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On the consequences of firm growth

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Abstract

Recent contributions to the literature on small firm growth have been marked by a growing sense of frustration with the state-of-the-art and what it implicates in both theory and policy. In short, while growth events appear relatively common, a tiny proportion of firms sustain growth and 'scale'; calling into question the very basis of policies seeking to target high growth firms (HGFs). We argue that understanding the frequency of growth events and the rarity of sustained growth requires a better understanding of growth consequences. To this end, we report case study evidence from ambitious entrepreneurs whose firms had experienced an episode of high growth followed by longer periods of mixed performance. Our goal is to shed light on how the experience of growing affects further growth. Our data provide initial insights into the mechanisms linking past growth to growth motivations and into the ways in which past growth lays the foundations for future performance.

Introduction

Our interest in the consequences of growth in smaller firms was initially occasioned by rereading Nicholls-Nixon (2005). In a field where consensus is sufficiently rare as to be remarkable, the notion that a small number of firms are responsible for a larger part of the economic gains has acquired the status of 'stylised fact'. While Nicholls-Nixon's (2005, p. 77) characterisation of rapid growth "as the business equivalent of a birdie, a touchdown, or a home run on the field of dreams" might appear consistent with this orthodoxy, it was her observations on the episodic nature of high growth that gave us pause.

Evidence on the skewed distribution of economic returns is longstanding and widespread (Coad et al. 2014). However, the typical approach to identifying high growth firms is in the cross-section; recognising, categorising, measuring, studying, and so on, these firms at some point in time[1]. Nicholls-Nixon's (2005, p.78) finding that "in the 22 years since Inc. Magazine began ranking high-growth companies, only 69 have made it onto the list two or more times" implies at least two things. Firstly, and directly, that high growth is astonishingly difficult to replicate. And, secondly and indirectly, that many more firms experience an episode of high growth than snapshot approaches might suggest.

The first is reinforced by recent evidence on growth persistence. Simply put, past growth does not seem to be a useful predictor of future growth in samples of small and young firms; with this period's high growth firms as likely to be found among the previous period's worst performers as they are among the best performers (Coad, et al., 2015; Daunfeldt and Halvarsson 2015; Henrekson and Johansson 2010). As Daunfeldt and Halvarsson (2015) have it, most growth firms are "one hit wonders". The second issue is nicely illustrated by Derbyshire and Garnsey (2015). Responding to suggestions that "firm growth is well-approximated by a random walk" (Coad et al. 2013, p. 615), these authors record the four-year growth,

[1] Indeed, the most common definition of high growth firms (HGFs) is explicitly concerned with a three-year window.

stability and decline of almost 40,000 firms started in the UK in 2005. Persistent growth (i.e. growth in all 4 years) is, indeed, very rare – only 3 firms grew in all years. However, perhaps more interestingly, 12,297 firms (31% of the sample) were recorded as growing in at least one of the years. In this light, it may be more useful to think in terms of growth episodes, rather than growth firms (Hart et al. 2020).

Accepting that many firms grow, but that very few enjoy sustained periods of growth, ought to also have us thinking about the consequences of growth at least as much as the causes (Achtenhagen et al. 2010). Of course, failure to continue to grow may reflect external factors such as new competition, changing regulations, slumping demand, technology shocks and so on. However, the extent of the evidence on the episodic nature of firm growth suggests that explanations that rely upon external influences alone are unlikely to be particularly useful. Rather, it seems that something happens to the entrepreneur and within the firm, as they grow, that limits the likelihood of growing again. Rather than success breeding success, it is just as likely to breed failure (Zhou and van der Zwan 2019; Delmar et al., 2013) and more likely to lead to neither further success or failure.

This, of course, is not a new idea. The stage models of firm growth that enjoyed considerable prominence in the early entrepreneurship literature often explicitly recognised the organisational challenges that accompany growth (see Levie and Lichtenstein 2010 for a review). In one of the more popular examples, Greiner (1972) anticipates that the firms' initial growth will slow as inefficiencies become apparent with increasing scale and "founders find themselves burdened by unwanted managerial responsibilities" (p. 6). In a similar vein, Hambrick and Crozier (1985) identify underdeveloped systems and limited managerial acumen as characteristics of high growth firms that "stumble". However, in these accounts, not continuing to grow results from managerial missteps or a failure to rise to new challenges. Not growing is aberrant. Unfortunately, this normative perspective on growth is likely to bias research designs and leads to restricted theorising (Dutta and Thornhill 2008), leaving many of us "dazed and confused by the wild hype" surrounding high growth firms (Aldrich and Ruef 2018, p. 458) and not much wiser about why so few firms seem able to repeat past successes and sustain growth.

This, then, was our research question: Why do apparently good firms fail to sustain growth? Or, to ask the question differently, what happens to those firms or to the people running them that results in high growth occurring only once? Our initial reaction was to rush to the data! And, to this end, we were fortunate to negotiate access to linked survey and administrative data in both the UK and Canada. With these we can explore the relationships between past growth and future growth, conditional on changing firm strategies and structures and on the changing perspectives and aspirations of the owner-managers of these firms. Unfortunately, when we got to the data, we struggled to articulate good questions. The growth literature has inevitably, and perhaps reasonably, been largely concerned with causes and constraints. Not with consequences. While this literature, and especially the early work on stage-models, offered some guidance, our intuition was that the specification of 'good' hypotheses required richer data collected specifically for that purpose. What we wanted was a smaller number of case studies that represented good companies – companies that had enjoyed high growth in the past and had articulated a desire to grow further – that had been unable to sustain growth in line with the early ambitions of the founders. With the richer data that these case studies would provide, we hoped to begin to develop preliminary models that, in turn, could be articulated as hypotheses that were testable with the survey and administrative data that we had access to. It is this case study work that we report here.

We suspect that this is a rather unusual paper, at least insofar as it is concerned with only part of a research project. In line with calls for "the increased use of data collection methods that focus on what entrepreneurs actually do" (Mueller et al. 2012), we report the first stage of a mixed methods study into

the consequences of firm growth. This stage draws on archival and interview data from 6 case companies. In the next section, we introduce our cases, outline their selection and our naïve processes of data collection and analysis. In the following sections we explore patterns in the case study data that appear to inform our research question. We conclude with suggestions for future research and with reflections on the potential implications for policy and practice of a better understanding of growth consequences.

Finding 'good' firms that don't grow

What is a good firm? Of course, there are likely to be many reasonable answers to that question. For our current purposes, we consider a 'good firm' to be one that has enjoyed at least one period of high growth and that has continued to trade profitably for several years after the growth episode. These are not the MUPPETS[2] provocatively identified by Nightingale and Coad (2014). But neither are they – at least any longer – the gazelles or unicorns that dominate the entrepreneurship menagerie and distract from our understanding of everyday entrepreneurship (Aldrich and Ruef 2018).

