

# **A QUALITATIVE STUDY OF THE MANAGERIALLY CONTROLLED ATTRIBUTES OF RAPID-GROWTH FIRMS**

Bruce R. Barringer  
Foard F. Jones  
University of Central Florida

## **Abstract**

This study adds to the literature on rapid-growth firms through a qualitative analysis of the narrative descriptions of 50 rapid-growth firms compared to a control group of 50 normal and slow-growth companies. The purpose of the study was to draw from the narratives a clear and empirically grounded idea of the growth-related attributes of rapid-growth firms compared to their slower-growth counterparts. The findings of the study resulted in the advancement of a conceptual model of the attributes of rapid-growth firms in four areas: founder characteristics, firm attributes, business practices, and human resource management practices.

## **Introduction**

Every year, thousands of new firms are started in the United States. Most of these firms start small, with the intention of growing. The problem with this expectation is that after a short growth phase, the majority of firms plateau in terms of sales growth. In fact, the average firm in America grows at an annual rate of approximately 3.5%, a rate that has remained fairly stable over time.

Although the average firm in America grows at a modest rate, a subset of firms that are attracting increasing attention are rapid-growth firms. These firms are of particular interest to academics and practitioners because (1) rapid-growth is often an indication of market acceptance and firm success (Timmons, 1998); (2) the study of rapid-growth firms helps all firms better understand the attributes associated with firm growth (Sexton & Bowman-Upton, 1991) and (3) rapid firm growth stimulates national employment growth, which is good for the economy (Birch, 1995).

Despite these positive outcomes, rapid firm growth is difficult to achieve and maintain. Clifford (1975) observed that the growth-rates of companies often stall because they cannot effectively manage the complexities and demands associated with the growth process. Similarly, in a longitudinal study focused on the sustainability of rapid-growth, Doorley and Donovan (1999) found that rapid-growth is hard to maintain. The authors followed the growth experiences of nearly 2000 companies from 1976 to 1981. During that period, of the companies that ranked in the top third in terms of growth rate, 60 percent dropped to a lower level in the following five years.

In spite of the challenges associated with rapid-growth, numerous surveys (e.g., Deloitte & Touche LLP & Wirthlin Worldwide, 1996), suggest that growth is a top strategic priority for a large percentage of firms. There is also a consensus that growth is not a random or chance event, but is associated with specific firm attributes and behaviors. In light of these arguments, the purpose of this study is to add to the literature on rapid-growth firms through an examination of the managerially controlled attributes of a unique sample of 50-rapid growth firms, compared to

a control group of 50 normal and slow-growth companies. The study employs a comparative case study methodology to analysis narrative descriptions of each of the firms in the study. The purpose of the study is to draw from the narratives a clear and empirically grounded idea of the growth-related attributes of rapid-growth firms compared to normal and slow-growth companies.

## **Methodology**

### **Sample**

The data used to execute the study came from a set of narrative case studies provided by the Ewing Marion Kauffman Foundation. The cases represent a subset of a larger database of firms that are regional and national winners of the Ernst & Young LLP Entrepreneur of the Year award sponsored by the National Center for Entrepreneurship Research at the Kauffman Foundation. The cases are each about 3000 words long. The cases contain narrative information provided by the companies as part of the application process for the award. Each case follows a similar pattern and contains information pertaining to the following categories: type of business and current activity, management team, culture/values/incentives, innovative approaches, and future plans. Along with the cases, we were provided sales growth rate data and other demographic information about each firm.

For the purpose of this study, we define a rapid-growth firm as a firm with a three-year compound annual growth rate of 80 percent or higher. To compare the managerially controlled attributes of rapid-growth firms against normal and slow-growth firms, we selected a random sample of 50 rapid-growth firms and 50 normal and slow-growth firms from the Kauffman Foundation database. All of the rapid-growth firms in our sample meet our criteria of a three-year compound annual growth rate of 80 percent or more. The normal and slow-growth firms were defined as firms with a three-year compound annual growth rate of 35 percent or lower. The 35 percent figure is arbitrary, but was chosen to draw a definite contrast between the rapid-growth firms and the normal and slow-growth firms in our sample.

