

# How does high growth look like in theory and practice? Netnographic study

Entrepreneurship  
Master's thesis  
Atte Hujanen  
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Department of Management Studies  
Aalto University  
School of Business

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### Abstract

This study seeks to provide an overview to the theory of high firm growth and how it is perceived by the practitioners of the venture capital industry, whose sole job it is to seek out and nurture future high growing companies. The area of growth and high growth literature is vast and mature in quality, but there is little in unifying theory that would bridge together different schools of the field. In this study I've seek to put together a review of the basis of the literature and extend it towards the current high growth discussion by developing a framework that can be used to analyze different variables of the process. Past literature has shown that the discoveries regarding firm growth is as highly heterogeneous as the research discussion itself, but through the review a similar framework of growth variables can be seen emerging. Various authors have codified it differently, but the unifying factors were the entrepreneur, the firm and the strategy work that steered the firm.

Earlier research also identified parts of the entrepreneurial process that weren't easy to quantify and defied categorization. Such concepts are present from all the way from Penrose's seminal 1959 work on firm theory and the very same abstract dimension of entrepreneurship continues to baffle researchers and complicate studies all the way to the studies published still almost 60 years later. True to their nature, most scholars either disregarded this part of the phenomena or give it very little attention, and rightfully so, as it is a fuzzy concept to begin with. Even the professionals of the field struggle in describing the exact the nature or value of it. Building from the literature review, a theoretical framework was built to explore the four determinants of high growth; entrepreneur, the firm, strategy and managerial process. Most of what the past literature had identified proved to still hold true in the 2016 Silicon Valley context, but nuanced bias towards even greater growth orientation, competitive advantage seeking and outside capital exploitation was found in all of the observed blogs.

Despite of the vast amount of literature regarding firm and growth theory, it is my opinion that especially empirical and ethnography based studies are called for to shed more light to the way in which the field and phenomena is evolving throughout time as we're moving towards a more fragmented and complex world where firms are no longer dived in to import and export or into manufacture and services. We're entering a world where some of largest and most valuable companies in an industry don't look anything like the largest and most valuable company in that same industry only five to ten years ago. If the companies are evolving with this pace, shouldn't the literature at least try to keep up in reactive fashion? This study sought to prove that for a proactive approach, a more widespread application of netnography might offer a solution.

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**Keywords** growth, firm, startup, blog, venture capital, netnography

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## 1 INTRODUCTION

It has been said that “Science is wonderfully equipped to answer the question ‘How?’, but it gets terribly confused when you ask the question ‘Why?’.” by Erwin Chargaff and that has come to be the basis of this study, to map out both the theoretical and applied landscape of high growth to see if one can shed light to both questions. Firm growth as a phenomenon is one of the most studied areas in the area of firm related literature, but when it comes to high growth firms the question starts morph on the side ‘Why?’ as the high growers are more of an exception rather than the rule. The truly breakout high growth companies are outliers. The study of such companies is a challenge of itself because trying to quantify such ‘Black Swans’ is paradoxical to a certain degree, because once the definition of growth and high growth can only be defied through the median rate of growth – thus, once the higher end of the growth spectrum is understood better and the knowledge diffused to practice for company building, the mark of high growth companies changes its place. That is what makes entrepreneurship study intriguing.

As an junior researcher I very much subscribe to the school of thought that entrepreneurship is such a complex and multi-faceted phenomenon that there hardly is possibility for a one size-fits-all approach. As an entrepreneur myself, it is especially hard to fall in line with views or approaches that take an "as is" -type of stance or uncompromising view of entrepreneurship, while my own experiences and observation of colleagues are on the opposite side of the opinion. As Kilby (1971) stated in his "Hunting the Heffalump" article, where he summarized the "land-grab mentality" for entrepreneurship research similar to the act of hunting a Heffalump: "the Heffalump was a large and important creature. Everyone reported having seen it, although each individual described it differently. Despite the absence of consensus on Heffalump characteristics, no one would admit to not knowing what a Heffalump was and everyone avowed that they could recognize one when they saw it.". The very nature of entrepreneurship seems to at times defy characterization and reside on the fuzzy side of logic. If we accept that entrepreneurial opportunity stems from a



Penrosian (1959) approach to the value creation, then we also accept that the basic building blocks of entrepreneurship involve things like "vision", "imagination", "creativity", "confidence" and "insight" - all of which at least flirt with the fuzzy, abstract and unknown. These are, to my belief, the building blocks of high growth firms.

When developing a research question for such task, one then quite easily arrives to the question "what is entrepreneurship without innovation?" Long hours with below average wage for zero upside? Because if there isn't innovation in entrepreneurship, I don't exactly see how the entrepreneur can capture value that the market doesn't otherwise capture, thus rendering the entrepreneur a...manager without an employer? Call me a dreamer, but in the light of this I think that a realist view isn't a viable option for entrepreneurship studies. Another question would then be to determine where entrepreneurship ends and managerial tasks begin, because not only does it categorize the starting point for studies like mine, but in such a state the realist view could even be considered an ideal approach. The constructionists approach to entrepreneurship then however seems to be more in line with what for example Gartner (1988) and Kilby (1971) were thinking about how entrepreneurship research should be conducted. Similarly to the behavioral approach, in which the question is that what deeds are common for an entrepreneur, also the constructionist view tries to understand the concept of entrepreneurship and opportunity formation through first understanding the particular actions and the sum of them. As opposed to the realist view, Katz and Gartner (1988) seem to suggest that innovation is the very core of the constructionist approach: "The central assumption in this view about opportunity formation would suggest that individuals interpret a phenomenon, raw data, or resources and give it a meaning that is different from other's interpretation. In a constructionist approach of opportunity formation individuals create realities and then mold their actions to these realities (Katz & Gartner, 1988)."

If the constructionist approach adds innovation to the process, then the realist evolutionary realist approach could be described as the approach that some call "lean

development". Even though the lean method of entrepreneurship or new product development isn't exactly hard science, it has gathered huge amount of support and empirical fortification in the recent years after Eric Ries proposed back in 2008. If you were to read the lean method for developing businesses and products (e.g. what an entrepreneur does), you would notice that the realist evolutionary approach description by Choi, Nelson & Winter and Cyert & March is almost word-to-word exactly similar: individuals do not become aware of new opportunities by recombining existing knowledge in new ways. The conception takes the "new combination" stance suggested by Schumpeter and builds upon it. Here the founders learn about untapped potential by being active and then examining the market, iterating, and advancing with that knowledge (Choi, 1993). The key is to learn throughout the process and build upon the new knowledge in order to raise the potential for success (Nelson & Winter, 1977). After a sufficient amount of new data has been acquired, the entrepreneur can make an accurate judgement call on whether to continue on the chosen path or modify the plan somehow (Cyert & March, 1963).

Then again, the lean method has faced criticism stating that its obsession with quantification and process kills the true creativity and creates brilliantly measured products and business that never fully achieve their maximum potential. According to the critics true creativity is extremely fragile and in that sense is close to magic because it can't be fully defined. In this way creativity seems to be similar to the pure constructionist approach, where opportunity formation does not require action, per se. That leaves one with the question: "in the field of breakout entrepreneurship, what is the right question?".

This is why I've chosen to make my thesis about the factors that facilitate startup growth, or are seen to be key factors in growth of startups by five different Silicon Valley based venture capitalists, which all have a wide range of portfolio firms from which to extrapolate opinions from. All of the venture capitalists are in key roles in venture capital funds that have a track record spanning over number of years and all have more than one large exit and currently are active investors in a one or more so

called “unicorn”, a startup with a over a billion dollar valuation. All of the venture capitalists keep a personal blog where they express their candid opinions regarding the factors of startup growth, both the ones that facilitate and hinder them. The writing in the blogs are from a personal point of view, so it expresses a personal view to the sometimes mysterious concept of growth, but at the same time tends to be well formed and as generable as possible, since these venture capitalist are also promoting their own venture funds and partnerships to be the ones to help high growth companies to achieve even greater growth. All of the venture capitalists also frequently participate in interviews and panels about the same subjects, so there’s plenty of support material for the original thoughts of the authors.

It has been proven in past literature that growth is by no means something to be taken for granted and some owner-managers even actively steer clear of growing their businesses (Wiklund et al., 1997), maybe because high growth is painful to achieve and once achieved, still very difficult to maintain (Barringer et al., 2005). Every company starts out small, but also a majority of companies remain small and eventually end their respective story as small without ever setting off towards any kind of meaningful growth (Storey, 1994). Such companies usually are started in mature markets and built in imitative fashion to target markets that are not far reaching (Aldrich, 1999; Reynolds et al., 2003; Samuelsson, 2001, 2004). For firms that end up growing, a whole set and range of different determinants of growth have to be studied and observed (Delmar et al., 2003). The determinants for growth can roughly be categorized into two groups; internal and external determinants (Storey, 1994). In my study I’m not that interested in categorizing different determinants or pondering how they fit in to the grand scheme of growth models, but I’m more interested on what the people behind the growing companies think matter most. These venture capitalists sit on the boards of said “unicorns” and act as mentors, enforcers, inspiration and assistants to the entrepreneurs who build growth companies. Venture capital investing is a portfolio-based field of investment and one critical thing that one needs while building a portfolio is to have pattern recognition. Through the numerous companies, fails and wins, these venture capitalists have arguably been able to develop some degree of pattern recognition that they’ve

successfully been able to put to use in their venture investments, which are amongst the best performing ones in the Silicon Valley. These individuals and the funds that they represent are so called “king makers” – funds that find and cultivate early stage companies that become major players in their own markets later on.

As entrepreneurship is about the internal determinants of growth, I’ll mostly focus on them during this research. Storey (1994) offered a categorization of such determinants by combining UK-based studies from around 90s and organizing it to the categories the entrepreneur, the firm, and strategy. I will try to roughly categorize the posts from the expert blogs and supporting material to these three categories; growth determinants regarding the entrepreneur, the firm and the strategy according to the five most successful venture capitalists in the Silicon Valley.

The reason why I’ve decided to take interest in the blogs of five venture capitalists, namely Bill Gurley (<http://abovethecrowd.com/> & Benchmark Capital), Fred Wilson (<http://avc.com/> & Union Square Ventures), Ben Horowitz (<http://www.bhorowitz.com/> & Andreessen Horowitz), Mark Suster (<http://www.bothsidesofthetable.com/> & Upfront Ventures) and Paul Graham (<http://paulgraham.com/> & Y-Combinator) is that they put together represent not only billions of venture capital put to use, but also hundreds of billions in combined portfolio value from companies like Uber, Twitter, Tumblr, Zynga, Airbnb, Box, Facebook, Groupon, Maker Studios, Dropbox, Reddit, Twitch and many more. All these companies and all other investments in the portfolios of these bloggers have, at some point in time, been very small companies that have been on the lookout for these same determinants of growth and have, apparently, found them with either the help of the bloggers or without them, but the fact remains that these bloggers have been there to witness the growth first hand and are now documenting some of those learnings through their blogs.

I've chosen to conduct the research based on the netnographic method largely due to the nature of the information, it being so readily available sitting on the blogs of these venture capitalists. Most of the update the blogs on a weekly basis, some on a daily basis, but all on a monthly basis. Some of the of write in long form, but most write shorter essays that span across the same topic for a longer length of time. Thus, netnography appeared to be a suitable research method for analyzing and digging deep in to the data while being able to categorize it accordingly. Xun and Reynolds (2010) note that netnography has gained popularity especially amongst the researchers in marketing that seek to understand the consumer on a deeper level. Since the point of this study is to try and find out what these top tier venture capitalists think about growth determinants of young companies, I find this approach to be spot on. In comparison, netnography is "less time consuming, less expensive, naturalistic, and can be unobtrusive" (Kozinets, 2002). One must just be careful that the allure of easy doesn't lead to sloppy research work.

Currently netnography has mostly been used to study and observe cybercultures and virtual communities or research more wider and general topics (Kozinets, 1998), out of which I've chosen to explore the general topic of the view of growth determinants amongst the Silicon Valley "kingmakers". As with traditional ethnographic studies, netnography can also be conducted through participant observation, non-participant observation or interview (Xun and Reynolds, 2010), out of which I'm going to conduct the non-participant observation of these five bloggers. The data source for this study is blogs, since they've been identified to be rich in meaning and quality (Barger and Labrecque, 2013). This is especially well demonstrated by bloggers Gurley and Graham that exhibit academic levels of writing with their long form essays. According to Puri (2007) blogs can help build a timeline of how different topics evolve, making it easier for the researcher to keep track of the relevant data. Bloggers usually categorize and profile their posts for archival, which further helps the research. Perhaps most importantly, as Puri notes, bloggers are honest in their opinion, which is of course reassuring for a researcher.

There's been plenty of research on growth and on the Silicon Valley context, but I've yet to find netnographic studies of the views on growth determinants by the very people who have facilitated or at least witnessed few of the most spectacular growth stories in recent startup history.

## **2 GROWTH LITERATURE**

Firm growth has been and most likely continues to be one of most widely studied topics in economic literature. With a very swift overlook at the discussion and literature, one can find several arguments highlighting the different angles that contribute to the growth research. Delmar et al. (2003) suggested that the many ways in which firm can grow have been identified successfully across past literature, but the heterogeneity of the different sources and trajectories of growth has also contributed to the potential failure or at least a certain difficulty of forming a solid theory around the topic. Considerable variance in measuring growth and the occasional conflict in suggested theories are rife amongst the past literature as in many cases the time frame, the growth indicator and the growth formula all vary across studies. Abundance of studies have been conducted about different parts of the growth phenomena, but heterogeneity in the nature of the studies and their outcomes are abundant as variation in growth indicators, measures of organizational growth, measures of firm growth in time, growth process identification (acquisition or organic), characteristics of the firm and environments occur in wide range of flavors. Delmar (1997), Wiklund (1998) and Barringer et al. (2005) reviewed and examined over 228 books or articles about firm growth and related topics only to conclude that the literature is "highly fragmented" and "rich". Authors in previous literature have thus recognized the problems arising from this heterogeneity and resultant difficulty in forming a unifying theory, which has on its own right led to a surge of search for the single formula of calculating growth. Current study is however becoming more convinced that growth and especially high growth doesn't nor shouldn't happen in a singular way. This presumption is also the basis for this thesis.

A correlation between firm growth and the likelihood of survival of the firm have been found, thus it is only understandable that the deeper understanding of growth is a popular topic since it directly contributes to firm survival across the board. It has been observed by Geroski (1995) that firms that experience continuous growth throughout their existence are more likely to survive market changes and are able to keep growing.