Specifically, our purposeful sampling (Neergaard 2007) sought previously growth-oriented firms that had enjoyed mixed fortunes since their initial high growth episode but who, nonetheless, were profitable enterprises. We also required access to historical performance data and to some means of identifying prior goals and aspirations beyond simple retrospective reporting, given longstanding concerns over recall bias in research on entrepreneurial motivations (Cassar, 2007). This, clearly, was a tall order. Fortunately, through our professional networks we were aware of a group of firms who might meet our criteria. These firms had participated in a growth-oriented leadership development scheme offered by a university in the north of England in 2010 and 2011. Participants in the scheme had been part of a prior development programme, had previously enjoyed a period of high growth and had signalled, through their involvement in this subsequent programme, ambition for further business growth and development. Our sampling strategy was clearly both opportunistic and purposive. Some small effort has been made to disguise the companies[3], but the essence of each is set out in the vignettes below.

Case A: Safety First

Safety First was started by Ged Martin in late 2002. The company delivers electrical safety, fire safety and health and safety assessments and services to businesses throughout the UK. Having resigned from his previous employment, disillusioned with labour practices in a large unionised environment, Ged set up on his own, providing safety training "until I worked out what was next…[because]…bills still needed paying"[4]. The "business had trundled along for six or seven years, doing next to nothing with regards to turnover, and very little on the profit side". However, sales almost doubled between 2009 and 2010 and doubled again in 2011. The growth was largely driven by client acquisition; especially the acquisition of two major clients within a three-week period in 2010. As the data in Figure 1 show, this was followed by a rapid decline in performance before a recovery in 2016. At the time we interviewed Ged, the company directly employed 18 people, retaining the services of a further 45 freelance consultants, and had recorded sales of around £1m.

Case B: Food Services

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[2] marginal undersized poor performance enterprises
[3] We have changed the names of the individuals and the firms and, where sensible, relocated them in place and sector.
[4] Unless otherwise indicated, quotes are taken directly from the transcripts.

After a health scare forced Tom Johnson to retire from the police force in 1990, he joined the family food services business. The business entered insolvency in 2007. This was Tom's entrepreneurial moment, acquiring assets from the administrator and, "just with the bits that I wanted", starting over again. The new business consisted of a production facility and 3 retail sites. The first couple of years of the business were concerned with settling debts and rebuilding reputation "because one of the things you learn when you go into liquidation is no one wants to trade with you". Growth came in 2009-10 with a shift from fixed to mobile retail. As Tom explained, "retail is for me, but not through a shop. Because a shop's got leases and rents and rates and it's fixed and I can't move it". Sales reach £862,000 in 2011, up 32% from the previous year and more than double 2008 sales. Employment peaked at 37 employees. As figure 1 shows, this was followed by 2 years of stability and then 2 years of decline. At the time we interviewed Tom in 2019, sales had gradually recovered to 2011 levels, with 2018 sales of £875,000 and 33 employees. This gradual recovery was achieved with "more or less the same strategy. But what we've done is over the intervening period we've just got better at what we do".

Case C: PGS Ltd

Peter Gray started PGS in 1986 in partnership with his father. Peter had left school and was working for a large UK engineering company. His job was beginning to become a career when his father launched PGS. "Then my dad said, "I could really do with some help in the first couple of years. Can you?" you know, so I said, "Yeah. Okay. Sounds interesting". I'm still here". PGS provides power generation servicing for business and institutional clients. The early years were concerned with establishing the company: "…we just cracked on and everything the company made, we ploughed back into the business for quite a while. We didn't pay ourselves a lot for at least probably the first 10 years". The company grew gradually until the mid 2000s, moving to new premises and employing 35 people. Gradual growth had the company "running like a sewing machine…[meaning]…people at the top had spare capacity". It is at this point that rapid sales growth occurred, opening a second location in another part of the UK and expanding into equipment rental and sales. The company nearly doubled in size through 2011 and 2012 before contracting a little through the remainder of the decade (see Figure 1). This included refocusing on the core servicing business. At the time we interviewed Peter, the company had sales of £4.1m and employed 41 people.

Case D: Industrial Dairies

Rebecca Maier and her husband joined the family dairy business in 1989, injecting £80,000 to alleviate cashflow problems following an investment in new facilities. Initial growth came a year later, with the opportunity to shift from small scale farmhouse production, selling to a distributor, to production and packaging directly for a national retailer. Establishing themselves as a reliable supplier to large retail provided the platform for further growth. As Rebecca told the story: "when we took it over in 1989, it was turning over £250,000, and five people. Very soon went up to eight…and very soon grew to £400,000. And then with packing, it obviously just kept going, so by the end of the '90s, we were seven-and-a-half million, so that was just every year. Grow, grow, grow, grow, grow". The growth through the 1990s required larger premises and the company acquired a second production facility away from the farm. The move "doubled our overheads overnight, because you got two sites…and didn't double sales, so we had a few lean years". With slower sales growth in the first half of the 2000s, and a shifting customer focus from quality to cost putting pressure on margins, the company made two acquisitions to meet anticipated new demand from a large retailer. The company struggled for a number of years following the acquisition before "it all came

together for us in 2012-13". Steady growth followed over the next 5 or 6 years (figure 1). At the time we interviewed Rebecca, the company had posted sales of £14m and employed 99 people.