Table 1 contains demographic statistics pertaining to the sample along with t-tests to compare the rapid-growth firms against the normal and slow-growth firms on number of employees, annual sales, three-year compound annual growth rate, and firm age. As shown, there are no significant differences between the two samples on number of employees and annual sales, ruling these variables out as alternatives explanations for the results of the study. The rapid-growth firms are younger than the normal and slow growth firms in the control group, which was expected. A limitation of the study is that the narratives are not exhaustive in their coverage of issues important to rapid-growth firms. As a result, some of the variables identified in pervious studies received only brief attention in the narratives or were not covered at all. Consequently, these variables will not be subject to analysis in the present study.

Table 1 About Here

### **Method of Analysis**

The narratives were content analyzed with the assistance of the qualitative statistics software program ATLAS/ti. ATLAS/ti is a powerful, well-designed program for coding and interpreting text. Each narrative was read and coded using standard content analysis techniques

(Strauss, 1987). The cases were initially coded at the sentence level by one of the authors using typical content analysis techniques with each substantive sentence assigned to one of the four categories mentioned above. Then a more specific coding frame was used to reduce the sentences in the categories to specific variables given the topics of interest (Berg, 1989). After this was done, the variables were organized into broader-based themes, based on the results of the study and the information gleaned through the existing literature on rapid-growth firms.

## **Research Findings and Analysis**

Table 2 represents the categories and variables that emerged from the study. Through the content analysis, we were primarily interested in the extent to which the firms in the sample “emphasized” the variables that emerged in the study. The frequency of emphasis for each variable, broken down by rapid-growth firms versus the control group of normal and slow-growth firms, is shown in the table. We chose this method of frequency analysis to ensure that “vivid, but false impressions” (Eisenhardt, 1989) were not regarded as more meaningful and pervasive than otherwise might be inferred without such frequencies. Fisher’s exact test was used to test the differences between the frequencies for the rapid-growth and normal and slow-growth firms in the sample. As shown in Table 2, the rapid-growth firms in the sample differ from the normal and slow-growth firms in regard to their intensity of emphasis on a number of key variables.

Table 2 About Here

## **Discussion of the Results of the Content Analysis**

The conceptual model depicted in Figure 1 is a pictorial summary of the results of the study. The figure depicts the managerially controlled variables that differentiate rapid-growth firms from normal and slow-growth firms for the companies in our sample. The findings pertaining to each of the major categories of variables in the model are discussed below.

Figure 1 About Here

### **Founder characteristics.**

In regard to founder characteristics, the rapid-growth firms in the sample differ from the normal and slow-growth firms on the variables college education, entrepreneurial story, and prior industry experience.

Founders with prior experience in the same or a closely related industry were found in 76 percent of the rapid-growth firms in the sample, and only 24 percent of the normal and slow-growth companies. The importance of prior industry experience is illustrated in the following quote from one of the rapid-growth firms in our sample:

Adam (disguised name) has spent 28 years in the material handling industry. He has given many speeches on various aspects of the industry including warehouse management systems and automated warehousing. He is currently Chairman of the AS/RS committee,

and is also a member of the Integrated Systems and Controls Committee through the Material Handling Institute of America. Adam's experience and contacts in this industry have provided him with an opportunity to grow a one person operation operated out of his basement in 1988 to a firm with sales of approximately thirteen million dollars in 1997.

As illustrated in this quote and similar ones, related industry experience provides a founder knowledge of the industry plus the advantage of access to a network of contacts that can help a firm overcome liabilities of newness and build a growth-oriented business (Stinchcombe, 1965). The study also affirmed the importance of a college education, which is consistent with the literature.

A new variable emerged from the study that we labeled "entrepreneurial story." This variable was assigned when a narrative recalled the sacrifices the founder made to start the business, or how the life experiences of the founder set him or her on the path to become an entrepreneur. For example, the founder of one rapid-growth firm in our sample, reflecting on the risks and sacrifices involved in starting his business, remarked:

The financial risks are immense. As a rapidly growing company I take a small salary and although we have always been profitable, the profits are often barely enough to cover taxes and the rest goes back into financing growth. The company and I personally secure our three-million line of credit. **EVERYTHING RIDES ON THE COMPANY** (emphasis added by subject), for example my savings, my house, and my two children's education.