Firm size is an especially good tool for observation while in the hunt for the secrets of firm growth, because Wissen (2002) has observed that firm's life cycle and its stages have distinct correlation with firm's size. According to the study, firms are founded, they survive the battles of entering a market, they grow within the market once they've honed the model and eventually they die in one way or another. The selection process of the market can thus be observed through firms growth trajectory and its size (Audretsch and Mata, 1995). From the growth cycle's start, a firm enters in to a market where the conditions force it compete with other firms, making efficient firms survive the competition and growth, with less efficient ones lose size and eventually die (Jovanovic, 1982). Such growth cycle gives indication to how firms handle market opportunities, market entrance, what kind of efficiency level are the able to maintain and how well they do in turbulence. After the "death" of a company, it transfers its market knowledge and information to other surviving firms, thus contributing to their survival and growth. Hence the firm size is a good indicator of firm's growth capabilities and as such a valid constant for such research.

Firm growth is directly linked to employment growth and creation of jobs, but according to Carrizosa (2007), the growth of a firm only has consequences for employment and as such they one does not necessarily require the other. As a default it is considered that a growing company creates jobs at a net value and a shrinking company destroys jobs with the same speed. As it is the norm that new companies tend to be the ones creating jobs and incumbents the ones destroying them, it is closely related to the study of growth as phenomena , since incumbents neither grow or create value with the same pace as new entrants. Hence the subject has had major

political connotations, further fuelling the interested on the issue. Wagner (1992) observed, that firm growth has many directly practical consequences for policy-makers

Firm growth participates in or at least indicates the negative and positive changes growth of the economy of the region where the firm is based. As Penrose (1959) observed, a dynamic economy can be very important factor for high growth of companies, and vice versa. Depending on the sector and market specific linkages between the firm and the economy, the relation can be very direct, but on a broader view one can expect there to be loose signalling relation. As firm growth brings about employment and strengthens the overall economic conditions through increased activity, it can be further amplified by policy-makers through macroeconomics relating to the environment in which where firms grow. Interest from the policy-makers side has been enhanced by the fact that firms do not grow alike (Garnsey 1998), thus it's key to understand the specifics of growth, so that it can be modelled throughout different growth scenarios.

It has also been noted, that firm growth is a sure signal of technological advancement, as it has been found by Audretsch and Lehman (2005) that firm growth happens usually when a firm invests resources to R&D. On a firm level growth might not be a key driving force, but survival most likely is and Pagano & Schivardi (2003) have found that one of the easiest ways to survive industry competition is to invest in new development and innovation, thus most likely growing at least as a side product. Hence, a firm is spearheading growth by surviving and investing in to its own future. Growth through innovation doesn't need to be reactive in its nature, as Thornhill (2006) noted that there is a high positive correlation between revenue growth and innovative activities of the firm.

Growth of firms has indications for market situation such as concentration, competitiveness and need for regulation. Shepherd (1979) observed that as long as



incumbents dominate the market and there isn't much combined additional firm growth in the market, the competitiveness remains stable and market concentration gets higher, with the possible need of regulative action. Once small firms achieve growth in the market, the possible regulative problem solves itself through increased competition brought on by the challenge that a growing small firm brings upon the incumbents. Such action has understandable political and economic implications, thus marking it to a very interesting source of study for many.

Similarly to the problems related to defining an entrepreneur (Gartner, 1988) it has been similarly challenging to define the firm (Correa 1999), which has led to increase in focus of the growth process study, but there hasn't been much success in trying to build a converging theory. The literature is plenty in stochastic growth theory, classic economic theory, the behaviorist theory and different learning models, but one prevailing model has yet to emerge (Correa et al., 2003).

One of the most cited studies aside from Penrose's seminal work has been Gibrat's study in 1931. It seemed to have sparked the bulk of the discussion about the relationship between firm growth and firm size. Especially classical economists had a difficult time in spotting and explaining the variance in firm sizes, which has led to the popularity of stochastic models in the literature. Both models offer their theories, but they tend to be different. Even beyond these two popular models, there are many others that take their stab at explaining how firms grow. It can be said with certainty that the literature is heterogeneous at best. Thus it is fairly good practice to take a wide view when looking at the field of research in to firm growth. The matter does not get any easier if you take in to consideration the fact that growth might not always be the most viable option for a firm to survive market conditions and endure competitions, sometimes focusing on creating value supersedes growing in size (Suárez 1999). However, Mercedes (2007) concluded in her overview study of the literature that firm size appears to be the one constant link and interest across most popular theories.

### **3 THE FIRM**

#### **3.1 Theory of the firm**

The definition of a firm has been problematic to lock down to a only one theory and many have provided their view of the optimal way of setting defined boundaries for the firm.

Coase (1937) theorized that a firm is the end product of the larger price mechanism, where due to the mechanic where firm's internal process is more efficient than the external price. In a sense then a firm can be considered to be any process that efficiently produces output towards the market. To make the process more manageable and to battle against the friction in the market entry, management is created and the process internalized to the best of the ability of the firm. A successful firm then aims to keep the management costs of said internalization at a lower level when equaled to the costs of market transaction.

Penrose (1959) saw the firm as a combination process of resources and service end-products that determine relation between price setting and resource availability. She saw the internal process cycle of firm as a collection of resources that can be turned in to value adding service, which in turn can be used to modify the resources that the firms able to tap into, further generating new value adding services. In other words, a firm to her was a bundle of human resources and physical productive resources that were interrelated. In her view, the internalized management process uses said resources over time in the best way they see fit to provide the most valuable outcome as productive services. This variation in the process is also the foundation from which her view as firms being unique stems from. For Penrose, the firms is "an administrative planning unit, the activities of which are interrelated and are coordinated by policies which are framed in the light of their effect on the enterprise as a whole". Thus the degree of internal managerial process define the boundaries of

the firm, as the firm is “a collection of productive resources the disposal of which between different users and over time is determined by administrative decisions”.

Richardson (1972) built upon the Penrosian view of the firm by stating that a firm is more a combination of capabilities and activities. To Richardson, the firm coordinates and utilizes said capabilities over time and its network to achieve maximum valuable output. His view would be best suitable for corporate firm structure, where a firm can technically be a combination of many firms under one control mechanism, such as franchises or conglomerates.

Hart (1995) suggested that a firm is a merely the legalized ownership structure to the property rights of a firm. While it may be a viable model from a technical legal perspective, it does not count employees and other firm benefactors or contributors as a part of the firm. A combination of assets as a firm would pose problems at least for a qualitative study approach, but does provide a good tool to measure where the limits of a firm exist and how assets inside firm are owned.

Williamson (1985) offered an opposing view of the firm as a combination of its field(s) of influence. In his view, the firm can be seen as to encompass also the third parties that are in direct contact with the firm, such as distributors, alliance partners and suppliers.

As Kumar et al. (1999) noted, a modified view of Hart’s (1995) definition is often used for research purposes. It considers the proposed structure of Hart’s theory, with the addition of firm’s employees belonging to the overall concept of a firm. Even though it has been suggested by some authors to not necessarily be always the best or most efficient way of measuring firm growth, is still a very relevant data point when observing the phenomena itself. For the purpose of thesis, I shall also use this definition of the firm as my basis.

### 3.2 Firm size

Ardishvili et al. (1998) and Delmar et al. (2003) suggested that measurements are usually chosen to either fit the data or the research hypothesis, but they listed indicators of growth that they viewed to be of kindred to each other. They noted that while many of these indicators have at least indirect relationship (when revenue grows, usually stock market value grows), they can still give different information regarding the firm and how it grows.

- Sales and revenue
- Financial or stock market value
- Number of employees
- Productive capacity
- Added value of production
- Value of production

While the revenue, especially growing one, is a good indicator of firm's capability to cope with the market conditions and provide at least some sort of perceived lasting value, it is inherently an external indicator and thus might not be the best tool to assess what contributed to the firm's size and growth. Sales pose a similar problem in terms qualitative value for assessing the size and growth status of the firm, as they can be influenced by any number of short and long term factors that might not be due to firm's internal processes. However, Delmar et al. (2003) notes that that sales, in addition with employment, is one of the most frequently used measures of growth in past literature. Data regarding sales over time is readily available for most industries, pretty much all kinds of firms live and die by their sales efforts and the relative changes in sales can be observed across industries since it's not as sensitive to the industry specifics such as labor or capital intensity. Due to this Ardishvili et al. (1998) have observed that in many instances in research sales is chosen as the one measure of growth above else.

Added value on the other hand could be a very rich source for such analysis, since external processes most likely affect the added value of a firm's less than the firm's internal processes. However, as a variable added value can be too abstract and hard to measure on a large scale, as information like might be hard to obtain since the added value as a measure can be considered to a trade secret and competitive advantage for many firms.

Baumol (1962) suggested that as a function of revenue and sales, one of the measures and inherent functions of a firm would profit and the maximization of it. In the long run, profit and its maximization could even be considered as a prerequisite for survival. However, Baumol notes that especially profit maximization poses a few key problems for young and growing firms. If profits soar too much too fast, it will almost surely attract competition, raise possible questions from governmental actors and affect the perception of the company in both private and public discussion. Additionally Baumol suggests that revenue and sales are often prioritized over profits in firms, because sales are easier to expand than profit margins and usually managers are compensated based on revenue or sales, not profit. That coupled with the fact that there seems to be, according to Baumol, more perceived value in obtaining as much market share and sales revenue than optimizing for lasting profit, usually guarantees that firms don't need to take the above listed risks with profit optimization efforts.

Assets such as the total value of production and productive capacity can provide a snapshot to the current size and growth state of a firm, but they more the outcome of the internal process and not the source of it. Total value of production is also very much tied to the context of the industry that the firm resides in and in that sense is only comparable with other firms in the same industry and preferably with similar product lines. Industries that feature outputs that are highly capital intensive obviously have higher total output value by design when compared to industries where outputs are more knowledge intensive, for example.

According to Penrose (1959), the number of employees paints a picture about the managerial internal process of the company and how it copes with growth and organizes its value creation process in relation to its current size and activities. Churchill and Lewis (1983) agreed that complexity of the organization (whilst acting as an indicator of growth) is more evidently deductible from the growth of employment than it is from sales. It is also often used in the existing literature as the primary indicator for firm size (Kimberly 1976). For Penrose the available resources to the firm create a bundle of potential services and the size of the firm is the present value of the total of its resources, which can then be used to produce value and determine the firm size. Mercedes (2007) also noted that the number of employees does not fluctuate with currency exchange rate or inflation, at least not in the short term, and is thus less prone to be affected by external forces not related to the qualitative nature of the firm. Especially for companies that are highly product development or R&D driven (such as high technology startups), employment will grow alongside with assets long before sales will start to follow (Delmar et al., 2003). Many authors do also note that while it is not currently yet being observed, there may come a time where machine-for-man substitution can make employment an obsolete indicator for firm growth.

Berle and Means (1932) suggested that employee growth is a sure sign of firm growth in good and bad ways. The good are what one would expect when a firm tries to do more in the market, it usually then needs more employees to carry out that strategy. After a certain point the employee and staff maximization can become more a symptom than the driver of growth, when managerial staff succumbs to the agent problem of driving their own utility and not the interest of the firm or the owners. Firms that grow large usually suffer from some variety of this problem, but since it is usually the pain of a large organization, it can be used as a measure on an indicator of a moderately large to a very large organization.

Based on these evaluations, for the purposes of this thesis I try to define and measure firm size by the number of employees and by the added value, if reliable information on it is available. It is known that using employees as the measure has problems (Delmar et al. 2003), but then again since most of the variables here are correlated somehow, it can act as a successful anchor measure as well (Hart 2000). Once the type of measurement has been chosen or defined as a matrix of categories, the next most important variable for observation is to choose whether to focus on absolute growth or relative growth as they both deliver different outcomes if not treated properly. Obviously, if one tends to favor absolute growth, then the outcomes will lean highly towards firms that are already bigger in size and probably older in age, whereas relative growth is the stuff of young and small firms just heading up to their respective growth trajectory. According to Delmar et al. (2003) the question and potential inconsistency problem between relative or absolute growth hasn't been a major factor in previous studies up until the moment when the different studies have been tried to compare for results. If the growth measurements, indicators and the time frame of growth varies strongly between studies, the results are somewhat hard, if not impossible, to unify for comparison.

Furthermore Delmar et al. (2003) state that in order to create a credible, comparable and accurate study of a phenomenon that is highly heterogeneous in its nature, one should opt for a framework that supports this preset:

“Since there appears to be no one best measure of firm growth, as well as no one best composite measure of firm growth, it would be advantageous to explore the use of many different growth measures in a study of firm growth. The use of multiple measures of firm growth would likely provide a more complete picture of any empirical relationships as well as provide a way to test the robustness of any theoretical model to misspecifications in the dependent variable. The use of multiple measures also offers the opportunity to use a measure optimized to the study's specific purposes while allowing comparisons with the results of previous studies using other growth measures”.

### 3.3 Firm growth

Storey (1994) observed that when you look at the way firms grow, you can easily separate them to three different categories. The first category is the a) failures, which are formed and enter the market, but quickly die. The second category he found was the b) trundlers, which are firms that enter the market, survive it to a certain extent and settle at a size that does not vary once it has achieved its “maximum” state. The third category was the c) flyers, who grow in size, at least during the perceived period, and keep creating more employment to the economy.

He also noted that reasons behind the growth, non-growth or death of a firm are usually divided in to three categories as well, a) ones that have to do with the entrepreneur (founder-specific), b) ones that have to do with the firm (owner/manager specific) and c) ones that have to do with strategy. Similarly Delmar et al. (2003) claimed that firm growth is affected or directly related to their characteristics such as age, size, industry or governance. They state that if one, based on earlier literature, accepts that firm growth patterns differ from each other, then the reasons and influences for that growth must also vary to a certain degree. They suggested that there is a correlation between the certain attributes that contribute to any particular company’s growth and how the growth will eventually look like. Similarly they posit that these characteristics affect the way the growth occurs in the context of the firm over time, since growth isn’t static and shouldn’t be considered to happen linearly.

Factors influencing growth in small firms:

The entrepreneur’s resources

- Motivation
- Unemployment
- Education
- Management experience
- Number of founders



- Prior self-employment
- Family history
- Social marginality
- Functional skills
- Training
- Age
- Prior business failure
- Prior sector experience
- Prior firm size experience
- Gender

#### The Firm

- Age
- Sector
- Legal form
- Location
- Size
- Ownership

#### Strategy

- Workforce training
- Management training
- External equity
- Technological sophistication
- Market positioning
- Market adjustments
- Planning
- New products
- Management recruitment
- State support
- Customer concertation
- Competition

- Information and advice
- Exporting

Source: Storey (1994)

Barringer et al. (2005) identified a similar categorization in their study of 50 high growth and 50 slow growth firms. They coined three categories similarly to founder characteristics, firm attributes and business practices with the addition of a fourth category that they named HRM practices. They summarized their categorization similarly to Storey's three topics:

“With regard to founder characteristics, the founders of the rapid-growth firms in the sample are better educated, have a more compelling “entrepreneurial story” [or motivation to be an entrepreneur], and have a higher incidence of prior industry experience than the founders of the slow-growth firms. With regard to firm attributes, the rapid-growth firms in the sample have a stronger commitment to growth, are more involved in interorganizational relationships, and utilize a growth-oriented mission statement to a greater extent than the slow-growth firms. With regard to business practices, the rapid-growth firms in the sample add more unique value and have a deeper level of customer knowledge than the slow-growth firms. Finally, with regard to HRM practices, the rapid growth firms in the sample emphasize training, employee development, financial incentives, and stock options to a greater extent than their slow-growth counterparts.” (Barringer et al., 2005).