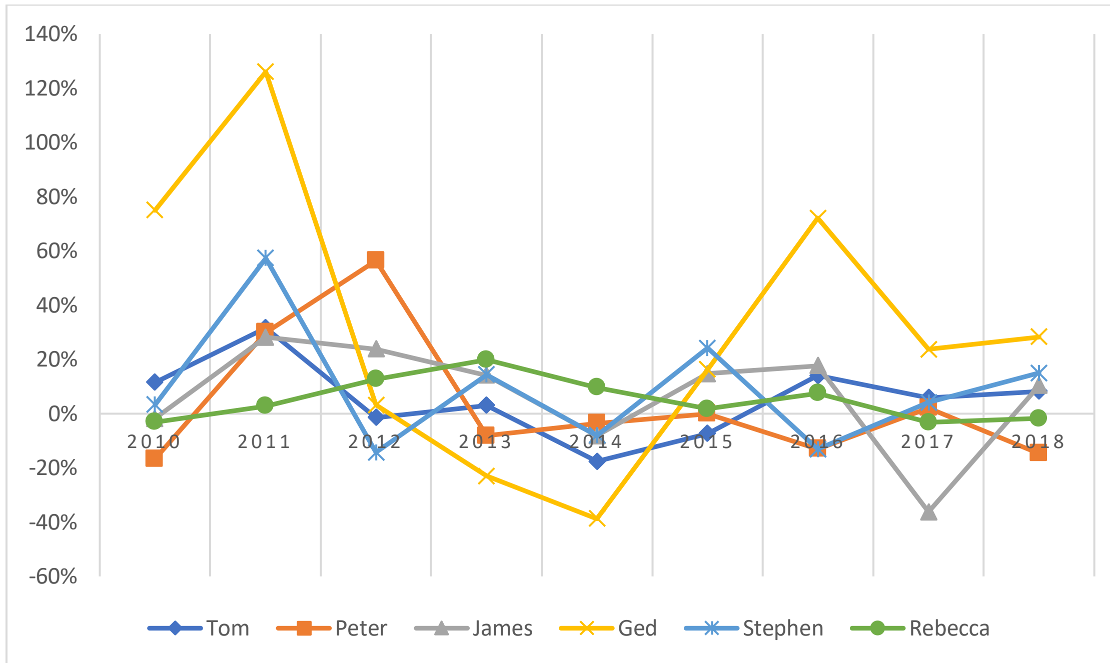
Case E: The People People

At 18 years old, James McDonald "bunked out of university", worked various jobs "but wanted to always have more". After spending 18 months working as a consultant for a recruitment agency, James concluded that "I don't like how this industry is and I can change it". In 1998, in partnership with his father, who had sold out of his own small business, and with a £30,000 overdraft facility, James launched The People People. The company's vision was "to change the way in which people recruit in the UK". Early growth was frenetic. Turnover was over one million pounds in the first year, over two million in the second year, and £4.5m by the end of year 3; changing premises twice through this time. This early growth was driven by sales, "…on the phone, out and about, in the car, putting thousands of miles on my Volkswagen Polo…Going out and winning new business". Following this initial success, the company's performance plateaued as James' focus waivered. However, as he reengaged and started to recruit his own staff "just to take some of the time from me", the company modified its business model and enjoyed several years of steady growth, acquiring "some great clients" and moving to "swanky offices". The 2008 financial crisis hit the company hard, with revenues dropping from £12m to £9m "pretty much overnight". Following this, the company diversified into training and 'outplacement' work. The next decade was marked by jumps and falls in revenue as large clients were acquired or lost. At the time we interviewed James, The People People had reported sales of £14m and employed 55 people.

Case F: Industrial Films

Stephen Bechelli left university in the late 1970s with a degree in geography. Determined to stay close to friends and family, he found work with a large US-owned industrial textiles company in his hometown. Stephen's father owned a small textile company "making work wear, boiler suits, chef's aprons, these types of things". Stephen had worked with the company during school holidays "earning and bit of pocket money" and, in 1980, joined the company full-time. The company had expanded into industrial textiles but, through the 1980s, "was bumping along a lot… doing very little". As Stephen recalled, "the company was not making regular profits, it was scraping along. The accounting? We knew last months figures six months after the year end". For Stephen, "this was my future". Shortly after Christmas 1991, Stephen convinced his father to retire and took over the company. The fortunes of the company improved and "through the 1990s we began to make a bit of profit and become regular". Growth was steady through the 2000s, with sales growth of over 20% in 2006 and 2007, taking turnover to £2.7m. This was driven by "taking the opportunities and trying to make the best out of opportunities when they arrive". These opportunities included some acquisitions and new ventures in Eastern Europe and the Canada. Following these moves, sales grew by 57% in 2011. However, these expansions met with mixed success and the remainder of the decade saw some ups and downs (Figure 1). Stephen was relaxed about this period, pointing out that much of this activity was about diversification, with the company pursuing both higher and lower risk projects. As he noted, "if you look at the history over the last six or seven years, we have reached a reasonable, I think it's a reasonable performance. But it never comes from the same place". At the time we interviewed Stephen, Industrial Films had recorded sales of £5.5m and employed 90 people.

Figure 1 Post growth growth rates



At this point, it is reasonable to note that these are not young companies. Neither are they located in fast-growing, dynamic industries. When we interviewed our entrepreneurs, all the companies were over 10 years old – some much older – and all were in what we might safely call 'traditional' industries. Given the common observation that high growth firms tend to be younger – the issue is age, not size (Moreno and Coad 2015; Nightingale and Coad 2014) – and the equally common, if generally inaccurate, assumption that high growth may be found most often in technology intensive sectors (Delmar et al. 2003)[5], this has clear implications for how well the patterns in our data may provide the foundation for models or propositions that are suitable for general testing. That is, how well our data allow us to make "analytical generalisations" (Yin 2003). We return to these issues at the end of the paper.

As noted in the introduction, our goal was the collection of rich case data to support the development of testable research propositions that might improve our understanding of the episodic nature of firm growth. Our cases are intended "to produce an invaluable but complex understanding…hopefully resulting in new learning about real-world behavior" (Yin 2012, pp. 142). Our case data comprise archival information collected during the case companies' participation in a university-based leadership development programme. This comprises a variety of document types, including development plan workbooks, third party observations of board meetings, and management accounts. In large part, this data was used to establish historical growth motivations. This is complemented by performance data from 2010-18 (represented in Figure 1), that records the variable performance of the companies following their programme participation. The larger part of the data presented in this paper comes from interviews conducted in the summer of 2019 and follow up emails over the subsequent several months.

[5] Delmar et al.'s (2003) "Super Absolute Growers" are found disproportionately in "knowledge intensive manufacturing industries" although, taken as a whole, the paper offers a much more nuanced perspective on firm growth.

Interviews began with a brief description of the project or, more precisely, with a brief statement of our interest in what happens in growth companies during and after growth. From there, entrepreneurs were simply asked to tell their story. To tell us about the genesis of their venture and its evolution. Questions and prompts were restricted to points of clarification and the occasional elaboration of an element of the story that seemed particularly revealing. We did not encounter the data unacquainted with the prior work on firm growth. This is not pure inductive research. Rather a reasonably strong grounding in the literature guided our search for patterns and, inevitably, shaped our interview prompts. However, in practice, we asked few questions and we are confident that the data was not contaminated by our prejudgment. The interviews were conducted by both authors, were recorded and transcribed. Each author, and a third scholar familiar with case study methodologies, independently read the interview transcripts with the goal of uncovering patterns related to growth and growing[6]. What follows is an account of the revealed patterns in our data.

