Lessons from high-growth firms: Overcoming challenges in dynamic environments

Poh Yen Ng
Higher Colleges of Technology Dubai Men's Campus

Robert T. Hamilton
University of Canterbury New Zealand.

Objectives: This paper explores the strategies of high-growth firms in a dynamic industry environment. The firms investigated each demonstrated resilience in addressing the challenge of industry competition while overcoming internal weaknesses. The paper identifies the major challenges to growth and the strategic responses of the firms.

Introduction: High-growth firms are generating more job opportunities in the economy (Birch, Haggerty and Parsons, 1997). A widely-accepted definition is that of the OECD (2010) which defines a high growth firm as: *an enterprises with average annualised growth in turnover greater than 20% per annum, over a three year period and with more than 10 employees in the beginning of the observation period'*. Technology industry has always been associated as highly competitive with a fast rate of change (Huang 2011). However, global market competition and advancing change in the marketplace mean that high-growth performance is difficult to sustain. Thus, sustained high-growth performance is worthy of investigation.

Prior Work: High-growth performance is not easily attainable and usually short-lived (Nicholls-Nixon, 2005; Barringer et al. 2005). Krogh & Cusumano (2001) also commented that managers cannot leave growth to chance. Technology industry faces a more challenging industry structure and environment (Zhang, Yang and Ma 2008; Gill and Biger 2012). It has a low entry barrier, high dependence on resources that are easily mobilised and a fast pace of change due to the constant advance of global technology (Eisenhardt & Sull 2001). Hambrick and Crozier (1986) also note that rapid-growth firms are typically cash-starved and have extraordinary resource needs. Hence, technology-based firms that achieve high-growth performance could be considered extraordinary performers, more so if the firms sustain this for a period of time. As stated by Delmar, Davidsson and Gartner (2003), all high-growth firms do not grow in the same way. Hence, this paper aims to examine the responses of a group of high-growth firms in overcoming the challenges and achieving high-growth performance.

Approach: Deloitte Touche Tohmatsu launched Deloitte Technology Fast 500 Asia Pacific Ranking Award to recognise the high growth of technology industries in Asia Pacific since 2002. Using the ranking results from 2006-2009, sixteen high-growth firms were selected. Each had achieved an average annualised growth in turnover greater than 20% per annum, over a three year period and with more than 10 employees in the beginning of the observation period (OECD 2010). Malaysia and New Zealand firms have been chosen as case studies after looking at the ranking trend and considering factors such as geographical locations, government interventions and industry profiles. The sixteen firms enjoyed more than 20% annual growth rate for a period of 3-7 years. The company's profiles are shown in Table 1.

TABLE 1: Profile of companies interviewed

Company Name	Country	Year Founded	Number of founder	Number of Employees	High growing years
Creative Sign	Malaysia	2003	4	Less than 50	5 years
B2B System	Malaysia	2000	5	100-150	5 years
Mobile Pack	Malaysia	2000	1	More than 250	4 years
Possibilities Software	Malaysia	1996	1	Less than 50	4 years
Innovation Centric	Malaysia	2000	2	Less than 50	3 years
Secure Boundary	Malaysia	2000	2	50-100	3 years
Bank Link	Malaysia	1997	3	100-150	3 years
Data Media	Malaysia	1997	3	More than 250	3 years
Future Screen	New Zealand	2000	3	100-150	7 years
Alpha Pulse	New Zealand	1999	2	100-150	6 years
Mega Connection	New Zealand	2000	2	Less than 50	5 years
The Race	New Zealand	1999	3	Less than 50	5 years
Rise Tech	New Zealand	1992	2	Less than 50	3 years
Inflame	New Zealand	2001	5	50-100	3 years
Green Cue	New Zealand	2003	2	Less than 50	3 years
NZ Link	New Zealand	1998	2	Less than 50	3 years

***Names were changed to ensure anonymity.*

Results: After interviewing the chief executive officers or key decision makers from the selected high-growth firms, four main challenges were found to influence their growth paths:

i) Industry competition: where CEO of Rise Tech said:
When we started we had about three or four competitors. Now there are more than about 150 doing this?

ii) Changes in the external environment: where over the last two decades, the technology industry has weathered two economic crises (one in 1997 and the other in 2008) and the dotcom bubble burst in 2000.

iii) Financial constraints: where one Malaysian's B2B System CEO said: *So the challenge really in the sales process the first thing is we have to customise. We spend a lot of time. We have our creative people do mock ups, animation and all this is costs and when we approach a client, well they will call for a tender so then there is the investment of time in the tender process. After that, you have all the discussions and things like that and there is no guarantee you get it. So it can take one to two years …..*

iv) Human resources constraints: where CEO of Alpha Pulse commented on how their growth performance was affected: *When we were growing into Australia, we*

just could not find qualified people. So the decision we made was compromised some of our standards on people…….So, if we would do anything differently again, we probably wouldn't hire some of the people that we hired. It certainly made life a lot more difficult in managing that growth

Most of these firms responded with different strategies. Product innovation or market expansion in response to the changes in the external environment and industry competition while network alliances, acquisition or public ownership was used to overcome the internal constraints. The firms interviewed have considerable understanding of their competitors and constantly try to differentiate themselves. To overcome the stiff completion, ten out of sixteen of the high-growth firms have great emphasis on product and service niches based on internal capabilities. Mega Connection's CEO said:

There is definitely more of a design focus than there was 10 years ago. It was again a lot more sort of technology driven and so it was about the technical solution as opposed to the business change or the business environment that we were working in. I think that's also evolved.