In their sub categorization, Barringer et al. (2005) list the following attributes:

#### Founder characteristics

- Relevant industry experience
- Higher education

- Entrepreneurial experience
- Broad social and professional network
- Size of founding team (larger teams have an advantage)

#### Firm Attributes

- Growth-oriented vision and mission
- Commitment to growth
- Participation in interorganizational relationships
- Planning
- Geographic location
- High Buyer concentration

#### Business practices

- Creating unique value for customers
- Product superiority
- Innovation

#### Human resource management practices

- Selective hiring
- Performance-based incentives
- Stock option plans and employee stock ownership plans

It is fair to say that even though Storey (1999) had a wider categorization and included many subcategories in his list when compared to Barringer et al. (2005), the primary points of the founder's (and his / their capabilities) role, firm's relation to its market and the overall strategy or practices that the firm conducts its business with are in the center of high growth. Furthermore they found that out of the founder characteristics, the most valuable variables were higher education, entrepreneurial story and relevant industry knowledge. Amongst firm attributes, the commitment to growth and growth-orientation was seen as key alongside with participation in

interorganizational relationships. Creating unique value and understanding the customers were seen as the key business practices, with training, employee development, financial incentives and stock options arising as valuable human resource management practices. As Barringer et al. (2005) deepened their categorization by selecting a few key variables and had an overall more Silicon Valley oriented point of view in their study, I will give their suggestions extra weigh in my own framework.

Furthermore, it has been suggested by some scholars, that the entrepreneurial ability (a) is in key role when explaining firm growth (Casson, 1998) and Storey (1999) seems to agree, pointing especially to experience, motivation and age as key determinants when founder-specific reasons are to be observed. Penrose (1959) saw that a firm's ability to produce is directly linked to the entrepreneur's ability to understand the value production opportunity. The most direct way to limit firm growth is if the firm does not identify new opportunities, does not want to exploit them or is in other way unable to react to them. According to Penrose, the firm's ability and process of searching new opportunities is a decision that requires entrepreneurial skills such as intuition and imagination. Such skill is a prerequisite for the process of finding new opportunities for expansion. The managerial decisions that drive a firm's search of new opportunities for further growth are directly related to the quality of entrepreneurial activity and services within the firm.

Penrose identified four entrepreneurial services that the managerial process could exploit in order to be more successful and efficient in the search of new growth:

- Entrepreneurial versatility (vision, imagination, experimentation, creativity)
- Fundraising ingenuity (confidence, resourcefulness)
- Entrepreneurial ambition (product vision, workmanship, empire building)
- Entrepreneurial judgement (information, insight)

According to Penrose, the value adding managerial process of a firm has its theoretical limit, called the managerial limit and it can only be overcome if the entrepreneur isn't passive in the growth process. As complexity in smaller firms is low, the managerial process can propel the firm to new growth almost, but once the firm gets larger and complexity grows, it's only through the entrepreneurial services that firm can achieve growth. On top of the underlying inefficiency brought on by complexity, the managerial services have to factor in risk and uncertainty, which are their very nature are not good for the firm and thus not something a managerial process would promote.

In the Penrosian view, the entrepreneur can handle such risk and uncertainty better than that collective managerial process of the firm and can thus guide the process to provide the needed new learnings and resources in order to pave the path to new avenues of growth. Even the entrepreneur can't totally do away with risk and uncertainty, but through the capacity of entrepreneurial services they can be balanced so that previous limits to growth can be expanded.

As for the firm determinants, market experience (age), size and sector were mentioned to be crucial and strategy-wise both technological and export-related strategical decisions were deemed to have the most effect for growth. Barringer et al. (2005) combined all of the categories and determined that factors most influencing firm growth were a) firm attributes, b) human resource management practices, c) founder characteristics and d) business practices.

None of the determinants or categories obviously is enough to propel firm in to a growth, they all must work in conjunction to achieve the maximized outcome. Storey (1994) theorized that fast-growing firms exist in the intersection of a capable founder (vision, understanding), correctly position firm in the right market (sector, size) and properly executed competitive strategy (advantage, execution). Without the successful combination of all three categories, it is harder for a firm to grow, yet not

impossible. It has been theorized that the combination of these determinations and their high customizability and context-dependency is the main cause for high heterogeneity in firm growth and sizes, which has made it hard to pin down one model for either of the topics. The problem hasn't been made easier by a certain degree of sheer randomness or unexpected factors that have also been observed to be one part of the equation of firm growth in many cases (Geroski, 1999). It hasn't stopped authors from trying though.

Randomness can therefore either hinder or amplify the importance or effectiveness of one of the categories (entrepreneur, firm, strategy) with an unforeseen way that is out of control of the firm and its employees. Less random, but still poorly predictable are also the limits of growth that either external forces or human failures set upon the firm. (Storey, 1994).

#### Barriers to growth

- Availability and cost of finance for expansion
- Availability and cost of overdraft facilities
- Overall growth of market demand
- Increasing competition
- Marketing and sales skills
- Management skills
- Skilled labor
- Acquisition of new technology
- Difficulties in implementing new technology
- Availability of appropriate premises or site
- Access to overseas markets

Source: Storey (1994)

Firms can lessen the barriers of growth and decrease the possibility of randomness by increasing their ability to learn. The ability to learn usually grows according to the firms experience in the market and its age.

“The implication is that the growth and survival prospects of new firms will depend on their ability to learn about their environment, and to link changes in their strategy choices to the changing configuration of that environment” (Geroski, 1995).

Scherer (1970) added that these are not the only factors that contribute to the growth and size of firms. He identified additional categories, both externally and internally driven:

- Economies and diseconomies of scale

As first introduced by Adam Smith in the Wealth of the Nations, it has been a long standing hypothesis that specialization furthers the productivity of employees. Thus, once the firm enters in to a cycle of learning and growth, the costs related to growth diminish. However, such diminishing costs are not infinite (Scherer, 1970), as empirical data has shown that firms of various sizes can sometimes achieve same unit cost structures, human errors multiply once complexity due to firm size grows and at least with physical goods the distance of production and value delivery forces costs upon the firm that can't be reduced to zero.

Penrose (1959) identified the limitations of diminishing costs as the “managerial limit”, which she described to be the limit of current management's ability to produce services to the firm that increase its value production process, thus increasing the firm's ability to grow in the market. If such limit has been reached, it's also a sign that suitable additional managerial competences cannot easily be hire from the market reaching such limit creates a spiral of inefficiency, because complexity in the organization increases as managerial talent is added, which in itself

also causes the managerial limit to reach sooner. This way the combinations of internal and external conditions create a theoretical limit to the growth a firm can achieve in certain time.

- Mergers and acquisitions

According to Penrose (1959), the usual growth pattern for small firm in the market is to grow organically through increased value production and learning by defeating the market. Larger firms that might be in more mature industries usually grow by acquisition efforts, because in such environment new learnings and superior value production capabilities are harder to obtain. At some point of the firm's growth and age, it can grow successfully by utilizing both methods, but as the industry matures, firm size grows and the firm age increases, acquisitions become the primary way for further growth. Ijiri and Simon (1977) also noted that besides mergers and acquisitions, larger firms in more mature markets can grow due to the growth of population (or increase in potential clients in the existing market areas), if it does not affect the market or the firm in other ways (i.e. attracting more competition).

- The impact of government policies

Policies of government regarding the business and economic regulation of firms have an impact on most of the firms, be it intentional or unintentional from the legislators side. Grant programs (such as Tekes in Finland) have a positive impact on the firms that receive them, but might have unintended negative impact on the companies that did not receive such grants, yet compete in the same market. Tax regulation is another example, where to competition firms in neighboring countries have different probabilities to access outside investment capital to fuel growth, thus affecting their ability to compete in the same markets. It has also been observed that incubators, accelerators and other publicly or semi-publicly funded or aided R&D activities have a positive correlation on firm growth and size (Hyytinen and Toivainen, 2005 & Lerner, 1999).



Despite all the factors, both for and against growth, it is still foremost a management challenge that needs to be faced head on deliberately and consciously, because growth (at least a sustained and profitable one) does not happen by accident. Companies can strengthen their position and try to turn the tables toward their general direction to make the process of growing a company easier, but in the end it comes down to choices that the management makes. It has been suggested by previous literature that even the otherwise successful high growth firms can be led to their eventual failure by managerial errors and vice versa (Barringer et al., 2005).

#### **4 THE HIGH GROWTH FIRM**

High growth firms are in most senses similar to the normal growing firms, but they do exhibit certain growth related features that set them apart from the rest of the firms in the market, in relative or absolute terms. High growth in itself is seen as a sign of success and overall firm-market-fit (Barringer et al., 2005), but the determinants and pathways to high or rapid growth are not as widely agreed upon. According to the past literature (e.g. Delmar et al., 2003) there really doesn't seem to be one universal unit or distinction for a high growth business, so most of the literature tends to define what they are looking for based upon the purposes and needs of the particular research problem. As they say, "you get what you measure" (Ahmad, Petersen, 2007). High-growth businesses are sometimes called gazelles, which are described by OECD in their 2007 report as "All enterprises up to five years old with average annualized growth greater than twenty percent per annum over a three-year period, and with ten or more employees at the beginning of the observation period." In 2010 the OECD added to their original definition by noting that the number of employees and overall size of the firm should act as a factor in the search for high-growth business or these gazelles. Thus they updated their description to "all enterprises with average annualized growth greater than 20% per annum, over a three year period, and with ten or more employees at the beginning of the observation period. Growth is thus measured by the number of employees and by turnover." Even though it is hard to say if the OECD's definition is the best one

proposed, it is definitely something to be highly regarded when one looks for high-growth businesses.

Delmar et al. (2003) offered an alternative take for their classification of high growth firms, which could be considered to be the same kind of firms that OECD was calling gazelles. In their categorization, a high growth firm “had to be among the top 10% of all firms in terms of an annual average in one or more of six categories: (1) absolute total employment growth, (2) absolute organic employment growth, (3) absolute sales growth, (4) relative (i.e, percentage) total employment growth, (5) relative organic employment growth, and (6) relative sales growth.”. Furthermore they categorized these high growth firms that made the initial cut in to classes such as:

- Super absolute growers that grew a lot in absolute terms of sales and employment
- Steady sales growers that good growth in terms of sales, but negative employment growth
- Acquisition growers that grew both in sales and employment, but not organically
- Super relative growers that grew the most in relative terms and also had the highest share of high growth years as firms
- Erratic one-shot growers that grew relatively positively on average, but otherwise had negative development in terms of sales and employment growth
- Employment growers that had negative development in terms of sales and only little positive development in terms of employment
- Steady overall growers that exhibited good growth in terms of absolute employment and sales, but did not do that well in relative terms

They found that super absolute growers were mainly found from knowledge intensive manufacturing industries and the firms were small to medium sized. Steady sales growers resided in traditional manufacturing industries and were larger firms that usually operated within company groups. Acquisition growers were also mainly larger firms in traditional industries that were operating within company groups, but unlike the steady sales growers, the acquisition growers tended to be older in their age. Super relative growers resided in knowledge intensive service industries, were one of the youngest of the firms in the study, and were small to medium in sized and usually operated independently from any company group. Erratic one-shot growers were low-technology service industry companies that were small and medium in their size and had a sudden strong year in their overall growth development. Employment growers were similar to the Erratic one-shot growers, with the exception that their growth was maintained over a longer period of time. Steady overall growers were larger firms in manufacturing industries that operated within company group.

Their categorization is more complex and multidimensional than OECD's, but goes to prove to a certain degree that there truly are many ways to grow and even more ways to grow rapidly. They further state that according to their research findings and compounded past literature, there are no typical growth firm in this sense. While the categorization is a bit too complex to be considered a basis for this thesis, it serves as a demonstration that as a researcher one should not expect to find a one solid theory or model for high growth. This needs to be taken into account while forming the framework for data interpretation. Taken into account that the empirical data in this thesis has been gathered from blogs by authors that operate in the high technology industry and predominantly with software companies that are small to medium sized, it can be assumed that many of the findings will revolve around firms that could fit Delmar et al.'s definitions of Super absolute growers or super relative growers.

When new, small and young firms are being looked at, it is clear that relative growth can be quite high in the first years of the firm, especially in entrepreneur-led high

risk ventures. However, it needs to be noted that a quite small percentage of new firms actually grow enough in size that they have any meaningful impact on employment or the economic realities of their region. Most of the new and young firms will level off their growth after their inception and remain as small and old firms. While it is true that the majority of new jobs created in the economy will come from the new and young firms, it is a specified and small group of these high growth companies that make the impact by continuing to grow past the first few annus. Thus, if one were to look at new and young companies, they would prove to be a poor source of employment and economic growth, but if the scope is limited to the ones that have “true” growth, then the small and new firms can be considered a major source of employment growth in the economy. However, as those high growers tend to be very heterogeneous in their nature (as previously stated for example by Delmar et al., 2003), it can be very difficult to scope their total cumulative effect (Audretsch, 2012). Due to the problematic nature of spotting these gazelles, some researchers have even gone to such lengths as to state that growth may not be a sign of healthy firm development and that lasting growth might be the privilege of mature and large companies (Davidsson, Steffens and Fitzsimmons, 2006). OECD (2008) has found that in any country, the percentage of growth firms out of all firms is relatively low, between 3% to 12% on average and the gazelles represent even smaller piece of the pie, at about 1% to 2% when looked both from the perspective of employee growth and revenue growth. Even amongst the firms that can be counted as high-growth firms, the gazelles are a rare bunch at less than 20%. Yet all parties agree that the gazelles are a very welcome part of the business ecosystem of any country, putting even more emphasis on the importance of deeper study in to these rare beasts.

It is one of the main goals of this study to try and shed at least a little extra glimmer of light to the phenomena of high growth, as there clearly is much room to prove in terms of enabling more firms to embark on a high growth trajectory. Even though many small business owners prefer to restrain their growth due to a number of internal and external reasons (Wiklund et al., 1997), it is still very much a desired and sought after outcome for more established ventures (Barringer et al., 2005). Yet

only one in seven firms are able to arrive to a state of sustained and profitable growth (Zook and Allen, 1999) and there doesn't really seem to be much more of a literal consensus as to why growth doesn't happen (or wains off) any more than there is to why it happens.