The implication of this quotation is that the founder has put a lot on the line to start his firm, and will likely be highly motivated to see the firm succeed. Similarly, the motivation to succeed is equally transparent in the comments pertaining the founder of a rapidly growing chain of health-food stores in our sample:

The key to (founders name) is his maverick spirit, combined with his sensitivity to consumer needs regarding products and education. Like many entrepreneurs, the thought of working for someone else never occurred to (founders name). Instead, he forged a thriving network of 34 stores.

The insight provided by these quotations and similar ones is that launching and growing a successful firm may have a higher valence for some founders than others. Founders that associate the success of their venture with sentiments like "everything rides on the company" and "the thought of working for someone else never occurred to (me)" as depicted above, may attach a degree of importance to the success of their venture that results in extreme levels of motivation and commitment to see their ventures succeed.

## **Firm Attributes**

In this category, the rapid-growth firms in the sample differ from the normal and slow growth-firms on the variables commitment to growth, reliance on a mission statement, and participation in interorganizational relationships.

The study affirmed the importance of commitment to growth as a facilitator of building and maintaining rapid-growth. The literature suggests that firm's that make a strong commitment to growth are more likely to make growth an ongoing priority (Doorley & Donovan, 1999). This notion is affirmed through the following quotation from a rapid-growth firm in the sample, which is typical of how rapid-growth firms fuel their growth strategies:

The company's future growth will be managed in the same manner in which it's growth to this point—through continued use of innovative marketing approaches, combined with the consistent investment in people and systems and the conscientious delivery of excellent customer service.

A related but conceptually separate topic is the presence of a growth-oriented mission, which was present in a significantly higher number of the rapid-growth firms in our sample than the normal and slow-growth companies. The idea is that a growth-oriented mission will crystallize the activities of a firm, and will lead to purposeful growth-oriented activities (Kim & Mauborgne, 1997). This is clearly the case with a pharmaceutical company in the sample, which wrote:

The company will continue to explore opportunities to expand its product pipeline, establish new and beneficial collaborations and relations, and further develop its presence in an effort to achieve its corporate mission.

The final variable affirmed in this section is participation in interorganizational relationships. The most common forms of interorganizational relationships in our sample included equity strategic alliances, non-equity strategic alliances and joint ventures. It is clear from the narratives that interorganizational relationships are used by fast-growth to achieve multiple objectives. Initially, a concern that all new firms have is establishing legitimacy and developing a positive reputation (Oliver, 1990). This is a particularly salient concern for rapid-growth firms, which have to establish a reputation quickly to help develop favorable channel relationships and build positive momentum for their products and/or services. Several of the rapid-growth firms in our sample sought out interorganizational relationships exactly for this reason. One poignant example of this was provided by a medical products company, which wrote:

The majority of (name of firm) distributors are exclusive producers of the highly respected AO Foundation of Davos, Switzerland. The "AO" has established the most respected surgeon education program worldwide. As a result of collaborations between the AO and (name of firm), (name of firm)'s surgical treatments are being taught in

hundreds of AO courses annually. This exposure will establish (name of firm) as the standard of care for many indications.

A second reason that rapid-growth firms seek out interorganizational relationships is to help offset resource needs, which helps a firm accelerate its growth by co-opting a portion of its resource needs from its partners. This rationale for partnering is seen in the following example from a video conferencing firm in our sample.

A critical strategic choice made by Williams (name disguised) during 1990, was to open reseller relationships with large telecommunications providers to market (name of firm)'s products. This was an industry first, at a time when its competitors were selling with costly direct sales organizations. This allowed (name of firm) to be perceived as much larger by riding on the coattails of companies like US West, GTE and Southwestern Bell. These channels partners helped ramp up (name of firm)'s early revenue much faster than it could afford by developing it's own sales force.

## **Business Practices**

In the area of business practices, the rapid-growth firms in the sample differ from the normal and slow-growth firms in regard to the variables add unique value and customer knowledge. Adding unique value is defined as helping a customer maximize utility, reduce costs, and/or increase organizational effectiveness in a unique manner. The variable customer knowledge refers to maintaining a keen sense of customer needs and desires.