All the Malaysian firms interviewed, regardless of the nature and size of their businesses, were involved in some form of collaboration such as new product testing, new technology development, new solutions development, solutions partnership for a project, outsourcing work and market alliances. Such partnerships are not limited to local initiatives but have expanded to regional collaboration. One of the firms, Mobile Pack had a business partnership with Intel in their United States research centre and with SK Telecom from South Korea. The interviewee spoke about the collaboration:

SK Telecom, for instance, we actually have two SK Telecom staff based here. One is Chief Strategy Officer. The other one is reporting to him basically. They are involved in our day-to-day operations and not only that, we have teams flying in and out of Korea and Malaysia going to learn in Korea and their teams coming to assist on projects.

Though foreign market expansion is an imperative growth strategy for this group of firms, it can bring mixed growth performance. Building a successful presence in a new foreign market requires extensive resources such as time, money and human capital, so sufficient profitability or financial reserves are pre-requisites for such an expansion strategy. In such situations, high growth technology-based firms need sufficient funding to ensure their survival and expansion. This is consistent with a study conducted by Davidsson et al. (2009) who argue that firms which grow without first securing high levels of profitability tend to be less successful in subsequent periods than firms which secure high profitability ahead of high growth. The interviews revealed that many of these high-growth firms opted for initial public offering (IPO) during their growth stages. This was more apparent in the case of Malaysian firms. In Malaysia, four firms opted for initial public offering during their growth stages and they are now listed on the Malaysia Stock Exchange. Another one of the firms interviewed was currently preparing for its IPO. Only one of the New Zealand firms had been opened to public ownership. They did this to provide sufficient cash flow for overseas expansion and new product development, to promote the firm's credibility and to offer investment opportunities. One firm in Malaysia had accepted an injection of funds from venture capital. The changes in ownership through IPO and venture capital funding have similar benefits to those of acquisition but such firms have to endure stringent attention from their investors from time to time. High-growth technology-based firms have a high need for financial resources to fund their growth, and many sacrifice private ownership to obtain these.

Discussion: Garnsey & Heffernan (2005) note that substantial growth is rare and continuous growth unusual. They also note that growth interruptions result from both internal and external dynamics. Therefore it is vital to examine the growth challenges faced by firms as well as their resources and capabilities and the strategies involved in the growth process. Previous studies survey the impacts of external environment on performance from entrepreneurial (Lumpkin and Dess (2001); Zahra (1993), founder competence (Chandler and Hanks 1994), strategy (Covin, Slevin and Heeley 2000) and industry competition (Porter 1985; Galbreath and Galvin 2008) perspectives. It is therefore not surprising that the high-growth firms in this study were greatly challenged by their external environments and acknowledged the impact on business performance. Hence, they are driven to secure a market leading position and highly differentiated product/service to compete in the marketplace. They have responded by investing more in their product offering as well as expanding to new markets.

Several studies mention that growth rates do not seem to increase with profits (Davidsson et al. 2009; Coad and Holzl 2012). The high-growth firms in this study commented on the difficulty of funding business growth. Continuous innovation and expansion activities easily exhausted their financial resources, but stopping these activities made it tougher to compete in the marketplace. Getting sufficient investment in their businesses was very difficult and some eventually opted for public funding or acquisition by bigger firms. Finding appropriate and committed talent also challenged their ability to grow. Human resources barriers slowed growth for some firms, especially when expanding to new markets. The lack of technical, marketing and managerial expertise negatively impacted their expansion plans. As a result, many of these firms formed alliances with other industry players to reduce their cost of research and development.

Implications: This investigation shows responsiveness and resilience to growth challenges are one of the key characteristics found in the selected high-growth firms. Their awareness of internal weaknesses and external threats helped them to choose the right growth strategy and achieve high-growth performance. The lessons shared by them are important insights to the other players in similar industry. Managers should be aware of political, social, demographic and technological changes in the external environment. Their decisions about resources, capabilities and strategies, should reflect this awareness. Managers should also keep track of their firms' profitability and cash flow. Although business turnover might be encouraging, insufficient funds to sustain current market share could eventually affect performance so managers should strive to overcome the financial barriers that arise from enormous growth or limited profitability generated in new market territory.

Value: This work shows the importance of crafting suitable strategies and making right strategic moves in sustaining high-growth performance. Though resources and capabilities are critical sources of competitive advantage to build firm's dominant position in the market, responsiveness to challenges in the environment is also essential.

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