## **5 FIRM GROWTH AND EXPANSION**

Growth comes inherently from something that multiplies in the function of time, may that be employee count or turnover. If that growth is sustainable, then the source of it needs to probably be in the expansion of the firm's business activities, either by increasing current unit economies or acquiring new markets to sell to or products to sell in existing markets or new markets. Such expansion is dictated by two factors according to Penrose (1959); inducements and obstacles. Both come in the flavors of external and internal. Obstacles can be market conditions, government policies, unfair or borderline illegal advantage of a competitor. Similarly external inducements can be new customers, new markets and general positive changes in the market environment. However, if the firm isn't able to capture these external inducements and overcome obstacles with internal inducements, there is not much to base the expansion and growth on. According to Penrose, the internal inducements can be found within the firm's unused capacity for value production. Processes, knowledge or the resource pool of the firm can contain untapped advantage and potential for further value creation if properly conducted by the managerial or entrepreneurial services. It was theorized by Penrose, that an equilibrium state of maximized internal resource usage is very rare, thus most firms in existence can find ways of extracting more value out of their internal operations and resource pool. It is merely up to the quality of the firm's managerial and entrepreneurial services on how much more value can they extract by creating new value out of old resources or putting existing services to use in new ways. Penrose theorized that the creative process is the root of such new value creation, as existing managerial or entrepreneurial capabilities are creating new value of resources previously to be perceived as fully utilized. Penrose pinned the source of creativity to the change of knowledge state, to either increased

or otherwise modified knowledge that puts existing resources in to a new light and enables the firm to create more value from underused or totally unused resources. This she also called the root of the entrepreneurial process, where in the beginning there is little knowledge of the many exploitable possibilities, but through the deployment of entrepreneurial and managerial creativity, such new ways of creating value are unmasked and put to use. In theory, at least according to Penrose, there's no limit to the firm's growth potential as long as the creative process keeps creating new value that outpaces the processes of the market and competition. It's the epitome of firm's competitive advantage.

Sourcing new value out of existing resources is, if done right, also the basis for economies of size according to Penrose. If the main component in creating competitive advantage is the creativity and we were to assume that such creativity would be somewhat independent of the firm size, then the larger firms could achieve greater competitive advantage through their better unit economies and existing (larger) resource pool. Large firms are better equipped to overcome obstacles and have a bigger sample size for experimentation. However, as large size also usually requires a certain degree of stability and de-specialization of managerial services, it can in fact be more challenging for a large firm to expand freely. With growing size comes growing complexity and while specialization across the board decreases in large firms, it does increase it in the specified and current value production mechanism. This, even when accompanied with the benefit of unit economies, can limit the ways and directions of firm's expansion according to Penrose.

With all the problems and limitations that the creative process of creating more value out of existing or available resources has, it will eventually either reach its proverbial peak or at least start to lose its efficiency up to a point where other ways of growth and expansion have to be considered. Delmar et al. (2003) found that organic growth happens usually in smaller and younger firms, whereas the older and larger firms got, the more they had to rely on acquisitions and other non-organic ways of achieving further absolute or relative growth. One such avenue for new growth and expansion

trajectories is acquiring new resources and capabilities from outside of the firm. In an ideal case these new resources will contribute in such a way that it invigorates the creative process of the firm and enables it to continue creating new ways for competitive advantage. In the not-so-ideal case, it will at least bring new resources to the grasp of the firm and contribute the sum of the acquired resources to the firm's size with the hopes for future added value. Such process is called either a merger or acquisition, depending on the specifics of the transaction. Penrose argues that the process of acquisition is initiated when a firm values a resource or the creative process of another firm and deems it to be a cheaper way to expand than to try and replicate said resources or creativities internally. The acquiring party also has to over-value the target of the acquisition, because otherwise there is no incentive for the selling party to enter the transaction. According to Penrose the entrepreneurial capabilities and the entrepreneurial service process usually contributes to the overvaluing of acquired assets. To a firm that is operating within the limits of its expansion and growth capability, merely optimizing the specified specialization further, it could be of great value to add entrepreneurial services from external sources to drive up creativeness for the managerial specialization to perfect later. Similarly mergers and acquisitions fail if the acquired resources can't be turned to additional value by the existing internal managerial process or if the external resources aren't compatible with the capabilities of the acquirer.

## **6 RATE OF GROWTH**

Penrose categorized that the internal and existing managerial process is used for two things, taking care of current operations of the firm and then enabling expansion and growth for the parts that are left available. One can quantify the amount of managerial services that are needed to uphold and run the existing internal processes, but it might not be that clear how much of the managerial service capability is still available for expansion efforts. If the firm would be able to find out exactly just how much they possess available service resources to fuel growth, then the firm could find out its capability and limit for expansion and growth with the ratio of available

resources and the amount of said service resources needed to expand a certain amount.

Even though it is hard to specify the available capabilities for expansion at a certain time of a firm's age, Penrose claimed that they will most likely increase as the company ages, given that it grows while it ages. This is due to the learning and experience dispersion process that's involved in continuous managerial service of a growing firm. Existing internal managers become more efficient and knowledgeable of what they do and usually a growing company also hires new managerial talent from external sources, this increasing the available capabilities for further growth while managing the ongoing one. At some point a firm can take advantage of the accumulating economics of size and decreasing unit economics for the managerial process as support functionalities and other effort to minimize complexity take a role and make the overall process easier. This then directly affects how much firms can gain said advantages, because with the degree of diversification diminishes the advantages of centralization that specialization at a scale brings about. According to Penrose, at some point the complexity of a large firm will start to outweigh the advantages gained by the size economics and the firm starts to lose its available capacity for expansion to the weight of the internal managerial process. Therefore the probably the medium-sized and moderately large firms are best positioned to facilitate growth, as too small firms can't take advantage of all the possibilities available to them and companies that are too large don't have capabilities to identify them.

## **7 THEORETICAL FRAMEWORK**

This study uses a theoretical framework that is combined based on Barringer et al. (2005) and Storey (1999) categorizations of key attributes that reflect high growth possibilities with the added dimension of Penrosian managerial process that includes the possibility of luck and capability to execute, as observed by Hambrick &



Chorzier (1985). The synthesis of the past literature has been done in the in spirit of Delmar et al. (2003) and Wiklund (1997) by keeping in mind that:

“Since there appears to be no one best measure of firm growth, as well as no one best composite measure of firm growth, it would be advantageous to explore the use of many different growth measures in a study of firm growth.”

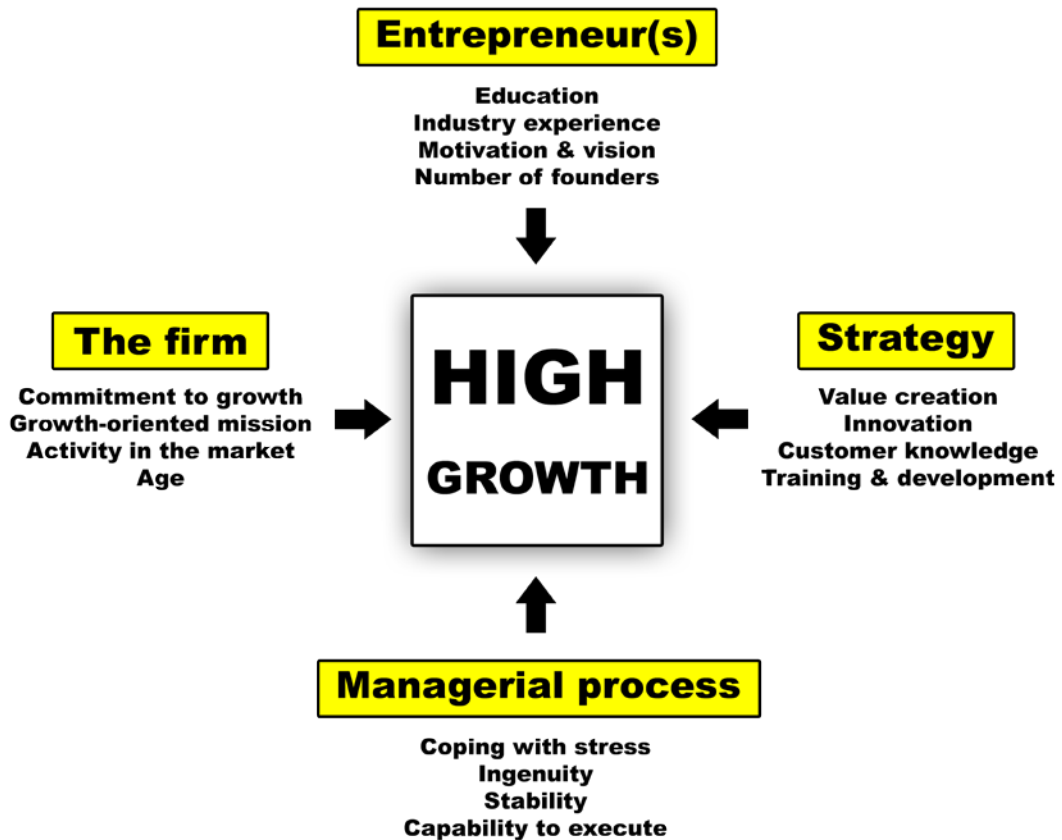


Figure 1. Conceptual framework of this study

Storey’s seminal framework is so widely used in previous literature, that even at 20+ years it is still a relevant basis to start building a framework for modern high growth companies. Often times the original framework has been added with external determinants with the notion that they affect the firm growth and are to a large extent out of the hands of the firm itself. As this thesis has taken a more detailed and perhaps even personal view to high growth through the blogs of five authors specialized in the topic, I have chosen to dismiss the external determinants for that

particular reason – if it is out of the control of the firm, then it should not be of interest for high growth research, because the goal there is to make it easier for future potential high growth firms to achieve even higher growth and factors out of the control of the firm rather defeat the point of such study. That would belong to the realm of policy making.

Instead I've chosen to add to the interplay of existing determinants the internal dimension of things that are not necessarily that easy for the firm to control; the managerial process coupled with factors such as luck and creativity. Similarly to how the external environment relates to the firm itself, the managerial process relates to the outcomes of the first three categories of the framework. There is little use for education, industry experience, innovation, customer knowledge, commitment to growth or activity in the market if the underlying actors inside firm aren't able to cope with stress that high growth eventually brings about or if they are unable to execute the strategy in the short and/or long term.

The different categories of the framework are discussed in more detail below, but it is important to acknowledge that at this point no distinct importance or weight is being applied to any of the categories in the framework, but they are merely displayed as potential contributors to the high growth of firms as they are discussed and have been identified in past research.

## **7.1 Entrepreneur(s)**

For every firm, no matter how small or large it eventually gets, there's a team of founders in the beginning. Sometimes the team consists of only one founder and sometimes several. While there hasn't been much discussion of potential upper limit for the founding team, there has been valid correlation with larger founding teams and eventual firm success (Barringer et al., 2005 & Morris et al., 2006). These

individuals will provide the resources needed to get the firm off the ground and in to its eventual path towards growth. Depending on the context of the business that's about to be established by the founder(s), a wide range of both behavioral and personal traits and characteristics are required to meet the demands of successful venture (Davidsson, 1989).

As growth isn't something that all small business founders are after, it is important for the founding team to distinguish themselves in this regard, that they are in fact intentionally seeking to grow their venture past so called "lifestyle business" phase and in to a full-fledged enterprise. The dedication towards growth orientation has been observed by Smallbone (1995) to clearly increase the chances of eventual high growth as opposed to the founders that were either indifferent or negative towards seeking growth with particular agenda (such as disruptive product idea). Coupled with the ambition to grow, both high levels of education and previous experience from management and/or the industry have been observed as being major upsides for every potential founder, even though some negative correlations have also been observed in cases where the previous experience or knowledge of an industry or business has hindered the entrepreneurs ambition and willingness to enter into another risky venture (Storey 1994). Overall it could be theorized that well educated and motivated entrepreneurs with at least some knowledge of the industry and management processes are more likely to steer their companies to a path of high growth.

Storey (1994) suggested that middle-aged founders had the best setup for creating companies as they still had the energy to cope with the process, but also possessed resources and experience to see it through. Younger founders were seen to have excess amounts of energy to counteract the handicap of not having as much experience, resources or credibility. Founder's ethnicity, race or gender on the other hand has not been observed to contribute to the success of the firm (Morris et al., 2006).

## 7.2 The Firm

Even though at the beginning of the venture both the founder and the firm are very much intertwined in non-distinguishable way, but immediately after the firm starts to interact with the external factors (i.e. the market), it starts its journey as a separate actor in the expedition towards high growth. If the founders achieve their goals and are able to execute on their drive towards growth, then eventually the venture turns from an idea to a full-fledged firm and all the way to an established enterprise. It is along the course of this progress that the firm becomes highly distinguishable actor in the growth process. According to Birley and Muzyaka (2000) the key changes happen in the areas of strategic goals, use of formal systems, involvement of the owners, organizational structure and managerial style. Through this maturing process the direct causality between the founder and the firm will inevitably break (Carter and Jones-Evans, 2000). Storey (1994) observed that limited liability companies fare better in this sense when compared to partnerships or sole proprietorships.

Obviously young and small firms tend to grow rather quickly as they have less “friction” with the market and are able to expand within their initial context without much hindrance from the ever growing managerial and operational complexity (Kangasharju, 2000). However, in the long run the age of a company has not been seen to act as a likely determinant of firm growth (Headd and Kirchhoff, 2009). Similarly to age, also the sector where the firm operates has been found to influence the growth of younger and smaller firms, but the relevance of the market context becomes less relevant once the firm matures (Smallbone et al., 1995). In terms of net employee growth and new employment creation, the Kauffman Foundation (2015) supports the notion that small firms have the advantage, but Headd and Kirchhoff (2009) suggested that while evidence to the contrary can be found also in regards to the smaller firms, the situation eventually levels off anyway very quickly after the company grows beyond its first few employees.

### 7.3 Strategy

Kraus et al. (2006) noted that the root of company success is its capability to assess its current situation and adjust the course of its actions on a continuous basis to achieve the optimal outcome with as many variables considered and factored in to the decision process. In other words – strategy. It's been suggested that long term strategy-work almost always creates positive outcomes for the firm as opposed to the situation where no such planning is implemented (Masurel and Smith, 2000). Past literature is in agreement with the fact that investing in workforce is almost always a positive managerial decision (Fadahunsi, 2012) and a link has been observed between levels of employee training and growth tendencies (Storey, 1994). Similarly, a growing and successful company usually engages also in training its managers, to allow them to keep on making favorable decisions regarding the firm's future (Storey 2004).

As all firms need to get their customers to first learn about their particular products or services and then eventually purchase them, it is fair to assume that some sort of marketing is embedded in the strategy of almost all firms, at least the ones that achieve high growth. Perrault et al. (2010) even went to argue that marketing is one of the best forms of value creation and resource investment opportunities for a growing company. This seems to be supported by Ram et al. (1997), who found that high growing firms were almost twice as active in their marketing activities as their stagnant or declining counterparts. Other such activities include firm expansion beyond local markets, which never happens for majority of young firms (i.e. Storey 1994, Smallbone et al., 1995). However, the ones who bravely venture beyond their local markets and even abroad do tend to achieve growth greater than the ones that operate domestically (Lu and Beamish, 2001).