Growth and growth intent

The first patterns that we identify concern the relationship between past growth and growth motivations. Certainly, the notion that growth motivation (or intent or expectation) is a key antecedent to growing is firmly established in the literature (Hermans et al. 2015). However, there is some tension between the "implicit assumption" that "motivation remains relatively stable over time" (Delmar and Wiklund 2008, p. 439) and "a received consensus in the literature that immutable intentions are unlikely" (Dutta and Thornhill 2008, p. 311). The former leads to conclusions concerning the reinforcing nature of success, with past successes magnifying the influence of motivation on future performance[7]. The latter, in contrast, presents growth motivations as changing over time, with this dynamic more than a simple increasing function of past performance (Achtenhagen et al. 2010).

Changing motivations were clearly evident in our cases. Tom's observation that "I certainly had a time when my mojo was completely gone, and it just felt like we got three steps forward and we go four back. But I think a lot of businesses are like that" is illustrative of this changeability. Here, our goal is to go beyond correlations between past and present motivations or performance, or studies on the influence of the *anticipated* consequences of growth on motivation (e.g. Wiklund et al. 2003) to uncover the micro-foundations of changing motivations resulting from lived experiences with growth (Wright and Stigliani 2013).

To this end, our data suggest two clear themes: 1. Income satisfaction, and 2. Growing pains. These are, respectively, the ideas that entrepreneurs are income satisficers, rather than maximizers, and that firm growth, especially early growth, is not simply hard to achieve, but is physically, emotionally, and socially challenging. The first of these, the notion that there is a curvilinear relationship between income and motivation, is likely be familiar to undergraduate economics students studying the countervailing substitution and income effects of rising wages. It also accords with longstanding evidence in the literature that income is rarely the most important variable explaining growth motivations (Wiklund et al. 2003) and that "the prospect of making more money is not enough to motivate further growth in most cases" (Davidsson 1989, p. 223). As Stephen insisted, "money was not the driver, and I think to me that's an important thing. Money is not a big driver". Of course, making money is not a trivial concern. As Peter

[6] Sample coding sheets are available on request.

[7] Delmar and Wiklund (2008, p. 449), for instance, find evidence for the "temporal stability of growth motivation" in bivariate correlations between past and current motivation of 0.27 and 0.39 for employment and sales motivations, respectively.

noted, “Yeah. I mean, I want to make money. I enjoy the actual process of making money”. Importantly, however, making money was not seen as an end in itself. Rather, as Ged explained, “I'm not bothered about money particularly, but I think money is, it's an ideal ruler. In any business, it's looking at, it's a measuring competition. And the further up that ruler you get with money, potentially the better you're doing”.

The idea of money as a “ruler” is consistent with an aspiration-level explanation for growth that draws on core ideas from behavioral theories of the firm (Greve 2008)[8]. In behavioural theories, managers form aspiration levels through social comparisons with similar organisations. Faced with uncertainty, comparable firms represent relevant information about what other managers believe to be the appropriate firm size. When firm performance falls below the aspiration level, firms initiate “problemistic” search for ways to improve outcomes (Cyert and March 1963). The further below its aspiration levels a firm finds itself, the more willing it will be to take risks to improve performance. In contrast, while not actively seeking to shrink, managers of organisations operating above initial aspirations levels are less willing to take risks and will only pursue additional growth where profitability can be maintained. In this way, as Greve (2008, p. 488-9) observes, an “aspiration-level explanation for organizational growth is parsimonious to the point of seeming simplistic: managers seek growth when they believe that their organization is too small”. The issue of social comparisons driving aspiration levels around income and, through this, firm size, was nicely illustrated by James reflecting on his reengagement with his business after the first growth episode: “And then I suppose my life started to change as well, we moved house, we moved to a better area. We started having kids that went to private school. And I actually think that had a big impact on me because I started mixing and seeing people that had a lot more than I had. And I wanted that too, and I started enjoying this lifestyle and wanting more”. The initial successes of The People People had afforded James a comfortable lifestyle but, as his society changed, his social reference points changed, and his aspiration levels adjusted upwards.

Behavioural theories of the firm tell us that managers are fundamentally satisficing individuals. Boundedly rational, they don’t maximize. They satisfice. What is considered “satisfactory” is a function of aspiration level, which, in turn, is set through an iterative process of social comparison (e.g. within ones industry, with ones peers, with ones prior circumstances, etc.) (Gavetti et al. 2012). In a similar way, past research has pointed to entrepreneurial choices as influenced by social desirability; of the perceived status of entrepreneurs (Giannetti and Simonov 2004). In our cases, this is exemplified by Ged’s determination to “show people that I'm really not just a dummy, I'm actually somebody who knows what they're doing and is good at it”. It is also clear that decision makers pursue multiple goals, and that these goals may trade off against each other, with the pursuit of one goal attenuating aspiration levels for other goals (Greve 2008). Davidsson (1991) summarises the issues well. Distinguishing between perceived *Need*, *Ability*, and *Opportunity* antecedents to growth motivation he concludes that “Need-related issues appear more important than Ability and Opportunity (which would mean that satiation is the major reason why small firms stop growing)” (pp. 405-6). Exhibit A presents further case data that we believe illustrate the role of satisficing in changing growth motivation.

Exhibit A: Satisfaction	
Peter	It's [the business] made me a lot of money. I've got a nice house. I've got money in the bank. I've got nice holidays, et cetera, et cetera, and I now own the whole company, but what am I going to do with it? Am I going to flog myself now to make more money? That's fine, but I'm asking myself, "What

[8] We are grateful to Daniel Waeger for nudging us in this direction.

	am I going to do with that money?" Because one of the things I was frustrated and disappointed with when I look back at my father's life for us, when he died, he was 68. He kept saying he would do these cruises and holidays and adventures soon, later. Not just yet, and they ended up not doing any of them.
Stephen	Yes, yes, what comes next? That's the best way to put it. I think I'm happy working, I like it, but also now like my three-day weekends, and have 10 weeks holiday a year. So, I'm pretty happy, but I like being in work, and work is a very serious game and I want to play it.
James	Okay, so we get to about four and a half, five million, and I'm driving quite a nice car at the time. Things are going quite well, moved to a new house. Yeah, I remember saying to people, this is just great. And so, I don't know if it was a dip but more of a plateau.
Rebecca	Fundamentally, I didn't want to change my life. I was happy with living there. I was happy to create.
Ged	So, to get that kind of money anywhere else will take a lifetime of hard work within your profession to get there. So, if you're sat at 100 grand, 75 grand, take-home pay, that's cracking money.

