisitions

- Acquiring another business can fulfill several of a company's needs, such as:
  - Expanding its product line.
  - Gaining access to distribution channels.
  - Achieving competitive economies of scale.

Licensing (1 of 2)

- The granting of permission by one company to another company to use a specific form of its intellectual property under clearly defined conditions.
- Virtually any intellectual property a company owns that is protected by a patent, trademark, or copyright can be licensed to a third party.

Licensing Agreement

- The terms of a license are spelled out by a licensing agreement.

Licensing (2 of 2)

Type of Licensing	Description
Technology Licensing	The licensing of proprietary technology that the licensor typically controls by virtue of a utility patent.
Merchandise and Character Licensing	The licensing of a recognized trademark or brand that the licensor typically controls through a trademark or copyright.

Strategic Alliances and Joint Ventures

- The increase in the popularity of strategic alliances and joint ventures has been driven largely by a growing awareness that firms can’t “go it alone” and succeed.

Strategic Alliances (1 of 2)

- A strategic alliance is a partnership between two or more firms developed to achieve a specific goal.
- Various studies show that participation in alliances can boost a firm's rate of patenting, product innovation and foreign sales.
- Strategic alliances tend to be informal and do not involve the creation of a new entity.
- Setting up an alliance and making it work can be tricky.

Strategic Alliances (2 of 2)

Type of Alliance	Description
Technological Alliances	Feature cooperation in R&D, engineering, and manufacturing.
Marketing Alliances	Typically match a company with excess distribution capacity with a company that has a product to sell.

Joint Ventures

- A joint venture is an entity created when two or more firms pool a portion of their resources to create a separate, jointly owned organization.
- A common reason to form a joint venture is to gain access to a foreign market. In these cases, the joint venture typically consists of the firm trying to reach a foreign market and one or more local partners.

Trieste, 15.05.2023

STRATEGIC GROWTH DRIVERS OF STARTUPS

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How is this session organized?

- ➢ Prepare the gamefield: background and some definitions
- ➢ Challenge you: live quizzes and ex post explanations
- ➢ Break: awaiting results
- ➢ Rank top scorers
- ➢ A short recap of the main takeaways of the session

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Introducing the topic

What drives the growth of start-up firms? Why some startups keep growing over time while others fail?

Many entrepreneurs, venture capitalists, scholars, and policy makers would like to answer to such questions. They have intrigued managerial researchers since at least the late 1970s.

Over time, research has become more specialized, with scholars devoting increased attention to the roles played by selective drivers (e.g., resources, strategies, behaviors, mental attitudes, location advantages, industry dynamisms) in supporting the growth of start-up firms.