Alongside the courage to undertake an internationalization effort, also the sophistication in technological knowledge or other value creation related prowess

have been observed to create lasting value that further propels young companies to growth trajectories (Lee et al., 2012). Even though it seems to be hard for many small firms to maximize their strategy work outcomes by using all available avenues of support and advice (Blackburn et al., 2010), it is found that the ones that do will also more likely achieve high growth (Storey, 1994). It is no surprise then that Carpenter and Petersen (2002) found small firms unwilling to acquire outside capital to facilitate growth grew less than the ones that were able or willing to procure capital for expansion and growth.

#### **7.4 Managerial process**

As stated in the theory overview section of this thesis, previous literature does recognize external determinants that have impact on the growth process, but in order to create an entrepreneur-oriented framework for codifying the high growth process, a more internal perspective needs to be adapted since the aim of this thesis is to not comment on macroeconomics or governmental decision making. Since the entrepreneurial process, especially when it leads to high growth firm, is so complex and at times abstract in nature, I believe that models that only include attributes that can be observed through a quantified position makes for an incomplete model.

## **8 METHODOLOGY**

### **8.1 Netnography**

Netnography was chosen to be the primary research method because of one main driving force, it's capability of allowing the researcher to captivate a wide range of expert knowledge generated by topic professionals around the world, without

actually having to travel and actively engage said professionals. While other qualitative methods such as interviews might prove to be as efficient or even more bountiful in their research outcomes, it would prove to be a highly problematic task if one were to try and obtain professional knowledge on an international level. When discussing the topic of high growth, it is an unfortunate fact that the United States and more specifically the Northern parts of California around San Francisco, called Silicon Valley, do command the majority of the world's high growth companies and the related knowledge about them.

The expert and non-expert discussion regarding high growth companies on the internet happens in environments that allow for a rich observation of the overall discussion, but also the active actors and more passive contributors. As the topic at hand gives the discussion an underlying "professional" tone, it makes the observation and recording of the overall discussion even easier for a researcher to follow, as the participants tend to at least try to be clear and precise in their communication. This leads the discussion towards platforms that are suitable for long, context-rich and threaded communications, such as forums, blogs and social messaging platforms. This also makes the application of physical ethnographical observation harder in the case of this particular topic.

The term "netnography" or "ethnography on the Internet" was first introduced by Kozinets in 1998. While it was created to serve the purposes of consumer marketing research to gain insights into the thoughts, wants and influences of consumers, it has since been applied to many other areas and forms of research. The one underlying and original determinant has remained throughout the evolution of the method; according to Kozinets (1998) it is important that while conducting an ethnographic research, the researcher becomes acquainted with the culture he or she is studying. While this may have been cumbersome to achieve in offline interaction, it has become increasingly easier, yet even more important, for the researcher to understand the meanings of the communication and the interaction between the members of the culture. By remaining true to the guidelines and principles of

ethnography, netnography has developed in to the most suitable qualitative method of studying communities in the internet that converge and interact through Computer-Mediated Communications (CMC). Thus, when the target of one's examination are the experts of high growing and usually technology related (or at least technology enabled) companies, a method for observing their knowledge transaction in their natural habitat, the internet, a method specifically crafted for such environments is the most logical choice over other qualitative or even quantitative methods.

Netnography has also been called digital ethnography or virtual ethnography (Murthy, 2008). As a method:

“netnography is faster, simpler, and less expensive than traditional ethnography, and more naturalistic and unobtrusive than focus groups or interviews. It provides information on the symbolism, meanings, and consumption patterns of consumer groups” (Kozinets, 2002, p. 61).

Kozinets (2010) describes netnography as:

“a written account resulting from fieldwork studying the cultures and communities that emerge from on-line, computer mediated, or Internet-based communications, where both the fieldwork and the textual account are methodologically informed by the traditions and techniques of cultural anthropology.”

Netnography has been said to be especially effective on qualitative research, because when interacting in the online community, participants tend to write from a personal perspective, that usually manifests in the form of experiences and narratives that give a glimpse to the otherwise hidden meanings and values behind the decisions and acts of individual persons (Shankar et al., 2001). Kozinets (1998) also suggested that researches who spend time digging deep in to the online communities can achieve a



more comprehensive understanding of the topics that the community is discussing internally. Netnography has been shown to be effective in predicting certain industry trends merely through the observation of the discussion conducted by trendsetters and specialists (Rickman and Cosenza, 2007). Similarly netnography and observation of online cultures has been successfully used to study areas that would otherwise extremely hard to do research on due to issues like privacy and objectivity of the study subjects (Langer and Beckman, 2005). This way netnography can be used to study topics that are too abstract, too fragile, too new or too sensitive to do research through direct involvement with the study subjects.

Similarly to ethnography, also ethnography makes use of various forms of research techniques and styles. Such techniques can vary from highly technical observations methods to the more traditional note taking at a familiar on-site location with the participants of the internet communities. In the core of the methodology lies the observation of the computer mediated communication. The focus can be on the data itself or in the act of the communication through computer mediation. Through these observations, the researcher can establish an understanding of the study participant's or target's actions and driving purpose. As with all other ethnographical studies, the researcher needs to make sure that while conducting a netnographical study, the approach towards the interest of the study is conducted properly, without obtrusion and ethically, but still solidly capturing enough data to do the research. There's a set of rules that can help the researcher to ensure that the process of data gathering and observation is done right even in the field of computer mediated communication (Kozinets 2010):

- Planning (forming the research plan and establishing a desired outcome or topic)
- Entrée (making an entrance to the community, or fieldsite, that fits the research plan and topic in question)
- Data collection and analysis
- Ensuring ethical standards

- Presenting findings

As the study method, netnography is relatively young. It can be argued that it has been around for over 10 years, ever since Kozinets coined the term back in 1998, but in reality the method is at least under used in qualitative studies as of now. Considering that many of the other qualitative methods can be found from literature across multiple decades, it is understandable that there's still variation and debate as to how properly conduct a netnographical study. One of the first fields to embrace netnography and make full use it was the market research for consumer culture, as noted by Xun et al., (2010). As a consume culture study method, netnography is a powerful tool, since it allows the researcher to observe wide and varied discussions, opinions and insights to the topic at hand without subjecting the participants to a pre-determined study framework. Since the consumers voiced their opinions about a certain matter at their own free will, without the pre-determined knowledge of being studied, one could argue that the data is more pure and evident of the true values and meanings of the consumer.

To begin with netnography is, similarly to ethnography, adaptive in its capability to support various methods and has therefore been called "promiscuous" by many authors describing the technique. Both netnography and ethnography fluently embody techniques like interviews, videography or data mining. Even Kozinets (2010) has suggested lately that the method is open to variation and can better applied to certain studies by partnering it with other methods and study processes, to create synergies between the study angles and to further unearth deeper insights to the topic. Murthy (2008) suggested that such a perfect combination could be the partnership of digital and non-digital study methods. That way the researcher could assume that the topic has been approached extensively from all fronts to ensure maximum data richness.

## 8.2 The method of netnography

It can be said that in its essence, netnography build upon the basis of ethnography and extends the concept to the online world to study the cultures that both only exist there or express themselves as well online as offline. With that basis taken into account, netnography also requires engagement over time, so that the researcher can establish viable and correct observations of the participants and their online culture (Kozinets 2010). Even with the netnography's relaxed view over mixing techniques and making the best out of them, it's still a challenge to do proper research on the internet as most of the techniques weren't really developed with that context in mind. Kozinets (2010) notes that there are at least four points of difference that needs to be taken in to account when comparing the application of the methods between online and physical world studies:

- alteration: different online mediums can set their own tone for the interaction;
- anonymity: online interactions can have a pre-set of anonymity, which will in itself affect the tone and nature of the interaction;
- accessibility: majority of the forums and other online discussion platforms don't require a great deal of security, which allows the researcher to access the culture without the participants knowing they're being observed;
- archiving: technology allows online communications to be archived with ease for further use.

The emphasis on Computer-Mediated Communications (CMC) is in the very heart of netnography as a technique and through that angle (keeping it in mind) the researcher can adapt the context on online communities to the set of tools commonly used in connection with ethnographical studies. These differences create a very unique context for conducting ethnographic research online and require adjustments of traditional ethnographic methodologies to suit the various cultures represented on the

Internet. According to Kozinets (2010), it is exactly this extra layer of adaptiveness that sets netnography apart from other forms of ethnographical studies.

In my study I've chosen to observe the discussion around high growth startups done mainly through blogs, or in some cases collected articles that are based on the original posts on the blogs. In any case, the communication is highly affected by different forms of online interactions and CMC. The authors themselves don't expect to know the audience that they are writing to and even in the case of extended discussion around the topic, the participants don't necessarily know each other beforehand or ever get to know each other afterwards. This underlying context will without a doubt affect both the discussion and the observation of it.

Kozinets (2010) notes that the simple act of conducting interaction online rather than offline sets the otherwise so similar act of communication apart from each other. The accessibility of the community and the approach that one makes are by nature different from the offline community that might otherwise have very similar features. The participants most likely don't need to invest significant amounts of time or money to be a member of the culture or community. Also the participation and exit from the community can be more instantaneous and frictionless as with would be in an offline setting. Online communities can also have "lurkers", who observe, but don't necessarily contribute, yet the members of the community are aware that such participants exist. (Kozinets, 2010). This very feature of the online communities also makes them a fruitful source of ethnographic data.

Also my observation will without a doubt be affected by the fact that I'm not in the same physical presence with my participants, but rather I'm merely observing the culture as it unfolds or has unfolded powered by CMC. Thus I have chosen be a "lurker", rather than an active participant of the online community. While this might create problems if I were to observe larger online communities, with the case of blogs problems such as verification, validity or the selection of the data isn't a

problem as all the bloggers write topic driven articles with their own names. Thus the confidentiality or other public-private data issues shouldn't affect my study as much as they could be a problem for a cultural online community study (Kozinets, 2010).

I have not chosen netnography to fairly and accurately represent the nature of the online activities of profiles that the authors of the blogs I have chosen have, but to more accommodate the fact that an interview or any other traditional ethnographical and qualitative study with these busy businessmen from US would have been highly unlike or extremely cumbersome at the very least for an Master's Thesis writer from Helsinki. It is obvious that the author's online persona will contribute to the way in which they conduct themselves online through their blogs and what they will write up, but in this case of studying the collective prosaic output of middle aged white men whom some sit on boards of publicly traded companies, it is certain that they will conduct themselves to a fairly high standard presentation and won't let the medium affect their output.

### **8.3 The subjects of the study**

According to Kozinets (2010) a netnographer should make sure that a set of guidelines are followed while conducting research in the online environment:

- fieldsite identification and entering the online community
- data collection
- data analysis
- ensuring ethical standards
- reporting findings

As mentioned already before, the fieldsite identification came down to a very simple criteria, where to find the best and preferably most verbal witnesses of high growth in firm setting. Kozinets (2010) suggests that natural place to start a fieldsite search

is to open up a search engine. Given that as I researcher I do not speak any languages other than Finnish, Swedish and English, it was rather easy to narrow down the search engines and terms that I could in location the proper fieldsite for my research. It was safe to assume that the English discussion regarding high growth was to be more bountiful than the Finnish or Swedish, I headed to Google and started to narrow down a set of communities or locations where to get data from.

Kozinets (2006) also warns that there are dangers in using netnography as a research method. One can end up fudging the whole process if lured by the relative ease of the method and driven astray by lack of focus or direction. Netnographer can collect massive amounts of data without much resources or investments in time, but it can be harder to validate the relevance of that data, especially if the topic of the research isn't clearly defined or the researcher does not exactly know what he or she is looking for. The allure of seemingly transcribed and ready research data can quickly overwhelm and derail a research, as there isn't any other procedures or learning loops like interviews or offline interactions to affirm the research focus. Additionally one must be aware of the potential cultural gap that might for between an online culture and language used in everyday interaction outside of the online community. To be able to understand and codify the meanings behind the writing, the research must have come to understand the culture in at least in some way.

#### **8.4 Netnographic research process**

In its nature, netnography is a qualitative research method and thus follows many of the basic principles of the process from planning the research all the way through data collection to interpretation and presenting the findings. The basic outline of my research was adapted from Kozinets (2010) suggestion of the standard flow of netnographical research process.

- Research focus and planning
- Community Identification, Selection and Entrée

- Engagement, Immersion, Data Collection
- Analysis and Iterative Interpretation
- Ensuring Ethical and Procedural Standards
- Presenting findings

## **8.5 Research topic and questions**

According to Kozinets (2010), netnography is especially suitable for two kinds of qualitative study; explorative study of online communities and narrowing a previously identified topic within a certain culture group to acquire a more precise understanding of the issue. For explorative studies netnography offers a tool to canvas online cultures and communities that other approaches might have a hard time dealing with. Through the netnographic process, a researcher can rather easily gain an overview of an online community and its culture by simply observing it. A deeper understanding of an existing topic can be similarly found via netnography by applying it to a certain online community, thus creating an exact albeit narrow view of the topic in a particular context. As with all approaches, one is advised to tread carefully and iterate along the way. I've chosen to try and get a more precise look in to the phenomena of high growth by digging deep in to the expert discussion culture between venture capitalists.

A quick look at the discussion relating to the topic by authors that fit the profile of my research proposal proved that observing blogs is the most efficient form of analysing the discussion in this particular community. All of the authors are active in other social media outlets, participate in recorded panel discussions and some of them even have the habit of condensing their blog posts in to a more dense format such as long form articles or even books. The authors were found interacting even in the more niche platforms of CMC, as it is sort of part of their job description to test out what's out there, since they are many times the ones funding the winners of any emerging platform category. Thus, it is good to start the scoping of the research by addressing all possible sources of data for netnography, even though the precedent is that blogs will most likely remain the main source of information for this study.

Let's call these emerging platforms "Social Media", as they all exhibit the qualities outlined by Buettner (2016); "Social media are computer-mediated tools that allow people or companies to create, share, or exchange information, career interests, ideas, and pictures/videos in virtual communities and networks.". To categorize different types of social media, I've adapted the description list by Gundecha and Liu (2012).

- Online social networking

Online social networks are Web-based services that allow individuals and communities to connect with real-world friends and acquaintances online. Users interact with each other through status updates, comments, media sharing, messages, etc. (e.g., Facebook, Myspace, LinkedIn).

- Blogging

A blog is a journal-like website for users, aka bloggers, to contribute textual and multimedia content, arranged in reverse chronological order. Blogs are generally maintained by an individual or by a community (e.g., Huffington Post, Business Insider, Engadget).

- Microblogging

Microblogs can be considered same as blogs but with limited content (e.g., Twitter, Tumblr, Plurk).

- Wikis

A wiki is a collaborative editing environment that allow multiple users to develop Web pages (e.g., Wikipedia, Wikitravel, Wikihow).



- Social news

Social news refers to the sharing and selection of news stories and articles by community of users (e.g., Digg, Slashdot, Reddit).

- Social bookmarking

Social bookmarking sites allow users to bookmark Web content for storage, organization, and sharing (e.g., Delicious, StumbleUpon).