The second factor that appears to bear upon changing growth motivations is how difficult the experience of growing was. When researchers note that "growth is hard", they typically mean that "growth is hard to achieve", reflecting on the apparent rarity of growth (Nightingale and Coad 2016). However, as Penrose (1959) insisted, growth is not simply about a change in size. Rather, growth, as a process of internal development, is accompanied by a variety of managerial challenges. These are explicit in the organizational lifecycle literature (e.g. Lewis and Churchill 1983; Hambrick and Crozier 1985; Greiner 1989), where they are presented as problems that must be overcome to enable the firm to transition to the next stage in the lifecycle. We discuss some of the organisational and strategic responses to these challenges in the next section. Here, however, our interest is in the extent to which these challenges alter motivations (Garnsey and Heffernan 2005).

Simply put, "growth creates problems" (Garnsey et al. 2006, p. 13). Ged captures this well: "What you've got to be careful of is growth creates lots of change. Growth only means that our job gets harder, more difficult, more complex, whatever, so why...How do they buy into all of that?". Growth brings about two kinds of challenges: The first is "an atmosphere of frenzy" (Hambrick and Crozier 1985, p. 35) that subjects decision-makers to the kinds of time compression diseconomies identified by Dierickx and Cool (1989) and discussed elsewhere in the entrepreneurship literature (e.g. Steffens et al. 2009; Koryak et al. 2018). The second is that the firm is suddenly bigger, "without any aptitude or preparation for being big" (Hambrick and Crozier 1985, p. 35). Intriguingly, the literature suggests that entrepreneurs often anticipate the negative effects of some of these challenges. For instance, past work reflecting on the influence of entrepreneurs' *expectations* of growth challenges on growth motivation, notes that "fear of reduced control and employee-wellbeing stand out as the most powerful growth deterrents" (Davidsson 1989, p. 219; see also Wiklund et al. 2003) and may help explain the rarity of "continued entrepreneurship" (Davidsson 1991). In our case data, growth's impact on employee well-being is powerfully illustrated by Peter's observation:

> "I think growth is exciting and I think it's great for the people at the top who are driving growth. What you've got to be careful of is it creates lots of change. And a lot of people don't like it. When you're doing this growth, you're on a curve and you've been thinking about it

for such a long time and planning it, and when it's being executed, you're right on the front of the curve. All these other people, they're way back here, they don't know what's coming. They sort of, you're hitting them with a tidal wave of change and they just...You need to prepare for that. You've got to sort of get them ready for it. Some people just aren't ready for it or don't want it or don't see what they get out of it."

When the excitement fades for the 'people at the top', "new procedures are experienced as constraints [and] motivation and commitment decline" (Garnsey and Heffernan 2005, p. 687). Fast growing companies are under considerable strain as social organisations (Hambrick and Crozier 1985). New employees are hired who are unfamiliar with each other and with the firm. The "tidal wave of change" identified by Peter affects morale and staff burnout and turnover may be high as "people came and went and we had all sorts of challenges" (Peter). The number of decisions that must be made, and the information required for decision making, grows rapidly. Entrepreneurs find themselves wearing many hats (Mathias and Williams 2018) and the quality of decision making declines (Hambrick and Crozier 1985). As Stephen reflected, "I was doing all that, if I wasn't doing that nobody else in here has a network of external contacts like I do…it's getting more difficult and if I leave things, things don't get done". For our entrepreneurs, "there was an incredible amount of hard, physical effort went into getting this right. And then perfecting the model is overstating it but trying to keep the model together and working so that it could deliver growth and profit" (Ged). As Tom concluded "It's a scary place to go, and…it's kind of like, do I really want to do that again?". Exhibit B provides additional quotes from our interview data that exemplify how difficult the experience of growing was for our entrepreneurs.

Exhibit B: Growing is Hard	
Peter	So therefore, [growth] it's hard work. Somebody like me who's managing a team of people as you go through that change, it's very, very hard work to sort of bring this team of people along with you on this journey. Because some of them, kicking and screaming, don't want to come and some of them are all for it.
Tom	The problem with it, it's not every small business but my observation is that you get a business to a particular size, there's some real big questions then about where do you go now? What's next? Stay this size, because if you stay at this size you can manage it. If I want to go beyond that, where do I get the capital? Who the hell is going to run it with me? It's a scary place to go, and if you've been through liquidation like I have it's kind of like, do I really want to do that again? That was a psychologically limiting factor. No, I do not want to go and raise a million quid or more because the industry I'm in is very capital intensive.
James	I'd had nine months of serious, I only really realized it now, of serious anxiety. Of waking up in the middle of the night, hot sweats, heart racing. The only way I could get sleep was to put the discovery channel on and watch *How It's Made*.
Rebecca	We literally had the village on the packing line, and at the end of 48 hours, we were quite ill, really, because if you work 48 hours non-stop, you're quite dead. So, we were a bit wobbly, and shaky. You know, we'd been keeping feeding the staff, but yeah, it was really hard.

Ged	So then you've got this quite quick growth, that went from two and a half folks in an office, to now we need eight, and how to scale that up and how to manage it when you've never done it before. It's really hard.

Taken together, income satisfaction and vivid memories of the challenges associated with rapid growth had a powerful effect on our entrepreneurs' desires for future growth. This is not to suggest that the entrepreneurs became anti-growth. Rather, our entrepreneurs still "enjoy growing the business" (Peter). But, having experienced both rapid growth and poorer performance, they are now focused on "trying to build something which is sustainable" (Ged). Recognising that what may be good for growth, may not be good for profitability (Nason and Wiklund, 2015), our entrepreneurs began to reflect more carefully on the reasons for growing. Peter captures this well: "Everybody says growth is a wonderful thing, but I'm not here for growth. I'm here for profit, and that's not the same. I'm looking for profitability. If growth doesn't give me that, then I don't see the point in doing it". While early growth was "exciting", it was also sobering.

Changing skills and strategies

While income and experience had made our entrepreneurs more cautious about growth, they were still ambitious. However, the extent to which ambition is translated into business development is affected both by the complexity of growth and by the entrepreneur's "degree of volitional control" (Delmar and Wiklund 2008, p. 439). That is, by their ability to identify opportunities and to structure their organisations and develop suitable strategies. In this regard, several patterns were apparent in our data.

The first of these patterns concerned the centrality of the entrepreneur to the initial high growth episode. This is a frequent observation, with the size and simplicity of the firm allowing the entrepreneur to take centre stage (Mueller et al. 2012). However, while the entrepreneur is often characterised as 'wearing many hats' (Mathias and Williams 2018), it was the entrepreneur's "discovery abilities" (Steffens et al. 2009) that were evident in our cases. As Stephen recalls "a lot of it's putting yourself about to get opportunities and then taking the opportunities when they arise…That's it, it's taking the opportunities and trying to make the best out of opportunities when they arrive…So, I was doing all that". Initial growth was sales driven, with the entrepreneur driving that process. It was James "…on the phone, out and about, in the car…Going out and winning new business". It was Ged "playing to my strengths, which were talking to people". It was Rebecca's belief that "that's what a company needs. It needs sales".