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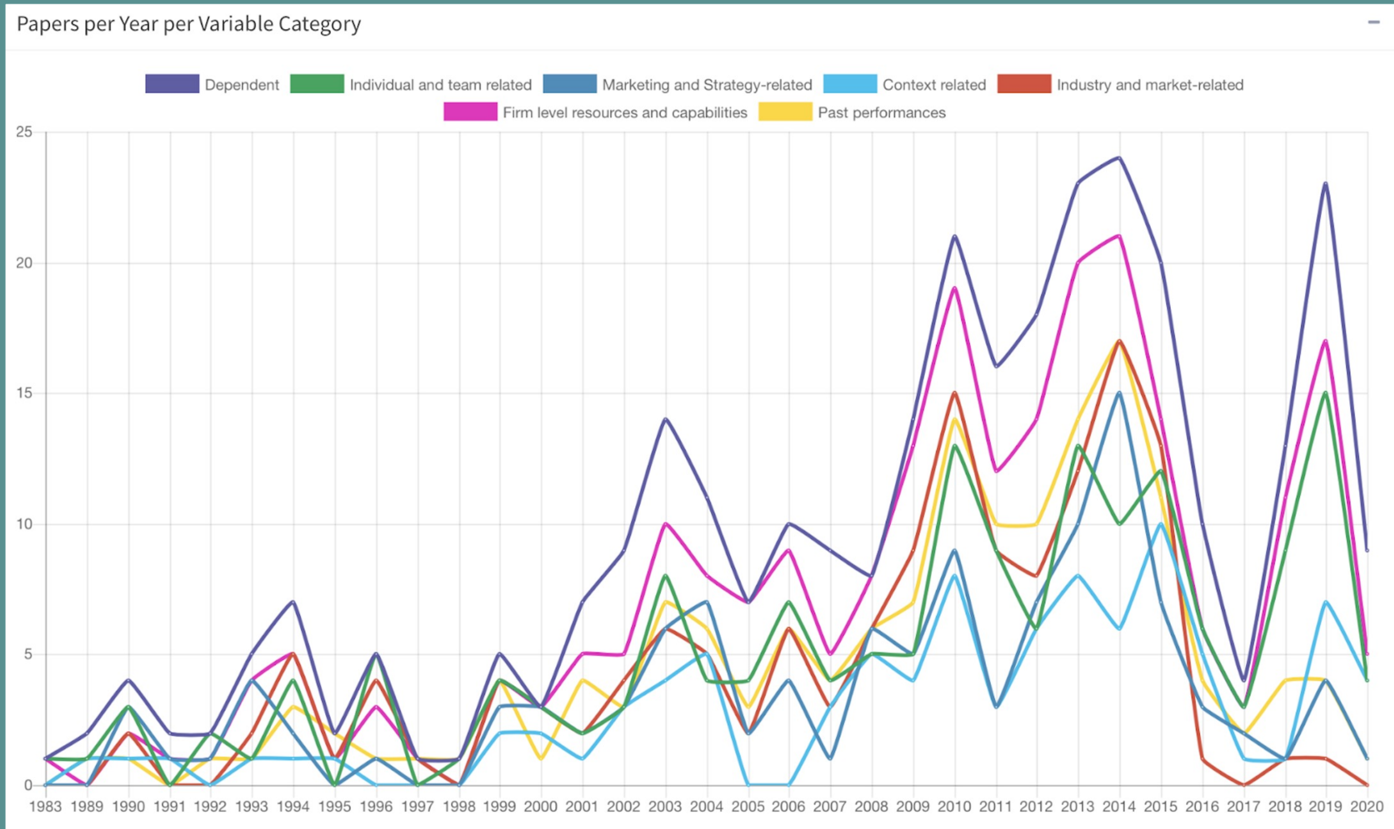
Streams over the last 40 years



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Startup growth measures

Main measures of growth in the academic debate:

Generic growth: the use of categorical variables, such as high/low growth, gazelle/non-gazelle firms, and Likert-type scales

Profit-related measures: profits, gross profits, operating profits, profit margins, and value added growth

Sales-related measures: absolute and relative terms sales growth, revenue trends, turnover and gross revenues

Size-related measures: employees' growth in percentage, logarithmic reduction of dimensional growth, year-by-year employees' growth

Other growth dimensions measures: market share, company value, assets, number of new products, scalability of the business

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A classification of growth drivers 1/2

Six categories of drivers:

Individual- and Team-related: Gender and other personal characteristics, Social and professional networks, Entrepreneurial experience, Entrepreneurial orientation, entrepreneurial style, management style, leadership style, personal values, risk propensity, sales orientation, international entrepreneurial orientation, tenacity, proactivity, passion, Education, Industry experience, Managerial expertise, Marketing expertise, Motivation, vision, self-efficacy, etc.

Marketing- and Strategy-related: Business model, Business planning, Differentiation, Diversification, Internationalization, Low-cost strategy, Generic strategies, Marketing planning and intensity, Innovation, Focus and niche strategy, Growth mode and strategy, etc.

Context-related: University, Science parks, Government financial support, Industrial districts and clustering, Non-government financial support, Business incubators, Financial system, Legal and normative system, Taxation, Location, etc.

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A classification of growth drivers 2/2

Industry and Market-related: Competition intensity, Environmental dynamism, Market attractiveness, Market complexity and heterogeneity, Product and market maturity, Economies of scale in industry, Industry growth rate, Industry complexity, Industry type (high-tech/ low-tech, service/manufacturing), etc.

Firm-level Resources and Capabilities: Firm age, Legitimacy, Firm type, Learning and innovation capabilities, IPR, Marketing capabilities, Networking capabilities, Organizational structure and capabilities, Alliances, R&D investment, Supply chain, Technological capabilities, VC support, Human resources and capabilities, etc.

Past performance: Generic growth, Profit, Sales, Size, Indebtedness, risk, financial leverage, etc.

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Distinguishing attributes of high-growth ventures (Pearce & Pearce, 2020)

Three recurring and winning traits:

Advanced technology: R&D capability, proprietary algorithms, internet emphasis, and omnichannel marketing

Market aggressiveness: attributes of bold investment, differentiation by customers, scalability, and an ability to monetize the brand.