- Media sharing

Media sharing is an umbrella term that refers to the sharing of variety of media on the Web including video, audio, and photo (e.g., YouTube, Flickr, UstreamTV).

- Opinion, reviews, and ratings

The primary function of such sites is to collect and publish usersubmitted content in the form of subjective commentary on existing products, services, entertainment, businesses, places, etc. Some of these sites also provide products reviews (e.g., Epinions, Yelp, Cnet).

- Answers

These sites provide a platform for users seeking advice, guidance, or knowledge to ask questions. Other users from the community can answer these questions based on previous experiences, personal opinions, or relevent research. Answers are generally judged using ratings and comments (e.g., Yahoo! answers, WikiAnswers).

- Social media in research

One has to be diligent when using data from social media sources, as there are many different terminologies and categorizations for it in past literature. A prevailing definition is yet to emerge, but many authors offer their views on the nature of the data and how it should be applied in research. Clever et al. (2008) suggested that social media data is essentially “different kinds of media contents created and published by amateurs who have just been at the consuming end in the past”. Other authors have suggested that social media content should be called and categorized as User Generated Content (UGC), which they further identified to be “a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0, and that allow the creation and exchange of User Generated Content” (Kaplan and Haenlein, 2010). Russom (2011) suggested that social media data should be considered as one sub-category of big data and treated with similar approach as any data coming off of any kind of device or sensor, even though social media data is usually generated by humans and not devices or sensors.

For guidance, I’ve adapted the social media content analyzing method by Veeck (2013). She underlines that even though the methods for analyzing social media data have been greatly improved in the recent years, most of them still provide only a summary analysis and statistics of data, not meaning behind the data. According to her, still the best way to extract value out of social media data is to conduct an in-depth analysis by following a set of steps that are design to give tools for an analyst to extract insights from the data.

Steps to analyze social media:

- Develop a problem definition and research objectives

Developing focused research objectives is, for most research, the key step. This step is especially important in social media data analysis, as the amount of data at hand can be overwhelming without a clear objective in mind. The pathway to a manageable analysis process is to limit the focus, define the topic and specify

objectives. Even then, as with all research, the research objectives should be able to accommodate for variation to enable discovery on unintended, but valuable new insights.

- Identify key search terms

This part of the research is often in iterative one, so Veeck suggests to start with a broad set of search terms, combine them and try to create variation with synonyms or tangential phrases. Suggested starting points are terms like brands and classes of products or terminology of the phenomena under research.

- Identify social media data source

As I've had already noticed during my preliminary dip in to the social media data for my research proposal, finding the most current information and locations on social media is what Veeck would call a "moving target" as the discussion usually starts off wherever the author wishes, but can move off to wherever the larger community wants. However, typically these discussions will remain within the sphere of social network sites, video sharing sites, photo-sharing sites, product and service review sites, web-based communities, blogs and microblogs.

- Organize data

Even though social media can be a text driven platform, especially in the recent years photos, videos, podcasts, artwork and other audiovisual materials have grown their significance as tools of communication. Veeck notes that sometimes the most important consumer-generated data can be found within these formats and not text. Sourcing and organizing the research data should mirror this fact.

- Analyze data

Once all previous steps have been concluded, then the analysing phase of social media data is very much the same as it is with all other qualitative research, as also noted by Kozinets (2010).

- Present findings

Even though the rise of non-text based communication in social media, the majority of the content is still in text format thus is very suitable for qualitative text based research, where especially presenting the findings has many advantages over other data sources. Findings from social media can be presented as direct quotes without literature procedures or the fear of loss of concept or meaning. Photos and videos can be directly attached to give further illustration to the findings.

- Outline limitations

Due to its nature, social media data can be rich in potential for acquiring deep insights, but it can also be fatally constrained. Veeck stresses that one must be able to remain objective about potential limitations and address them accordingly. Most commonly limitations occur when:

- The online consumers are not necessarily demographically representative of the product's target consumers
- Self-selection bias is inherent with social media data
- Advocates and detractors can distort online conversations
- The demographic and geographic information of the consumers is of the not traceable

- Strategize

After the other steps have been completed diligently, a research-based and actionable set of recommendations need to be presented.

## **8.6 Selection of blogs**

As I've previously identified blogs to be the main source of my research data, I will focus on them as one category of social media data in further detail, while still keeping in mind the aspects of other categories, to allow for an element of discovery.

Eriksson & Kovalainen (2008), alongside with Veeck (2013), Kozinets (2010) and numerous other authors keep circling back to the fact that analysing social media or any internet-based data source has it's many pitfalls. Kozinets (2010) developed his own specified list on how to evaluate and choose material for the study. I will use this list alongside with Veeck's (2013) in gathering my material and to assure maximum diligence.

Firstly, the researcher must make sure that the online communities or other data sources related at least to some degree with research question and product rich information about the topic. The first criteria was probably met as I've already identified the blogs in my pre-research for the research proposal and those blogs are written by authors that are considered by many in the community to be the leading voices of the discussion of high growth.

Secondly Kozinets (2010) notes that the community in question must be as active as possible in order to produce sufficient amount of data with timely relevancy. As many of the authors write almost daily and even the more inactive ones on a weekly basis, this criterion is as well seen to have met. After activity, Kozinets (2010) states that the community must be interactive and have a certain degree of substantiality. In my pre-research I noticed that whilst the blog post can be in a long form format, the

authors are active in discussing the topics of their posts in the comment section of their blogs, or frankly pretty much in any media outlet that the discussion turned to. Considering this one can state that both interactivity and a certain degree of substantiality have been fulfilled.

Last criterions by Kozinets (2010) are heterogeneity and richness of data. All of the authors that I chose have been writing their blogs since 2010 and have amassed over hundred posts each. Even though they are all white, middle aged males, they live and invest in Los Angeles, Palo Alto, San Francisco and New York. Some of them invest up to \$250 000 and some up to \$250 000 000, so at least the variance in their position and scope of their “funnel” for new companies to grow is big. Also, thanks to their variance in “ticket” size and geography, their audience can be assumed to vary at least to a certain extent.

As the authors are important business figures in their own right and thus can be considered to lead a busy lives, so even though the ethical guidelines of netnography call for checking permissions to use the text both before and after analysis, the assumption was made that at least some of the authors would not care to comment either way to the subject. However, all authors were asked for permission and for the most parts, it was received – only one, the generally most infrequent writer and communicator, did not answer the request. As previously stated in the selection phase of the authors, all of them write their blogs to both publicly share their ideas and to market their investment fund, so even despite the explicit permission it was considered possible to continue with the analysis of that author’s material. Since this study is about observing and analyzing, not actively participating in to the culture, the permissions were asked via email to avoid any unnecessary disruption the discussion in the public forums (Kozinets 2010).

The outline for the profiles of the bloggers is presented below.

#### Bill Gurley

- <http://abovethecrowd.com/>
- General Partner at Benchmark Capital
- 50 years old
- Menlo Park, California
- Investments: Uber, GrubHub, Nextdoor, OpenTable, Zillow

#### Mark Suster

- <https://bothsidesofthetable.com/>
- Managing Partner at Upfront Ventures
- 48 years old
- Los Angeles, California
- Investments: Maker Studios, uBeam, Epoxy, Gravity, Burstly

#### Ben Horowitz

- <http://www.bhorowitz.com/>
- General Partner at Andreessen Horowitz
- 49 years old
- Menlo Park, California
- Investments: Foursquare, Jawbone, TransferWise, Lytro, Okta

#### Fred Wilson

- <http://avc.com/>
- Managing Partner at Union Square Ventures
- 54 years old
- New York City, New York
- Investments: Twitter, Tumblr, Foursquare, Zynga, Kickstarter





Kozinets (2010) instructs to keep data analysis and data collection intertwined while doing netnography. In many cases the authors themselves categorize their blog posts according to the main theme of the post or with a selection of tags that imply the contents of the article. This allows the researcher to have a starting point for data collection and categorization, but Kozinets (2010) reminds that netnography should not be limited to only the categorization that the CMC tools provide, but to apply one's own methods of data collection and try to mix as many of them as possible to achieve a best overall solution. Collecting the data imposes a sort of preliminary analysis to the data, as there is a process of refinement and categorization through sifting through the contents to figure out to which topic and larger theme any particular blog post or article belongs to. Whilst gathering and analysing blog post, one is compelled to use a number of different observational techniques due to the fact that some of the articles are written as prose, some as opt-eds and some as information cheat sheets. Many of the posts include photos, videos and graphics to illustrate the point of the author further. Thus at least three methods of analysis were used on top of the initial categorization; qualitative content analysis, visual analysis and interpretive analysis.

The analysis was coupled with fieldnotes (Kozinets 2010) and any non-related comments or posts by the author were disregarded from the data. The data was collected between February 2016 and May 2016, but all the available data by the authors were taken in to account, even if the origin date predated the gathering period. Visual data was coupled with the original posts if it was deemed to contribute the value of the post (e.g. stock images for post headers were not filed) and described if needed (Moisander & Valtonen 2006). The material was filed with Microsoft Word and categorized to different files according to the author. Internal file categorization was done according to topic, with additional structure provided by the thematic tags and observations arising from the fieldnotes.

## **8.8 Analysis and interpretation**

According to Moisander & Valtonen (2006), the root of an analysis is to make a certain kind of sense of the data and to interpret it to either explain or further understand the phenomena that the data represents. Shankar et al (2001) posit that the researcher must keep in mind that the phenomena itself and its understanding is the basis of the study, not the data. The data works merely as a tool to extract meaning to then be applied to the explanation of the phenomena. The researcher must also keep in mind that the interpretation of the data contributes to the narrative of the explanation of the phenomena, because there is no truly objective way of doing qualitative interpretation due to social and historical contexts.

Moisander & Valtonen (2006) state that before engaging in to the process of sorting, categorizing and executing preliminary analysis on the data, one should have an initial framework in mind that's a combination of assumptions and ideas of how the data will be used and analysed. Such framework can be established by acquainting oneself with the literature on the subject, for example. Once an initial framework has been established, it is equally important to try and assure that the data interpreted in multiple ways, both measurable and non-measurable.

Moisander & Valtonen suggest that a hermeneutic approach would be a suitable tool for interpreting and understanding the non-measurable dimension of the collected data as it applies both for linguistic and non-linguistic methods of expression. Through the hermeneutic process a researcher can get a deeper understanding of all the parts of the big picture and is better equipped to interpret the phenomena wholly. Through the process of interpretation, understanding, pre-understanding and explanation a researcher can arrive to the hermeneutic "big picture". Previous learnings and experiences build for the capability of pre-understanding the topic, but can be misleading as new learning happens simultaneously with the data collection and analysis. With correct pre-learning, one can achieve efficient understanding and interpretation of the phenomena, which then leads to the correct explanation of the phenomena and growth in both knowledge and

theory according to the hermeneutic process (Ödman 2007). Even though I thought I had at least a vague understanding of the topic when going in to this research thanks to my own background as an entrepreneur and my work with startups at Aaltoes, Startup Sauna and Slush, it did indeed occur to me that every new blog post I read built on the understanding of the phenomena, which then led me to better put the pieces together for a more complete big picture and further understanding. The hermeneutic process can be followed also through the netnographic interpretation process suggested by Kozinets (2010):

- Categorizing the different elements of blog posts
- Comparing the elements to each other to find overlaps
- Examination of the nature of the elements and similarities
- Applying acquired further understanding to the analysis and categorization
- Processing the data as a whole with new understanding of the topic

## **8.9 Evaluation of the study**

According to Kozinets (2010) there are altogether ten factors to keep in mind when assuring a reliable and correct netnographic research:

- Coherence

Data must be interpreted in a way that creates matching results across new interpretation rounds or loops. The data that has collected should create the same interpretive conclusions without contradiction between results. Coherence can be achieved by maintaining the same or similar research assumptions throughout the data gathering and analysis, even though the understanding and learning of the phenomena accumulates along the way.

- Rigour

Methodological rules and code of conduct should be complied with throughout the process to maintain accountability and credible outcomes. In its essence, rigour in netnography represents the way in which a researcher applies the rules and practices of the method in his research. As the method itself is fairly new and not widespread, there can be occasional situations where the extent of ones netnographic rigour is up for interpretation in itself. In this research rigour was maintained by leaning on to the widely accepted standards of ethnography, qualitative research practices and the commonly suggested standards of netnography.

- Literacy

In attempting to achieve literacy in one's research, it is crucial to take in to account the body of existing literature, discussion and research approaches applicable to the topic at hand. The topic of firm growth is a widely studied subject in past literature, but qualitative and especially netnographic studies on the topic or even closely related topics were scarce. By building on the existing theory and applying the standards of the netnographic research approach, the literacy standard was met with acceptable rate.

- Groundedness

To achieve groundedness, the researcher must base results, discussion and suggestions on the data and establish a clear link between them to show that the data supports the findings and interpretation. Since this study has been qualitative in it's nature, the findings and suggestions are supported by excerpts from the gathered text based data. Not all gathered data and fieldnotes can be presented within the format of this thesis, but the most relevant and thematically frequent excerpts were chosen to support the interpretation so that the reader can get a sense of the link between the material and results.

- Innovation

Innovation in netnographic research is to use the methodology to achieve something new, create new knowledge and expand the current understanding of the topic. The scope of the newness or innovation is obviously up for the debate in the larger academic community, but since there hasn't been much netnographic studies conducted on the topic of high growth companies, the study will create a certain amount of new knowledge and expand the understanding of the topic.

- Resonance

Applying resonance to ones writing and research process aims to make sure that the overall tone of voice continues to be both the correct one and coherent throughout the interpretation, comments and writing. Resonance can be said to have been achieved if the researcher can approach the subject from a more personal angle after going through the data and conducting the analysis. This way the researcher can offer insights in the writing and not merely state the findings like a robot.

- Verisimilitude

To achieve verisimilitude in one's text, it must be a truthful and believable representation of the real world that it was meant to describe. The value of the text can be considered by the way how it captures the phenomenon or culture that it is trying to describe. If by going through the text one can get a vivid and thorough understanding of the culture, then the desired outcome for the representation has been established and a required degree of verisimilitude achieved. To make sure that this representation happened in this study, many relevant inserts from the blog texts were presented alongside with the discussion and conclusions that arose from the data interpretation.

- Reflexivity

When doing interpretative research based on data that has high cultural context, one must keep in mind that the researcher himself plays a role in both the gathering, interpretation and even sometimes in the creation of the data. Thus another researcher might make a wholly different interpretations based on the same data and culture that the original one did. To achieve maximized truthfulness and reflexivity in the processing of the data, most of the text excerpts that were used to support conclusions and findings were referenced in their totality, as far as the context of the text required them to be.

- Praxis

Kozinets himself calls praxis as "practical action aimed at social betterments". The study and data gathering that follows a netnographic process should be able to contribute to advancing or enabling some form of social action related to the study topic. The study of high growth firms based on the testimonials of the actual people who grow these high growth firms has been somewhat lacking and one can only hope that this thesis would work as an inspiration to increase consulting the practitioners of the trade in the future.