However, as sales grew, weaknesses in systems were revealed. Ged offers a particularly egregious example: "we found one day, by accident, there was an excess of £50,000 not billed out…We got paid and everything. But, to this day, I know we will not have billed everything, we won't have found it all because we just weren't set up right". As Peter observed, "all this growth needed extra resources to actually process all the paperwork and to pack and ship all the goods that were coming in and going out of business. The margins were just evaporating with all the extra overheads that we were needing". The inadequacy of existing systems and the challenges of introducing new systems while growing, is a familiar theme in the growth lifecycle literature (e.g. Lewis and Churchill 1983; Greiner 1989). Exhibit C provides further examples of the systems challenges faced by our case firms as they experienced growth.

The experiences of our entrepreneurs are consistent with the notion of a "curse of fast growth" (Zhou and van der Zwan 2019); with rapid growth leading to a variety of "internal challenges and difficulties that reduce or eliminate the benefits of growth" (Senderovitz et al. 2015, p. 394). Small firms that quickly become bigger "must modify their organisational arrangements" (Hambrick and Crozier 1985, p. 37) and

develop formal systems in areas of planning and control, and in recruitment and compensation for their expanding workforce.

Exhibit C: Failing Systems	
Rebecca	You keep going back and you actually find holistically you've got at root cause, you've not planned, your staff aren't trained, you've got some fundamentals wrong with your systems and procedures and structure that are actually causing all these knock-on effects which are manifesting themselves in bad luck.
Ged	The ugly side in my eyes was the process. Didn't like process. I've never liked process, and probably a part of it's because I didn't understand it too well. We shy away from stuff we don't understand, don't we? So, as the growth went on, the lack of process was highlighted.
Peter	The bank came and they said, "Right." This is like day one. All the money's gone. Right? And then the bank said, "Right, we need your cash flows." Well, I've never done a cash flow before. Never needed to. What's a cashflow? So of course, start doing these cash flows and they are all projections now, things in the air, that sort of stuff. It's like, "All right, okay," but as the months and quarters rolled by, it really hit me. I need a cashflow, because I need to know where the bloody money's coming from, and I've never had to have this before. All of a sudden it's like, "We've got to get some invoices out this month, because in two months' time I need that money to pay this".
James	I remember saying to Gerry, why the hell are we keeping all this data, us recording all this data? And he'd say, I don't really know yet, but we will know why one day. He said because if you haven't got it, you can't interrogate it, you can't look at it
Tom	I think it's quite a natural reaction when you're under cash pressure, when you're under pressure, when it's going wrong, you're looking for the quick, easy fix.

However, in all our cases, a shifting focus towards systems appeared relatively straightforward. Our entrepreneurs were able to recognise the importance of replacing “first-hand direct” activities with managerial ones (Mueller et al. 2012, p. 999). As Ged noted, “you're getting processes and systems in place better. You're making sure that Ged Martin doesn't run through the middle of the business. So, you're trying to remove yourself whilst making sure that growth still happens”. Volery et al. (2015, p. 117) observe that since “entrepreneurs are doers…unsurprisingly exploitation appears to be the default activity for all of them”. This may overstate the case. But a changing emphasis from discovery to exploitation – from sales to systems, from entrepreneurship to management – presaged changing firm performance in our cases. Mathias and Williams (2018, p. 262) contend that, as firms grow, entrepreneurs must wear fewer hats; they must make decisions about “which roles to give up, which roles to retain, and which new roles to adopt”. In our cases, this was, at heart, a decision about the entrepreneurs’ relative emphases on discovery – or exploration – and exploitation (Steffens et al. 2009).

The notion, and importance, of ambidexterity is entrenched in the strategy literature. This is the idea that firms must “engage in sufficient exploitation to ensure its current viability and, at the same time, to devote enough energy to exploration to ensure its future viability” (Levinthal and March 1993, p. 105). Steffens et al. (2009) suggest that an emphasis on discovery alone may allow the firm to generate short-lived

growth that is difficult to sustain. This may be manifest in more variable performance, with bursts of high growth followed by periods of poor performance in the absence of an effective exploitation capability. In contrast, a focus on exploitation is likely to lead to more stable performance and profitability but is unlikely to result in sustained high growth. Ambidexterity, then, is key to persistent growth. However, behaving ambidextrously requires entrepreneurs to "manage contradictions and competing goals, engage in paradoxical thinking and fulfill multiple roles" (Raisch et al. 2009, p. 687). Unsurprisingly, entrepreneurs appear more likely to emphasize *either* exploitation or exploration (Volery et al. 2015), deciding to devote more and less time to these two competing activities.

In our cases, Peter, Rebecca, Tom and Stephen embraced a systems and efficiency focus as their business grew. Ged and James continued to play to their strengths in product development and sales. All, implicitly, recognised the importance of ambidexterity or, at least, recognised the changing skills that their growing companies required. For instance, Peter reflected that "I realized when we're at that point that the team that had got me from there to there was not a team that could do it again, take me from there to there. They didn't have the skills to do that". In a similar vein Ged recalled that "I didn't recruit properly because my initial recruitment was to help me to get to 150 grand turnover. Okay? But very quickly, and I can't remember exactly, we got the numbers up to £650,000 turnover. So, the people I'd recruited at that level weren't really capable of getting me sustainably to this level and being good, but I didn't sack them and look for more, because you stick with folks. I was managing folks that weren't right for the job and I was trying to make them fit". The development of complementary managerial skills as firms grow is central to Penrose's (1959) theorising. Simply put, growing firms need to hire and develop a management cadre that offers complementary capabilities to support and expand the scale and scope of firm's operations (Coad et al. 2014). The need to hire new, complementary management resource was recognised by all our entrepreneurs. The urgency to wear fewer hats was nicely captured by James' recollection that "I wanted people that I could grow, I could develop…We were doing four and a half million, we were growing. I couldn't do anymore, didn't have the time to do it".