Although the variable adding unique value is rarely discussed in the rapid-growth literature, it emerged as a strong discriminator between the rapid-growth and the normal and slow-growth firms in our sample. The most compelling examples of this are firms that claim to have established new paradigms in their industries, which exponentially increase the effectiveness of their consumers products and/or services. An example of this is a rapid-growth firm in our sample that developed a product that provides manufacturing workers instant access to assembly information, as described in the following quotation from the narrative:

(Name of firm) is unique because it saw a void in the shop floor while working on the prototype and quickly developed a product demonstrating financial savings, quantitatively, and made this product generic enough to be applicable to any complex processes such as building a factory, assembling a plane, maintaining applications, and operating oil rigs. The key is that (name of firm) developed a tool for the actual WORKER (emphasis added by subject) that brings all the information right to the WORKER, all in one place on the computer screen eliminating paper. Other companies focused on developing systems for white-collar employees and ignored the actual WORKER on the shop floor.

Another rapid-growth firm in the sample, which distributes electronics accessories to retailers, depicted the dramatic changes its business model has meant to its industry:

As an innovator, (name of firm) has increased the overall awareness of accessories to the consumer electronics industry. We believe that over 70% of our \$24 million volume last year was incremental to the industry. We have changed the way an independent retailer buys accessories. We have changed the way manufacturers, like RCA, market their accessories, too. The result is an easier and more productive method for the entire industry to buy and sell accessories.

The second variable in the category of business practices that differentiated the rapid-growth and normal and slow growth firms in the sample was customer knowledge. A finding that emerged from the narratives is that rapid-growth firms tend to be more diligent in attempting to understand their customer needs than their slower growth counterparts. The following quotation, from a rapid-growth computer hardware firm in our sample, is illustrative of this finding:

We are committed to establish and maintain lasting partnerships with our customers, teammates and vendors by understanding their needs and performing consistently to the highest standards of quality and ethics in a friendly and professional manner.

Other rapid-growth firms in the sample discussed the specific steps they take to better understand their customer's needs. An energy company in the sample wrote:

In addition, frequent customer surveys alert (name of firm) to upcoming changes and provide vital feedback about (name of firm)'s performance.

Similarly, a rapid-growth network servicing company in the sample wrote:

Another ingredient of our success is the ability to establish and maintain close relationships with our customers. These relationships are founded on the trust developed by our management team. (Name of firm) manages with a hands-on approach. The Executive Management team routinely gets involved with customers either through phone calls or personal visits. We know that our success depends on their success and we routinely show them our appreciation.

Among the rapid-growth firms in the sample, it was common for the words "trust" and "relationship" to surface in the context of probing customers to better understand their needs. This finding denotes an attempt on the part of these firms to fully understand their customer's needs in a context that strengthens the seller-buyer bond, rather than irritate customers by appearing intrusive.

## **Human Resources Management Practices**

The final category of variables examined in the study was human resource management practices. As mentioned in the literature review, the manner in which rapid-growth firms manage their personnel has received surprisingly little direct research attention. The rapid-growth firms in the sample differed from the normal and slow-growth firms on the variables training, employee development, financial incentives and stock options. No differences were found on the variables selectivity in hiring, employee empowerment, and nonfinancial incentives.

Training was not a variable that received a lot of coverage in the narratives, but the incidence of mention of an employee training programs was higher in the rapid-growth than the normal and slow-growth firms in the sample. In the majority of cases, the firms reported the role of their training programs in helping them achieve their missions and objectives. For example, a rapid-growth real estate firm in our sample wrote:

To this end, (name of firm) puts all front-line employees through an extensive training program called “Above and Beyond” to cultivate a service focus.

In addition to helping achieve their missions and objectives, several of the rapid-growth firms in our sample suggested that their training programs are aligned with their overall emphasis on knowledge accumulation and learning. Along this line, one firm reported:

Education is a priority. Individuals receive a cash bonus for achieving a training certification (technical, product, or management).