- Intermix

Even though the participants of an online culture might not know each other outside of the online context that they share, each one of them is still part of their own offline context and they inevitably bring some of that context with them to the online community that they interact with. Thus there is a constant interaction with these two realities, even though they might not have much in common otherwise. To ensure that the intermix aspect of the data is to be taken in to account, sometimes it calls for to mix different methodologies with netnography, but in the case of this thesis both the offline and online context of the blog authors can be considered to be very similar and the study mainly focused on the online aspect of the data.

## 9 FINDINGS

The contents of this chapter are the represented findings, organized according to the proposed framework in chapter 7.

### 9.1 Entrepreneurs

Out of the five bloggers, who are all now venture capitalists investing in entrepreneur's companies, three have been entrepreneurs themselves. The two who don't have an entrepreneurial background per se are Fred Wilson and Bill Gurley. Gurley has a varied background in both technical and business related roles in different high technology companies and Wall Street finance firms, but has never (according to public record) been the founder of a firm himself. Wilson however has founded two venture capital firms and operated them over the past 20 years. Even though running a finance firm isn't quite comparable to building, let's say \$10 billion tech company, it still has many of the operational features in place – they would go on to take the risk of failing to get the firm off the ground, then make the wrong decisions and eventually close down the company, just like any other founder. Gurley's career also extends almost over 30 years through different roles from engineering to chairing different boards of directors. Thus, if not through a personal experience, all of these investors are very founder centric in their writing and visit the topic often.

All of the authors emphasize that not everyone should be a founder of a high growing company and while it is not a nature versus nurture kind of debate, there are certain key qualities that they've perceived to have positive relation with successful ventures.

*Usually successful startups happen because the founders are sufficiently different from other people that ideas few others can see seem obvious to them. Perhaps later they step back and notice they've found an idea in everyone*

*else's blind spot, and from that point make a deliberate effort to stay there (Paul Graham).*

Ben Horowitz, who has also written a book about being a founder called “The Hard Thing About Hard Things”, advocates the fact that no one is ready to run a high growth firm without going through the motions of finding about it first – either through education, experience or preferably a mixture of both.

*Managing at scale is a learned skill rather than a natural ability—Nobody comes out of the womb knowing how to manage a thousand people. Everybody learns at some point (Ben Horowitz).*

Horowitz has been very vocal about both his own shortcomings as a founder, but also the mistakes that his portfolio company founders have done in their efforts to build a lasting and growing business. He often times circles back to the fact that founders just need to bite the proverbial bullet and that there isn't a shortcut to success, even if the individual is remarkable in every other way. In this sense, Horowitz is probably the most avid proponent of the “nurture” viewpoint and does not, at least knowingly, seem to contribute the myth of the all-knowing and limitless visionary founder that is sometimes found in the discussion regarding startup success.

*I am a giant advocate for technical founders running their own companies, but one consistent way that technical founders deeply harm their businesses is by screwing up the budgeting process (Ben Horowitz).*

A bit surprisingly, the one who has the “least” founder experience out of the group seems to be the most positive about founders having some abilities that non-founders have and are thus able to seize opportunities where others can't.



*Entrepreneurs accurately recognize that the connective tissue of the Internet provides an opportunity to link the players in a particular market, reducing friction in both the buying and selling experience (Bill Gurley).*

However, he does emphasize that it's still not magic, but merely hard work.

*Being a great leader means leading in good times as well as tough times (Bill Gurley).*

Paul Graham shares a similar opinion about entrepreneurs being a little different, but most of all hard working.

*What you're really doing (and to the dismay of some observers, all you're really doing) when you start a startup is committing to solve a harder type of problem than ordinary businesses do. You're committing to search for one of the rare ideas that generate rapid growth (Paul Graham).*

Horowitz often writes about how being an entrepreneur leaves a lasting mark to the individual in question sooner or later if he or she is to really pursue the entrepreneurial path with full force. The viewpoint to running a business evolves to something else once one commits to achieving growth at all costs and suddenly the things that would otherwise be considered as successes by normal business standards will seem like a failure or half measures at best.

*What is start-up purgatory, you ask? Start-up purgatory occurs when you don't go bankrupt, but you fail to build the No. 1 product in the space. You have enough money with your conservative burn rate to last for many years. You may even be cash-flow positive. However, you have zero chance of becoming a high-growth company. You have zero chance of being anything but a very small technology business. From the entrepreneur's point of view, this can be*

*worse than start-up hell [bankruptcy] since you are stuck with the small company (Ben Horowitz).*

Fred Wilson agrees with the viewpoint that similarly to a drug, growth will also get you hooked once you achieve it and it will start to dictate the decisions made by the entrepreneurs. He demonstrates his affection the everlasting seek of growth by calling it “a bitch”.

*Growing at 100% a year when your top line is in the billions is a lot harder than growing at 100% a year when your top line is \$25mm.*

*Of course, you can come up with new lines of business, new hit products, or make acquisitions to keep on the growth treadmill. But recognize that is what you are on. You can and will become a slave to it.*

*Startups and their rich uncle pennybags (VCs) are particular slaves to this drug. We build and finance companies that are designed to grow and grow and grow. That's how we create wealth, jobs, and impact. It's a fantastic ride that I cannot get off. But these rides do slow down and even end sometimes. And that's a bitch (Fred Wilson).*

So founders do not only crave for opportunities that can seem intimidating or even impossible for some, but they also have the accumulate experience and acquired knowledge to create insights that allow them to go after opportunities that are far from clear cut business school exercises.

*So 20 months ago in San Francisco, Uber was already at 100% of Damodaran's [professor who had criticized Uber's valuation] historic market, and growth was still tilting up and to the right. The only way this is possible is if the market is expanding at rapid pace, beyond the historical limit.*

*More recently in a WSJ interview dated June 6, 2014, Travis [Kalanick, Uber CEO] notes “When we got this company started (in 2009) we were pitching the*

*seed round and we pulled a bunch of research from this report that showed that San Francisco total spend on taxi and limo was like 120 million bucks. But we're a very healthy multiple bigger than that right now, just Uber in SF. So it's not about the market that exists, it's about the market we're creating." He then goes on to note that the San Francisco market for car ownership is closer to \$22 billion*

*Could Uber reach a point in terms of price and convenience that it becomes a preferable alternative to owning a car (Bill Gurley)?*

Graham summarized the reason why these seemingly highly talented, well-educated and altogether insightful individuals choose to embark on a journey that is so obviously very risky and most definitely hard.

*Growth drives everything in this world. Growth is why startups usually work on technology—because ideas for fast growing companies are so rare that the best way to find new ones is to discover those recently made viable by change, and technology is the best source of rapid change. Growth is why it's a rational choice economically for so many founders to try starting a startup: growth makes the successful companies so valuable that the expected value is high even though the risk is too. Growth is why VCs want to invest in startups: not just because the returns are high but also because generating returns from capital gains is easier to manage than generating returns from dividends. Growth explains why the most successful startups take VC money even if they don't need to: it lets them choose their growth rate. And growth explains why successful startups almost invariably get acquisition offers. To acquirers a fast-growing company is not merely valuable but dangerous too (Paul Graham).*

## **9.2 The Firm**

Similarly to how all of the bloggers describe that an entrepreneur needs to be of certain caliber and type to go after high growth (and succeed in it), also the firm itself

has implications from the same goal setting. The bloggers unanimously seem to agree that all firms are not created equal in this sense and for some type of firms, it is simply impossible to achieve high growth. Firms that achieve the highest of growth multiples have been on that particular path by design from very early on. They've been committed to growth from the start.

*A barbershop isn't designed to grow fast. Whereas a search engine, for example, is.*

*When I say startups are designed to grow fast, I mean it in two senses. Partly I mean designed in the sense of intended, because most startups fail. But I also mean startups are different by nature, in the same way a redwood seedling has a different destiny from a bean sprout.*

*That difference is why there's a distinct word, "startup," for companies designed to grow fast.*

*To grow rapidly, you need to make something you can sell to a big market. That's the difference between Google and a barbershop. A barbershop doesn't scale.*

*For a company to grow really big, it must (a) make something lots of people want, and (b) reach and serve all those people.*

*If you write software to teach Tibetan to Hungarians, you won't have much competition. If you write software to teach English to Chinese speakers, you'll face ferocious competition, precisely because that's such a larger prize (Paul Graham).*

Fred Wilson agrees that there is a very clear categorization between non-growing and growth oriented companies.

*When thinking about startups, growth is good (Fred Wilson).*

However, the line is somewhat blurry and none of the authors offer a clear definition as to what exactly, in quantified terms is categorized as a growth firm. Paul Graham lays it out in a way that seemed to describe the thoughts of the other bloggers, as three of the referenced his categorization in their own texts on the topic.

*How fast does a company have to grow to be considered a startup? There's no precise answer to that. "Startup" is a pole, not a threshold. Starting one is at first no more than a declaration of one's ambitions. You're committing not just to starting a company, but to starting a fast growing one, and you're thus committing to search for one of the rare ideas of that type.*

*So the real question is not what growth rate makes a company a startup, but what growth rate successful startups tend to have.*

*The growth of a successful startup usually has three phases:*

- 1. There's an initial period of slow or no growth while the startup tries to figure out what it's doing.*
- 2. As the startup figures out how to make something lots of people want and how to reach those people, there's a period of rapid growth.*
- 3. Eventually a successful startup will grow into a big company. Growth will slow, partly due to internal limits and partly because the company is starting to bump up against the limits of the markets it serves (Paul Graham).*

Having probably the most in-depth founder experience out of the five bloggers, Ben Horowitz often writes about the changes in leadership and the firm structure as it goes through high growth.

*If you want to build an important company, then at some point you have to scale. People in startup land often talk about the magic of how few people built the original Google or the original Facebook, but today's Google employs 20,000 people and today's Facebook employs over 1,500 people. So, if you*

*want to do something that matters, then you are going to have to learn the black art of scaling a human organization (Ben Horowitz).*

He lists many of the same processes that have been identified in academic literature to be the ones under the most pressure for adaptation as the organization grows.

*When an organization grows in size, things that were previously easy become difficult. Specifically, the following things that cause no trouble when you are small become big challenges as you grow:*

- *Communication*
- *Common knowledge*
- *Decision making*

*(Ben Horowitz)*

Horowitz and all the other bloggers agree with the literature findings that small companies can have extremely rapid growth and be relatively unaffected by it, but the threshold for that transition from blissful ignorance to the brutal reality of company scaling comes on fast. Faster than some founders even expect.

*The enemy of cultural cohesion is super-fast headcount growth. Companies that grow faster than doubling their headcount annually tend to have serious cultural drift, even if they do a great job of onboarding new employees and training them. Sometimes this kind of growth is necessary and manageable in certain functions like sales, but is usually counterproductive in other areas where internal communication is critical like engineering and marketing. If you quadruple your engineering headcount in a year, you will likely have less absolute throughput than if you doubled headcount. As an added bonus, you will burn way more cash. Even worse, you will lose cultural consistency as new people with little guidance will come in with their own way of doing things that doesn't match your way of doing things. Note that this does not apply to*

*you if you have very small numbers. It's fine to grow engineering from one to four people or from two to eight. However, if you try to grow from 50 to 200, you will cause major issues if you are not extremely careful. (Ben Horowitz).*

He notes that in order for a company to survive high growth, such changes towards an updated managerial process and organization structure are a must.

*When you scale an organization, you will also need to give ground grudgingly. Specialization, organizational structure, and process all complicate things quite a bit and implementing them will feel like you are moving away from common knowledge and quality communication. It is very much like the offensive lineman taking a step backwards. You will lose ground, but you will prevent your company from descending into chaos (Ben Horowitz).*

But also reminds that most likely there is no one formula or silver bullet for it and many will need to try different variations along the way.

*The first rule of organizational design is that all organizational designs are bad (Ben Horowitz).*

Horowitz goes as far as to suggest that the high growth firm is sort of an living organism that goes through a metamorphosis as it matures and eventually will look little like one company that it once was, causing a lot managerial complexity along the way as it transforms.

*When a company multiplies in size, the management jobs become brand new jobs. As a result, everybody needs to re-qualify for the new job, because the new job and the old job are not the same. Running a 200 person global sales organization is not the same job as running a 25 person local sales team (Ben Horowitz).*

Gurley, who has spent a large portion of his career with larger growth companies, confirms that the underlying stress that growth creates towards an organization does not relate to absolute size. It does not disappear as the company matures, but rather stay constant for as long as the company keeps on growing and maintains its relative growth curve.

*Google reached \$10B in revenue in about 3X more quickly than Microsoft. Unfortunately, this coin has two sides (Bill Gurley).*

He further illustrates that once a company has successfully gone through the scaling efforts and built an organization and a business that is designed for growth, it can in itself create a positive circle of continuous expansion. He calls this “business model nirvana” where growth creates more growth, but only when done right from the very beginning. Thus, in his view, growth isn’t something a firm just stumbles upon.

*Key point is that certain technology businesses, rather than being exposed to diminishing marginal returns like historical industrial businesses, are actually subject to a phenomenon called known as “increasing returns.” Gaining market share puts them in a better position to gain more market share. Increasing returns are particularly powerful when a network effect is present. According to Wikipedia, a network effect is present when “... the value of a product or service is dependent on the number of others using it.” In other words, the more people that use the product or service, the more valuable it is to each and every user.*

*The more people that use Uber, the shorter the pick up times in each region.*

*The more people that use Uber, the greater the coverage.*

*The more people that use Uber, the lower the overall price will be for the consumer.*

*Scale clearly matters for these types of opportunities (Bill Gurley).*



Mark Suster agrees on the view that companies that are dedicated to growth from the beginning and optimize their course of action with that in mind, will more likely be the winners in the end.

*Company that is growing more quickly is more likely to yield better overall profits in the future.*

*So for a start when you want to evaluate companies you want to evaluate “growth.” Looking at earnings alone across two companies won’t tell you the picture of the different prospects (Mark Suster).*

Graham adds that the design for growth makes the companies not only valuable, but also “dangerous”, which means that they have the potential to disrupt businesses or industries, which by definition the not-designed-for-growth companies probably will not have.

*A rapidly growing company is valuable, but acquirers have an additional reason to want startups. A rapidly growing company is not merely valuable, but dangerous. If it keeps expanding, it might expand into the acquirer's own territory (Paul Graham).*

### **9.3 Strategy**

Firms that want to achieve growth need to do that by creating unique value to the customer in degrees that makes them want to pay for it and not opt for the competing offering. This is something that all the bloggers seem to be very much in agreement with.

*When a startup grows fast it's usually because the product hits a nerve, in the sense of hitting some big need straight on (Paul Graham).*

As already implied in the other two attributes, growth does not simply happen in a vacuum, it has many organizational and managerial implications. One of them is the inevitable increase in complexity.