Functional excellence: supply-chain partnerships, cross-selling and up-selling, operational efficiency, and retail presence.

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The multitude of factors

We deal with complex and dynamic environments, and we cannot have everything under control.

However, there are some critical capabilities that startups can internally develop, as some resources they can acquire, as well as the cultivation of strategic alliances or key partnerships.

In this session, we will see both factors that are (at least partially) under control of the start-up, or intrinsically linked to its life, and ones that are not. The first category let entrepreneurs arbitrarily opt for, concretely deal with, or simply ignore them, while the second require awareness, and, when possible, reactions.

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Financial management competences: a critical factor

From Brinckmann et al., 2011:

"Financial management is a multidimensional activity sphere that goes beyond obtaining outside funding. Knowing how to attract outside capital can be critical to finance especially strong employment growth. Additionally, however, competence in obtaining financial resources through operations can be a complementary form to overcome resource restrictions and finance both employment and sales growth. In practice, entrepreneurs often times focus on the acquisition of financial resources through large-scale outside investments without considering alternatives.Yet, internal financing can have advantages with regard to cost of capital, availability of capital, and limiting outside control. Hence, it might be an interesting substitute or complement for obtaining financing from the outside."

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Now it's time to challenge you!

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What

7 selected variables: guess the effect on the growth according to academic literature

How

In the next slides, I will post some links. Connect through your smart devices. In the first access, please use as ID: Name Surname . It will not be asked the following times. Respond to the question that will appear. Come back to our session to hear the explanations!

And then?

At the end, I will provide you a rank of top scorers and discuss the main takeaways of the session.

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Variable 1:
Debt of the owner for business purposes

By increasing the financial leverage, startups get access to additional funds.

External debts can be obtained in the name of the business (business debt) or in the name of the firm's owner (personal debt), and used to finance the startups.

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How does personal debt of the owner (for business purposes) impact on startup growth?

- *Connect to https://app.gosoapbox.com with your smartphone, insert the code* **609-355-335**,
- *your Name + Surname, and respond to the quiz named "1. Debt of the owner"*

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Personal debt hinders growth

From Cole & Sokolyk, 2018:

- *“The key issue in many external financing models is the information asymmetry between the entrepreneur who seeks capital to finance the firm and the firm's financier. The entrepreneur of a high-quality firm has incentive to reduce information asymmetry by retaining a high equity ownership stake in the firm.*
- *“Business [debt] and personal debt are significant but in opposite directions in our revenue analysis, the insignificant coefficient on debt amounts support the notion that the type of debt financing matters for the revenue growth of start-up firms.”*

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Variable 2:
Peer advices

- Entrepreneurs often lack the management capabilities needed to grow their companies.

  As a result, many otherwise promising startups fail.

- How can entrepreneurs improve their management skills? Recent work on entrepreneurial training programs and business-plan competitions show that entrepreneurs can acquire these skills. Another option could be leveraging on peer advices.

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How do peer-advices given to highly educated entrepreneurs impact on startup growth?

Connect to https://app.gosoapbox.com with your smartphone, insert the code **609-355-335** *and respond to the quiz named "2. Peer advices"*

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Peer advices? No, thanks.

From Chatterji et al., 2019:

- *“We document that formal training can limit the effect of advice”.*
- *“Not all founders respond to advice in the same way. We find that founders with a MBA degree or incubator/accelerator experience, are significantly less affected by peer advice”.*
- *“Formal management training, while independently improving startup outcomes, may also make founders resistant to learning from others' experience.”*
- *“Formal training could be a substitute for peer advice. In this case, their existing knowledge base might make these entrepreneurs more skeptical of any advice, especially when it does not conform to their frameworks”*

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Variable 3:
Collective optimism under uncertainty

- *Collective optimism as the set of beliefs and expectations about the future in an organization*

- *Uncertainty as environmental dynamism, measured as the volatility of revenues at country level*

- *All other things being equal*

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How does collective optimism impact on startup growth?