Finally, training was reported to be a vehicle through which firms can prepare high-performing employees for advancement. An Internet infrastructure firm in our sample wrote:

(Name of firm) believes that employees who demonstrate ability, effort, above average work performance, cooperative spirit and potential should be given an opportunity to advance when our needs and business conditions warrant. To this end, managers encourage employees to prepare themselves for advancement opportunities by participating in employer-sponsored training and by engaging in self-development and educational programs.

The second variable in the category of human resource management practices that separated the rapid-growth and the normal and slow-growth firms in the sample was employee development. It was apparent in the narratives that rapid-growth firms depend heavily on the abilities and efforts of their employees to maintain their growth-oriented strategies. The result is that many of the rapid-growth firms in the sample reported extraordinary efforts to develop and equip their employees to meet this challenge. For example, one rapid-growth firm in the sample wrote:

The company's goal leader program is designed to build management expertise in employees. Even employees who choose not to be goal leaders are encouraged to participate in training and ongoing educational programs to develop their potential.

Another firm wrote:

Ellen (name disguised) managed through encouragement, often taking risks on the employees she hired, and investing significantly in their growth and development.

The final variables that differentiate the rapid-growth from the normal and slow-growth firms in this section dealt with employee incentives. A higher incidence of the rapid-growth firms in the sample compared to the normal and slow-growth firms provide their employees financial incentives and stock options as part of their compensation packages. It is clear that these incentives are provided to achieve multiple goals. These goals include eliciting high levels of performance from employees, providing employees the feeling that they are part "owners" of their firms, attracting and retaining high quality employees, and shifting a portion of a firm's business risks to the employees. In regard to eliciting high levels of employee performance, a rapid-growth computer software company in our sample wrote:

One of the most important employee reward mechanisms he has established is the Performance Incentive Program (PIP) which provides financial rewards for measurable results. Each quarter, employees can earn an extra percentage over and above their salary, based on both individual and corporate performance criteria, and thus incentivizing both corporate teamwork and individual performance.

Similarly, an information technology training and consulting company in our sample reported:

The company has provided incentives for its staff to meet and exceed industry financial performance through the implementation of a bonus program and stock option grants.

It was also apparent from the narratives that rapid-growth firms use stock options and other forms of financial incentives to attract and retain key employees. As evidence of this, one rapid-growth firm in our sample wrote:

(Name of firm)'s future success lies in its ability to hire the best talent in the industry and provide them with a challenging and rewarding work environment. As part of this goal, (name of firm) provides stock incentives for senior management and managerial positions.

Several of the rapid-growth firms in our sample use their incentive programs as a means of instilling a sense of employee ownership in their firms, which potentially has multiple positive benefits. For example, one firm wrote:

(Name of firm)'s stock option plan is offered to all employees which fosters a strong, personal commitment to the company's success.

Finally, it is not uncommon for rapid-growth firms to shift a portion of their business risks to their employees, by offering modest salaries in lieu of generous bonuses that pay off only if the firm does well. This tactic is evident in the compensation strategy of the following rapid-growth firms in our sample:

From the shared sweat equity of upper management to the incentive programs and significant Christmas bonuses, my philosophy is to share the wealth. Lower salaries with significant annual raises and significant performance bonuses have been a major factor in helping finance our growth.

## **Conclusion and Implications**

The majority of the findings reported above affirm the existing literature on rapid-growth firms. The characteristics of the founder of a firm, along with a firm's attributes, business practices, and human resource management practices, are important in helping a firm achieve and maintain rapid-growth.

Several additional value-added contributions to the literature result from the study as well. First, the variable "entrepreneurial story" was postulated, based on the notion that entrepreneurs that make significant sacrifices to start firms or have life experiences that set them on the path to become entrepreneurs have higher valences to build successful rapid-growth firms than other business founders. As a result, some founders may simply try harder than others, which is a notion that is hard to quantify, but may nonetheless exist. Second, in the category of business practices, the variable add-unique value emerged as a strong predictor of rapid-growth. Although this variable is conceptually similar to Porter's (1985) concept of "product differentiation," the results of this study suggest that unique value is a separate concept, and refers to the ability of a product or service offering to help customers maximize utility, reduce costs, and/or increase organizational effectiveness in a unique manner. This was a strong distinguishing characteristic between the rapid-growth firms and the normal and slow-growth firms in our sample, and is deserving of additional research attention. Finally, the results of this study draw attention to the importance of human resource management practices in facilitating rapid-growth. It was clear from the narratives that this is an important topic and is very much on the minds of the managers of rapid-growth firms.