As our entrepreneurs devoted more time to exploitation or recognised the increasing need for better exploitation, they set out to hire explorers or exploiters, respectively. Four of our entrepreneurs reduced their focus on entrepreneurial behaviours – on opportunity seeking – to focus on managerial tasks, such as improving systems and processes, prioritising profitability over sales. These individuals tried to hire people with entrepreneurial skills to fill the gaps their changing attentions had left behind. Two of our entrepreneurs continued to focus on opportunities. In these cases, the goal was to hire people with managerial skills, to ensure that systems and processes kept pace with growing sales. Regardless of whether they were trying to hire entrepreneurs or managers, explorers or exploiters, our entrepreneurs experienced mixed success. James reflections on a former senior hire are illustrative:

> "Gerry was very well respected, very capable individual. And was much better than I was at making things happen, almost in a way. I was still good at the ideas, but Gerry did things. The data that he created was fantastic, the metrics that we had in our business, to measure our business, which we've still got now…So made Gerry MD, which he did for at least two or three years I think. And the business continued to grow all the time during Gerry's tenure. In fact, when I got rid of Gerry, he was absolutely shocked because it was just at the time when things were going quite well" (see also Exhibit D).

Exhibit D: Hiring Challenges	
James	But I got rid of Gerry because of a huge cultural change within the business. He was running the business very differently than I would. And he went

	away on a skiing holiday, and all the senior team, of which there were four or five senior managers, four out of the five of them, male and female, were in tears saying that they can't continue doing what they're doing at the moment for Gerry.
Rebecca	I'm not saying she wouldn't have got us out of those problems. She would have, I'm pretty sure. She was an absolute whiz, but I wasn't good enough to work alongside her, and represent...It wasn't a good team. Could have been. We had compatible skillsets, but it wasn't a good team, really. I don't know why. I believe it was my lack of ability to appreciate her skills at the time.
Tom	I employed a guy for two years and he drove me mad, he was really not good enough to do the job. But he came from [a large retailer], but he taught me one thing and I'll be eternally grateful to him. I just was obsessed with wastage, gross margin, and I had completely lost sight of if you're not in the van you can't sell it. So he made me stop and he said, "you do realize you're actually killing yourself because you're trying to control the wastage so much we have nothing to sell".
Peter	We have tried some high calibre people. We've brought some high calibre people into the business, so-called, lots of experience, earn a lot of money, promise a lot of deliverables, and when they get here, they can't do it.
Ged	I did try and bring somebody in who was more senior and more knowledgeable. And he wasn't right for small business. So, I used the recession to get rid of him.
Stephen	What happened in the Canada was I hired somebody who actually a friend to run the business, and I put a friend in charge of the business who had run a business and had been quite successful. I hadn't really fully understood why he was successful, and what was going on, and how get got into the circumstances, because everybody doesn't always tell you the whole truth. I realized after a while it wasn't going to work because he couldn't do the right things. He didn't understand the business well enough, and I couldn't control it well enough, because where they were...You know, it's five-hour time difference, it's a long flight, not easy to get to. We did a lot of good work, they made profit one year, but then lost a lot of money.

These missteps in hiring appear to be driven by two factors. The first of these was the reluctance of our entrepreneurs to fully give up former roles. Where entrepreneurs' former roles become role identities "this can create friction between who entrepreneurs are and who their ventures need them to be" (Mathias and Williams 2018, p. 264). Rebecca acknowledged this challenge:

> "The technical manager couldn't be a technical director because I was there as a technical director, so he didn't have any power. I didn't know how to empower him. The marketing man couldn't have his own say because, again, I was there saying "No, you can't say £19.32. It's £19.69."…And I was going that direction, this other man was going that direction. And he wasn't empowered, so he wasn't successful."

Another pattern in our cases was the adhocracy of hiring, especially for senior hires. What little research that exists around hiring patterns in growth firms suggests that successful firms "dedicate extraordinary attention" to recruiting and developing managers (Hambrick and Crozier 1985, p. 40). More recent work,

points to the "profound effects" of staffing and human resource management on growing firms' performance (Senderovitz et al. 2015, p. 398). Yet, in our cases, hiring processes for key individuals were often informal and unplanned. When discussing a senior hire, Ged explained that "I tripped over somebody again". This was echoed in Tom's description of a senior employee as "a fabulous guy" and the hiring process as "again, that was just serendipity". Key hires often came from close social or business networks, with issues of trustworthiness and loyalty looming larger than formal assessments of competence. Of course, these informal processes also led to good hiring outcomes. However, bad hiring outcomes appeared more common, leading our entrepreneurs to a preference for, as Stephen explained, "developing talent, not hiring people who are experienced". Inevitably this has implications for growth. On the one hand, Penrose (1959) recognised that there is not an external market for managers with internal knowledge and experience, and positioned internally developed expertise as critical to growth. On the other hand, rapid growth puts a strain on internal management development as prospective managers struggle to train and acclimatize new employees and become distracted from operational concerns (Coad et al. 2019). Moreover, expertise that is developed wholly internally is unlikely to lead to a management team of "individuals with extensive human capital and industry experience but with diverging mental models" (Coad et al. 2014, p. 297), that past works has suggested high growth firms should "strive" for. Top Management Team (TMT) heterogeneity is frequently positioned as critical to widening the "attentional set of the organisation" and enhancing ambidexterity (Koryak et al. 2018, p. 415).

Given this evidence, it would be tempting to echo the lament that static perspectives on human capital have dominated the growth literature (Demir et al. 2017). However, we prefer to emphasise that a dynamic perspective rests on understanding changing human resource requirements as a consequence of growth. Before the firm grows, systems and processes are relatively simple, and entrepreneurs may comfortably wear many hats. Tom captures the stereotype of the entrepreneur as generalist well:

> "An SME owner knows about all sorts of stuff because they've just got to. They may not be an expert in it, but my God most SME owners can probably tell a lawyer something about employment law that they don't know if they're not an employment lawyer because they don't have the niche. They've got this wide, huge, and they've got to be really creative in their thinking and they've got to learn themselves because nobody else is going to do it for them".

However, as the firm grows it becomes more complex and specialist skills are required. It is growth that triggers the consideration of "which hats to keep wearing, which to remove and which new hats to adopt" (Mathias and Williams 2018, p. 263). The decisions made at this point, and the processes enacted to support those decisions, bear heavily on the subsequent performance of the firm. In concert with changing motivations, the unwillingness or inability of our entrepreneurs to resolve the ambidexterity conundrum explained their inability to sustain or repeat rapid growth.

Concluding remarks

Our point of departure was an increasingly familiar frustration with the literature on High Growth Firms (HGFs) and its influence on policy (cf. Shane 2009; Mason and Brown 2011; 2013). As Moreno and Coad (2015, p. 220) observe "findings of low persistence should be ringing alarm bells among policy makers and researchers" (p. 220). It is clear, not only that sustained growth is incredibly rare but, equally, that many more firms than are commonly thought enjoy a period of high growth. The rather arbitrary OECD definition of high growth, which rests on a 3 year window, ignores the reality of growth in smaller firms

(Hart et al. 2020). In this light, Hart and colleagues' (2020, p. 17) contention that "there's no such thing as a High Growth Firm…only firms that have high-growth episodes" is compelling.