Connect to https://app.gosoapbox.com with your smartphone, insert the code **609-355-335** *and respond to the quiz named "3. Collective optimism under uncertainty"*

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Collective optimism under uncertainty?
A key variable! β>0.2

From Anglin et al., 2018:

- *"Collective optimism impacts individual decision making because decisions are frequently made in a social context where individuals are influenced by the views, expectations, and beliefs of others".*
- *"Entrepreneurial optimism has been shown to influence opportunity recognition, new venture creation, and venture performance".*
- *"Collective optimism often becomes an important source of information to decision makers, especially in situations where uncertainty is high and objective information is scarce"*
- *"Consequently, this provides an opportunity to bridge the gap between "what we know" and"what we need to know" concerning the influence of collective entrepreneurial optimism on new venture creation and growth."*

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Variable 4:
The age of the startup

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How “to be younger” impact on startup growth?

Connect to https://app.gosoapbox.com with your smartphone, insert the code **609-355-335** *and respond to the quiz named “4. The age of the startup”*

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Age: controversial evidence

From Navaretti et al., 2013:

- *A: "If a learning-by-doing process is at work younger firms may be disadvantaged with respect to their older counterparts in terms of efficiency, and thus, growth possibilities."*

B: Yes, but younger startups may have a steeper learning curve and higher business model flexibility.

A: I see, but younger startups are more exposed towards lenders.

B: True, but younger startups have an higher ambition and growth attitude.

A: (continues)

B: (continues)

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Variable 5:
Founder also CEO

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How does founders-led management impact on startup growth?

Connect to https://app.gosoapbox.com with your smartphone, insert the code **609-355-335** *and respond to the quiz named "5. Founder also CEO"*

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Founder-led? A risk

From Hendricks et al., 2019:

- *"Our results suggest that founder CEOs may impede firm performance if they insist on maintaining a tight grip on decision-making as the firm grows and matures. Leadership of a complex organization generally requires a shared effort, in which management teams help firms achieve competitive advantage by applying collective expertise, integrating disparate efforts, and sharing responsibility for the success of the firm"*
- *"To withdraw may be difficult for emotionally-attached founders, but it may be necessary for the good of the firm. Overall, it is often in the release of control, not the retention of it, that founders may foster the continued growth and success of their firms".*
- *"We find that although team structure has a significant impact on the performance of nonfounder-led firms (consistent with past literature), it has little to no effect on the operating performance of founder-led firms, suggesting that founder chief executive officers (CEOs) may exert too much control."*

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Variable 6:
Family ties

Researchers asked to entrepreneurs if they obtained advice (e.g., information and suggestions), business resources (e.g., finances and supplies), and emotional support in the previous 6 months from family ties.

The respondent had to indicate (if the case) the family member(s).

Authors construct three independent variables measuring the degree of an entrepreneur's family embeddedness in the three networks: family percentage in business advice network, family percentage in emotional support network, and family percentage in business resource network.

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How do family ties impact on startup growth?

Connect to https://app.gosoapbox.com with your smartphone, insert the code **609-355-335**
and respond to the quiz named "6. Family ties"

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Family ties: controversial evidence

From Arregle et al., 2015:

- *"Entrepreneurs' family ties has been inconclusive and contradictory, finding both positive and negative linear effects of family ties on venture creation and performance".*
- *"On the one hand, research suggests that family ties can facilitate venture development because they provide unique and valuable resources with lower costs and risks. On the other hand, research also suggests that family ties can hinder new venture growth because of redundant, overlapping,and inward-focused networks"*
- *Curvilinear relationship depending on number of ties and divided into business support and emotional one.*

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Variable 7:
Natural disasters

➢ *Natural disasters are defined as the impact of an extreme natural event on an exposed, vulnerable society.*

➢ *When the impact of a given natural disaster exceeds the capacity of the affected region to cope or respond such that interregional or international assistance becomes necessary, then the case approximates the definition of full-blown natural disaster. The impact of such events is not only limited to people and firms in the affected region. In fact, in today's socioeconomic systems, where market and supply networks are global and virtual in nature, disasters in one region can and do have substantial and extended consequences.*

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How do natural disasters impact on startup growth?

Connect to https://app.gosoapbox.com with your smartphone, insert the code **609-355-335** *and respond to the quiz named "7. Natural disasters"*

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Natural disasters? Divergent outcomes

From Monllor & Murphy, 2017:

- *Natural disasters influence variables that pull entrepreneurial intentions in opposing directions. Natural disasters increase entrepreneurial intentions as they generate necessity-driven opportunities. At the same time, natural disasters decrease entrepreneurial intentions due to the uncertain environments they create, which increase fear of failure*
- *"Natural disasters create difficult situations and as such they also create opportunities for individuals to create value, which in turn can lead to accelerated recovery and reconstruction"*
- *Short term VS Long term effects*

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“We'll call for you when we've reached a decision.”