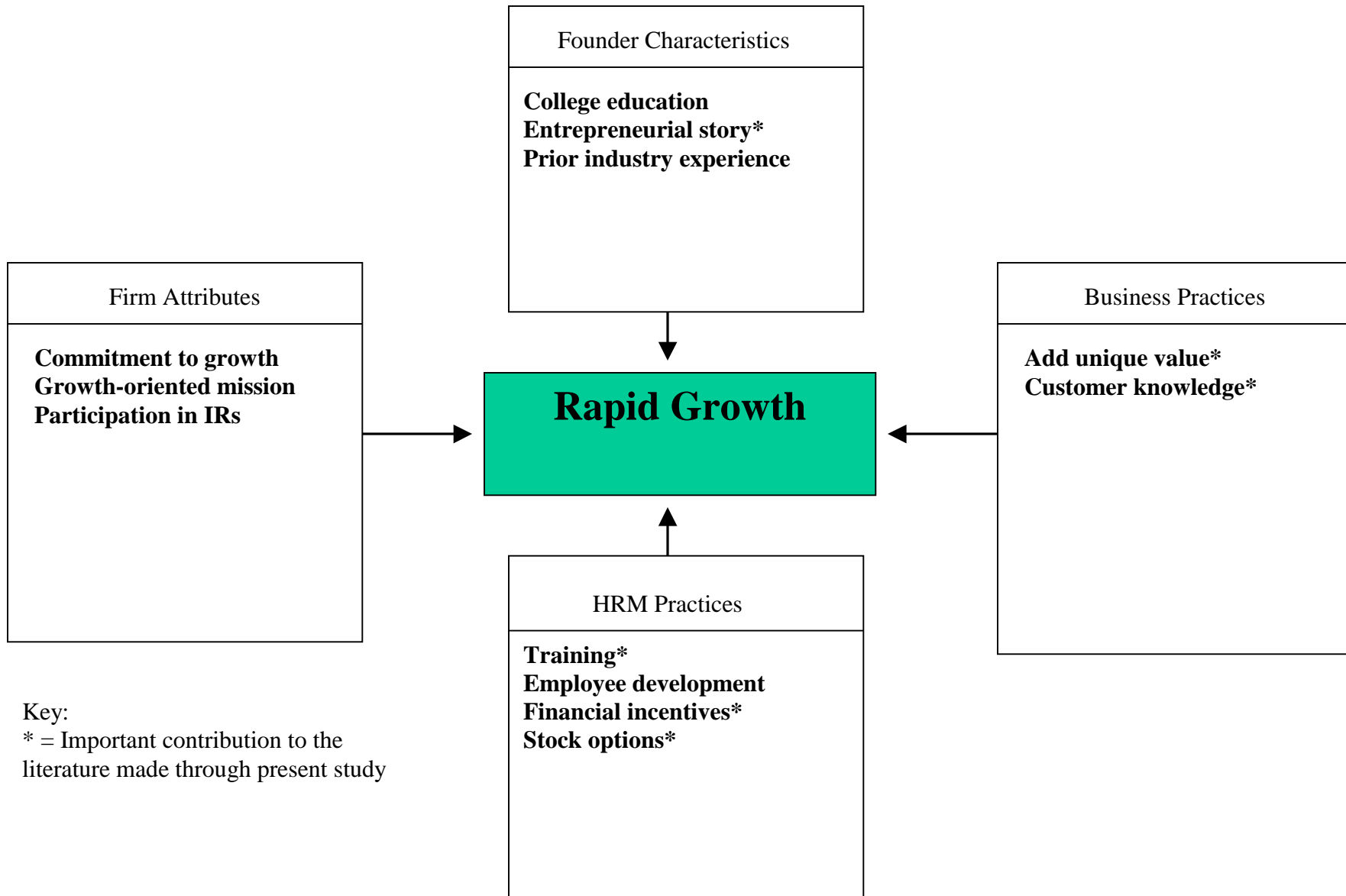
---

The authors gratefully acknowledge the support of the Kauffman Center for Entrepreneurship Leadership at the Ewing Marion Foundation for funding this research.