Following this, we believe that the episodic nature of firm growth calls for greater attention to growth consequences, to counterbalance the legion of studies of growth causes; the latter invariably characterised by low explanatory and predictive power (Wright et al. 2015). In this, we echo Eshima and Anderson (2017, p. 777) that "a fruitful approach to building an integrative model of firm growth is to consider growth's proximal consequences in smaller, more manageable studies". In part, we hope that this will help stimulate discussions about 'how much' growth firms ought to pursue (Demir et al. 2017). While studies occasionally observe that growth "is not always good news for a firm" (Steffens et al. 2009, p. 126), a normative perspective prevails. Beyond this, our cases strongly suggest that it may be growing rapidly that lays the foundations for not growing rapidly again, at least in some firms, or for some entrepreneurs.

Here the distinction between firms and entrepreneurs is not insignificant. Our richer data is largely drawn directly from our entrepreneurs. It is their changing perspectives, their recollections and their decisions that are the consequences of their experiences of rapid growth. It is these that bear on motivations and actions following growth. In this, we respond to Wright and Stigliani's (2013, p. 4) "call for a shift in emphasis beyond the firm to include the entrepreneur level. Such a shift is particularly important, since entrepreneurial firms do not make decisions about growth – entrepreneurs do".

More specifically, our goal was to develop propositions about growth consequences that might help shed light on why sustained growth was quite so rare. We wanted to be able to ask better questions of the sophisticated large-scale datasets that are increasingly available to researchers. Our cases do not permit statistical generalisations, but we believe that the varied experiences of our entrepreneurs reveal common patterns that might form the basis of analytical generalisations. And that these, in turn, may be practically framed as hypotheses.

To this end, the patterns regarding growth motivations appear easiest to interpret. Entrepreneurs' growth motivations are moderated by increasing income. We anticipate that the relationship between income and growth motivation will exhibit initially increasing returns, followed by diminishing returns. The point of inflection on this curve is likely to be a function of aspiration levels. Aspiration levels will be set through an iterative process of social referencing and by entrepreneurial opportunity costs (Cassar 2007). They may be adjusted upward (as in the case of James), however motivations that rest on aspiration levels are not likely to be amenable to manipulation through simple policy interventions. And we are not convinced that this would de desirable, even were it possible.

We also propose that growth motivations will be moderated by the extent of 'growing pains'. The more difficult the initial experience of high growth – physically, socially, emotionally – the less likely entrepreneurs are to seek to repeat it. Of course, changing motivations resulting from growing pains may be more tractable. Where these 'pains' are related to systems failures or human resources, as was most common in our cases, it ought not to be beyond the capabilities of the various 'policy' actors to devise interventions that better prepare entrepreneurs for these challenges.

The issue of human resource management is likely to be vital both to managing growing pains and to positioning the firm for future success. For instance, hidden away in a footnote, Brown et al. (2017, p. 436) note that "a recent survey of HGFs found that 74% of HGFs ranked access to talent as one of their top three growth constraints…this would suggest that a key growth bottleneck for HGFs is effective

recruitment and talent management". These challenges were strongly evident in our cases. As growing increased complexity, widening the managerial attention set required (Koryak et al. 2018), our entrepreneurs attempted to hire complementary skills. The implicit goal was ambidexterity. Those who had begun to focus on exploitation tasks tried to hire explorers. Those who continued to focus on exploration and discovery tried to hire exploiters. Inadequate hiring processes and an unwillingness to relinquish control resulted in failure more often than success. In consequence, our exploitation-focused entrepreneurs enjoyed steady, if unspectacular performance, while our exploration-focused entrepreneurs experienced more variable performance, punctuating bursts of high performance with periods of poor performance. Following this, we propose that, in the absence of considered human resource planning and a willingness to delegate, 'good' firms are unlikely to build capable and ambidextrous Top Management Teams and, as a result, unlikely to sustain or repeat high growth.

Here again, it may be possible to design interventions that ameliorate these challenges. For instance, as Davidsson (1989) noted over 30 years ago, "a major issue may be how to teach entrepreneurs to delegate responsibility and detach themselves from routine tasks – and be happy with it". It is not clear to us that much has changed over those 30 years. Our *new venture creation* or *strategic entrepreneurship* courses (and their policy equivalents) continue to be dominated by discussions of innovation, opportunity recognition, venture capital, and the like, with almost no consideration of broader issues of human resource management.

A final, supplementary, implication flowing from our data is that 'good' companies are much more commonplace than the literature on HGFs or gazelles would have us believe. Our case companies are good companies, providing good jobs. That they have not continued their early rapid growth does not diminish their 'goodness' and is not inevitably a result of bad decisions or the "cynical and unfair view that holds that the early managers are inherently unsuited to the demands of a larger firm" (Hambrick and Crozier 1985, p. 37). Our entrepreneurs' satiation (Davidsson 1991) has meant that they are more cautious risk takers, as anticipated by an aspiration-level theory of firm growth (Greve 2008). They continue to pursue opportunities, but on their terms and with improved profits rather than sales or employment as the goal. Given the "the extraordinary force of mortality" in the small business sector (Anyadike-Danes and Hart 2018, p. 46), their ability to survive and, by and large, thrive is as much evidence of "continued entrepreneurship" as consecutive periods of high growth (Davidsson 1991).

We close with some obvious limitations. This study rests on a small number of cases, purposively sampled. Our cases are older (both the entrepreneurs and their firms) and in traditional sectors. They are also located in the north of England, with all that entails[9]. It may be that different patterns will be evident among younger entrepreneurs, leading younger firms, competing in more dynamic knowledge- and technology-intensive sectors, surrounded by other technology entrepreneurs[10]. This is an open empirical question. It is, of course, not our intention to suggest that the patterns we observe can be easily generalised to the population of smaller firms. While our intuition is that many of these patterns will hold or be shaped in fairly predictable ways by things like initial motivation (e.g. growing to sell is likely to be experienced differently from growing to keep), our goal was to nudge growth conversations towards a consideration of consequences and to help us ask better questions.

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[9] As fellow Northerners, we particularly enjoyed Peter's observation that "Yeah. I'm saying, Well, again because I'm a northerner, when I pop me clogs, I want there to be no money left. I want to have spent it all".

[10] We are grateful to Nicole Coviello for reminding us of the importance of this possibility.

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