10 minutes break

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Results

1°

2°

3°

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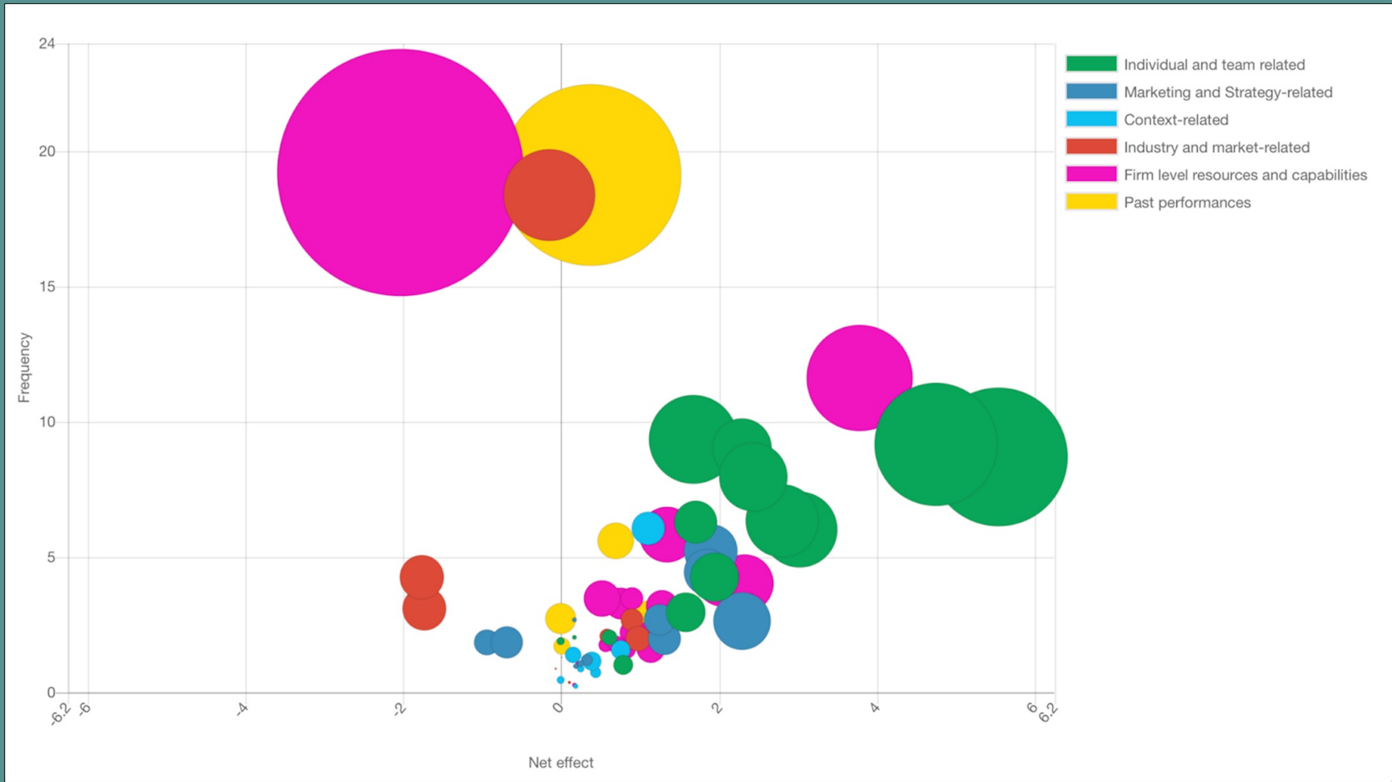
An overview



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Takeaways

- Even if there is not a “magic recipe” for being the perfect entrepreneur, academic research suggests that some factors have impact on the growth of startup firms
- Others are controversial. Natural disasters, for instance, are two-fold: threats of dynamism and uncertainty and opportunities for reconstructions: it is a matter of attitude and strategy!
- Audentes fortuna iuvat
- What does it mean to be “audacious”? There are some key resources and capabilities that entrepreneurs should always look for (e.g. financial management competence, strategic assets, learning attitudes, ambidextrous managers, etc). Entrepreneurs should cultivate them to foster a serendipitous climate for growth.

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Thank you for the attention

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