## References

- Berg, B. (1989). *Qualitative Research Methods for the Social Sciences*. Boston, MA: Allyn and Bacon.
- Birch, D. (1995). *Who's Creating Jobs?* Cambridge, MA: Cognetics, Inc.
- Clifford, D.K., Jr. (1975). "The case of the floundering founder." *Organizational Dynamics*, 4(2): 21-54.
- Doorley, T. L. and Donovan, J. M. (1999). *Value-Creating Growth*. San Francisco, Calif: Jossey-Bass.
- Eisenhardt, K. (1989). Building theories from case study research." *Academy of Management Review*, 14, 532-550.
- Kim, W.C. and Mauborgne, R. (1997). "Value innovation: The strategic logic of high growth." *Harvard Business Review*, January-February, 103-112.
- Oliver, C. (1990). "Determinants of interorganizational relationships: Integration and future directions." *Academy of Management Review*, 15, 241-265.
- Porter, M.E. (1985). *Competitive Advantage*. New York: Free Press
- Stinchcombe, A. (1965). "Social structure and organizations." In James G. March (eds.), *Handbook of Organization*: 142-193: Chicago: Rand McNally.
- Strauss, A. (1987). *Qualitative Analysis for Social Sciences*. New York: Cambridge University Press.
- Timmons, J. (1998). *New Venture Creation*. Burr Ridge, IL: Irwin.

**Figure 1**  
**Managerially Controlled Variables that Differentiate Rapid-Growth Firms**  
**From Normal and Slow-Growth Firms in the Sample**



**Table 1**

**Summary Statistics and T-Tests for the Differences Between the Rapid-Growth Firms and the Control Group of Normal-Growth and Slow-Growth Firms in the Sample**

---

<b>Variable</b>	<b>Rapid-Growth Firms</b>		<b>Normal and Slow-Growth Firms</b>		<b>T-Statistic</b>	<b>P-Value</b>
	<b>Mean</b>	<b>s.d.</b>	<b>Mean</b>	<b>s.d.</b>		
Number of Employees	269	364	390	495	1.85	.14
Annual Sales	\$53,041,134	\$75,463,783	\$53,178,624	\$80,152,995	1.13	.77
3-year Compound Annual Growth Rate	166.32%	167.29%	1.55%	18.16%	168.10	.0001**
Age of Firm	10 yrs	5.7 yrs	20.67 yrs	11.40 yrs	4.02	.0012**

---

\*\* p < .01

**TABLE 2**

**Variables Identified in Content Analysis With  
Fisher's Exact Test for Significance Across Growth Rates**

Number of Cases Affected  
(n = 50 for both growth rates)

Variable	Normal and Slow Growth	Fast Growth	Fisher's Exact Test
<b>Founder Characteristics</b>			
College Education	21	36	P = .0022***
Higher Education (Masters or PhD)	13	16	P = .3299
Entrepreneurial Story	7	18	P = .0099***
Firm Started by a Team	14	20	P = .1456
Prior Entrepreneurial Experience	15	17	P = .8305
Prior Industry Experience	12	38	P = .0000***
<b>Firm Attributes</b>			
Commitment to Growth	27	40	P = .0051***
Emphasis on Planning	23	26	P = .7881
Growth Oriented Mission	5	14	P = .0198**
Goal Setting	8	11	P = .3055
Participation in Interorganizational Relationships	17	26	P = .0528**
<b>Business Practices</b>			
Fill a Niche	12	11	P = .5000
Add Unique Value	10	27	P = .0000***
Customer Knowledge	11	25	P = .0032***
<b>Human Resource Management Practices</b>			
Selectivity in Hiring	23	24	P = .5000
Employee Empowerment	17	21	P = .2684
Training	7	15	P = .0448**
Employee Development	16	24	P = .0763*
Nonfinancial Incentives	13	19	P = .1419
Financial Incentives	11	21	P = .0264**
Stock Options	5	16	P = .0064***

\*\*\* p < .01, \*\* p < .05, \* p < .10