*If the company doesn't expand, then it will never be much of a company, so the challenge is to grow and degrade as slowly as possible (Ben Horowitz).*

Existing literature has identified many ways of combating complexity in organizations, but one of the most often cited tools is to invest in employee training and buying the relevant knowledge from outside of the organization (i.e. hiring).

*As the company grows, it becomes increasingly difficult to add new engineers, because the learning curve starts to get super steep (Ben Horowitz).*

Similarly to the importance of employee training, also managerial training and knowledge growth is an integral part of a successful overall growth strategy.

*Be mindful of your company's true growth rate as you add architectural components. It's good to anticipate growth, but it's bad to over-anticipate growth (Ben Horowitz).*

Firms can make sure that they are minding all the aspects of the process by securing outside advice and help to ease the process, but the further the advice comes from, the greater the capability for damage it has if the management can't implement it the right way.

*If you build a great product and the market wants it, you will find yourself needing to grow your company extremely quickly. Nothing will ensure your success like hiring the right executive who has grown an organization like yours very quickly and successfully before.*

*The successful fast growth executive is so important to building successful startups that recruiters and venture capitalists often advise CEOs to bring them in before the company is ready (Ben Horowitz).*

All of the bloggers agree that since high growth companies are such heterogeneous, one can only provide advice that needs to be applied to the particular context of every firm at the manager's own risk. After that's been said, there's only one goal for the company: to grow.

*There are only two priorities for a start-up: Winning the market and not running out of cash (Ben Horowitz).*

The appreciation for growth is unanimous across different bloggers and different themes that they cover. No matter what the topic at hand, growth always comes up as a preferred goal for the company

*Investors value growth (Mark Suster).*

As investors, they authors are obviously biased towards giving entrepreneurs advice that isn't at least counterintuitive towards their own agenda, and as previously was covered, investors love growth because growing companies become large companies and large companies get acquired or return the investment through an IPO. Maybe that's why the persuasion to push the growth to extremes seems to be a widely covered topic.

*There is a healthy tension between profits & growth. To grow faster businesses need resources in today's financial period to fund growth that may not come for 6 months to a year-*

*I often point out that investors at this stage care way more about growth than profits so be careful not to shoot yourself in the foot. I certainly understand the desire to be in control, which is what you are when you earn a profit. Just be*

*careful that it doesn't come at the expense of investments in growth (Mark Suster).*

*This is the trade-off between profits & growth. You can drive profits up by not investing today's dollars in tomorrow's growth (Mark Suster).*

*The market favors growth over profits. Competition also has access to capital. So, raise as much as you can as fast as you can, and be super-ambitious. Take as much market share as you can (Bill Gurley).*

*One key to this population growth [of "unicorn" valued startups] has been the remarkable ease of the Unicorn fundraising process: Pick a new valuation well above your last one, put together a presentation deck, solicit offers, and watch the hundreds of millions of dollars flow into your bank account. Twelve to eighteen months later, you hit the road and do it again — super simple (Bill Gurley).*

Warnings were also raised about trying to manufacture growth were there weren't any. Growth in itself remains the top priority of a company according to all of the bloggers, but they also warn that one should not get disillusioned about the timing of growth. If the company simply isn't ready or capable to embark on a growth trajectory and sustain in it with relative ease, it might be a favorable managerial decision to hold off on it and keep building the foundation. Managers can get caught up in the idea of having to present growth numbers to the market and investors or otherwise hurt the company's prospects for future. Whereas, according to the authors, the opposite is usually true. If a company has a solid base for growth and can demonstrate the capability to execute on the potential, that is the stuff of legends for a founder – investor relationship.

*While growth is quite important, and even though we are in a market where growth is in particularly high demand, growth all by itself can be misleading. Here is the problem. Growth that can never translate into long-term positive cash flow will have a negative impact on a DCF [Discounted Cash Flow] model, not a positive one. This is known as "profitless prosperity."*

*In the late 1990s, when Wall Street began to pay for “revenue” and not “profits” many entrepreneurs figured out a way to give them the revenues they wanted. It turns out that if all you want to do is grow revenues, with disregard for the other variables, it is quite simple to “manufacture” awe-inspiring revenue growth. To prove the point, consider this oft-used example from the Internet bubble. What if I had a business where I sold dollars for \$0.85? What would my revenue growth look like? Obviously, you could grow this business to \$ billions in revenue tomorrow. While this may be tongue and cheek, the real world example of the “dollar for \$0.85” metaphor is any business where the value transfer to customers and suppliers and employees cannot be sustained at a positive profit. The customer will be thrilled with any “below market” offering, and will rush in to get all they can. In this case, the growth was actually created by the demand for the unsustainable offering (Bill Gurley).*

*It has become a central tenet of tech growth investing (in both the public and private markets) that growth is more valuable than profitability and you can always focus on profits once you have “captured the market.” This leads to behaviors like investing heavily in sales and marketing to increase the growth rates of a business beyond what it can grow at “organically.”*

*Too many times I have seen companies invest in growth for growth sake without having any constraints or sanity checks on that investment and the losses that result from that investment (Fred Wilson).*

*Things like gaming Facebook's open graph can temporarily stimulate growth that is not sustainable long term (Fred Wilson).*

*You have been told to be “bold” and “ambitious” and that there is no better time to grab market share. Despite this, the only way to be completely in control of your own destiny is to remove the need for incremental capital raises altogether. Achieving profitability is the most liberating action a startup can accomplish.*

*I get that you want to grow and I want you to grow, but let's internally finance that growth by spending gross margin dollars rather than new dilutive dollars*

*of equity. Ultimately, internally financing growth is the only way to control your own destiny rather than being at the mercy of the capital markets (Bill Gurley).*

Building lasting growth can only happen on two things; competitive advantage and a positive gross profit margin. The first one allows for the company keep growing and maintain its position in the market and the second one allows for the company to start generating profits when it so chooses, so that it can keep growing even unprofitably for a chosen period (i.e. to fortify its market leader position).

*Many high growth companies can be profitable. They have enough revenue to cover their essential costs and could easily decide to show a profitable income statement. But they don't make that choice. Instead they invest heavily in the business with the expectations that those investments will produce more revenue (by hiring salespeople), or additional products (by hiring engineers and product managers), or additional geographies (by hiring an international team), or any number of other value enhancing aspects of the business. The result of that decision is that the business loses money or simply breaks even (I prefer the latter approach). They are optimizing for the ultimate size of their business and the total amount of cash flow they can ultimately expect to generate when the business gets to maturity. Profits are critical to the health of a business, but that doesn't mean a healthy business has to currently be profitable. It needs to be able to be profitable if it wants to be and it needs to be profitable at some point in the future, at least hypothetically. So when you read that a company is losing money, don't read that as a bad thing. It could be a very good thing. It all depends on why (Fred Wilson).*

Building lasting value, then, seems to be the real trick in high growth businesses. The occurrence of the subject in the blog posts is so high, second only the concept of growth, that it must be a key factor in any rapid growing company's strategy.

*Too many of the variables (specifically ARPU [Average Revenue Per Customer] and SAC [Subscriber Acquisition Cost]) are outside of your control, and nothing would prevent another player from executing the exact same strategy. It's not rocket science; it's a formula that any business school graduate can calculate. Do not fool yourself into believing it creates a proprietary advantage (Bill Gurley).*

*By far, the most critical characteristic that separates high multiple companies from low multiple companies is competitive advantage (Bill Gurley).*

*And so most of the companies out there who are growing like weeds using a negative gross margin strategy are going to find that the capital markets will ultimately lose patience with this strategy and force them to get to positive gross margins, which will in turn cut into growth and what we will be left with is a ton of flatlined zero gross margin businesses carrying billion dollar plus valuations (Fred Wilson).*

However, if a company arrives to a situation where it has a solid base for growing and sustaining that growth, then it should be able to acquire capital and put that into good use.

*So how did we navigate through the great dot-com crash, crush the competition, emerge as the No. 1 company in our space and sell the company to HP for \$1.6 billion? Did we “cut spending, cut now, and preserve capital?” Did we make cash preservation our No. 1 priority?*

*No, we didn't.*

*I laid off zero software engineers so that we could keep on investing in our technology, find our product/market fit, and build a lasting technological advantage (Ben Horowitz).*

*Why do founders want to take the VCs' money? Growth, again. The constraint between good ideas and growth operates in both directions. It's not merely that you need a scalable idea to grow. If you have such an idea and don't grow fast*

*enough, competitors will. Growing too slowly is particularly dangerous in a business with network effects, which the best startups usually have to some degree.*

*It might seem foolish to sell stock in a profitable company for less than you think it will later be worth, but it's no more foolish than buying insurance. Fundamentally that's how the most successful startups view fundraising. They could grow the company on its own revenues, but the extra money and help supplied by VCs will let them grow even faster. Raising money lets you choose your growth rate (Paul Graham).*

*The reason one would accept losses is when they are investments in fueling faster growth (Mark Suster).*

The previously mentioned “business model nirvana” seems to apply for the competitive advantage as well.

*The special differentiation of the company gives it not only the opportunity to be a leader in its field, but also the opportunity to revolutionize an entire industry.*

*If you can positively change the economics of an industry, you will find the participants on both sides rooting for your success. This gives you a huge head start when it comes to tipping the marketplace (Bill Gurley).*

*Companies need a sustainable competitive advantage that is independent of their variable marketing campaigns. You can't win a fight with a measuring tape (Fred Wilson).*

#### **9.4 Managerial process**

With the managerial process dimension of the framework we fringe on the unexplained of the high growth phenomena. The chosen blogs were in high supply of



discussion around the things that are too abstract to specify in to any particular term, but exist nonetheless.

To begin with, many of the authors to agree that no matter how knowledgeable and educated the founders are and no matter how well they've built the organization and strategy, it's still going to be anyone's guess as to what will lie ahead and what kinds of storms they need to weather.

*Your goal is to choose the least of all evils.*

*This is neither an executive failure nor a system failure; it is life in the big city. Do not attempt to avoid this phenomenon, as you will only make things worse (Ben Horowitz).*

*Only with precision execution can one hope to succeed (Bill Gurley).*

*When you are growing rapidly, you are worth more.*

*But living forever and growing forever have something in common. You can't do it (Fred Wilson).*

*It's also ok to raise venture capital and try to build a monster business. But know that if you don't go "up and to the right" you might find yourself abandoned (unable to raise more VC) or even ousted (to bring in a CEO who can show rapid growth or die trying) in the name of growth & returns. It happens more than is reported (Mark Suster).*

It seems to be challenging enough to simply survive the growth process of a company (if one even achieves it in the first place), let alone be good at it to the extent that one can with certainty claim causality for the results. On this matter the authors provide various tips, but also acknowledge that high growing companies are a delicate art that takes time, strength and a hint of luck to master.

*If you don't have world-class strengths where you need them, you won't be a world-class company (Ben Horowitz).*

*Over the next five years, investors wanted us to do lots of things. Some things they wanted were smart and some very stupid. We listened to what they had to say, but we always did what we thought was right and we never worried about the consequences. Investors did not control our destiny. Over those five years the company's value grew 40-fold as a result of controlling our own destiny and being able to make our own decisions (Ben Horowitz).*

*It is also important to realize that finding a great opportunity is only a start, and this analysis could easily mislead one into underestimating the critical role that execution plays when it comes to marketplace businesses. Great marketplace execution is more nuanced and less systematic than other venture backed categories, and for every successful marketplace, you will find an amazing entrepreneur that out-executed the many others that had chosen to attack the same market. In addition to great marketplace characteristics, you also need a world-class entrepreneur to make the dream come true (Bill Gurley).*

*A startup is a company designed to grow fast. Being newly founded does not in itself make a company a startup. Nor is it necessary for a startup to work on technology, or take venture funding, or have some sort of "exit." The only essential thing is growth. Everything else we associate with startups follows from growth.*

*If you want to start one it's important to understand that. Startups are so hard that you can't be pointed off to the side and hope to succeed. You have to know that growth is what you're after. The good news is, if you get growth, everything else tends to fall into place. Which means you can use growth like a compass to make almost every decision you face (Paul Graham).*

As Paul Graham mentioned, startups are hard and that seems to bring about a lot of things that are counterintuitive to at least the normal business school logic of what to do and how to do it.

*But rather than do what seemed obvious, I decided to keep on investing. Here's why: In an economic boom, cash is great, but not necessarily a meaningful competitive advantage. If every company is well funded, being super-well funded doesn't help you win. In fact, being super-well funded can actually screw you. (Ben Horowitz).*

*Ironically, it's the scrappy and capital starved startup with absolutely no marketing budget that typically finds a clever way to scale growth organically (Bill Gurley).*

There are many things that not even the advantage business school logic can fathom and managers just need to try their best not to roll the dice incorrectly.

*I asked Andy [Grove] why these great CEOs would lie about their impending fate.*

*He said they were not lying to investors, but rather, they were lying to themselves.*

*Andy explained that humans, particularly those who build things, only listen to leading indicators of good news. For example, if a CEO hears that engagement for her application increased an incremental 25% beyond the normal growth rate one month, she will be off to the races hiring more engineers to keep up with the impending tidal wave of demand. On the other hand, if engagement decreases 25%, she will be equally intense and urgent in explaining it away: "The site was slow that month, there were 4 holidays, and we made a UI change that caused all the problems. For gosh sakes, let's not panic!"*

*Both leading indicators may have been wrong, or both may have been right, but our hypothetical CEO—like almost every other CEO—only took action on the positive indicator and only looked for alternative explanations on the negative leading indicator (Ben Horowitz).*

*Layoffs have also become more prevalent. Mixpanel, Jawbone, Twitter, HotelTonight and many others made the tough decision to reduce headcount in*

*an attempt to lower expenses (and presumably burn rate). Many modern entrepreneurs have limited exposure to the notion of failure or layoffs because it has been so long since these things were common in the industry.*

*Many Unicorn founders and CEOs have never experienced a difficult fundraising environment — they have only known success. Also, they have a strong belief that any sign of weakness (such as a down round) will have a catastrophic impact on their culture, hiring process, and ability to retain employees. Their own ego is also a factor – will a down round signal weakness? It might be hard to imagine the level of fear and anxiety that can creep into a formerly confident mind in a transitional moment like this (Bill Gurley).*

Many traps lie ahead for the founder that embarks on this journey.

*After all, growth equals high valuations and loads of venture capital! And headlines. And approbation (Mark Suster).*

Even when one does everything by the book, is vary of the temptation of growth and executes perfectly, it is not always totally up to the individual or the company.

*Growth comes in steps. There's a big event. Shaq joins Twitter and brings his fans with him. There's a spike. Things calm down, but they don't go down. Then a plane lands in the Hudson. Another spike. Things calm down, but they don't go down.*

*That's how it was with Twitter and that's how it has been for most of our portfolio companies. The big events drive user growth. Big events will drive audiences and some of them will stay. And you will grow in steps (Fred Wilson).*

## 10 CONCLUSIONS

The area of growth and high growth literature is vast and mature in quality, but there is no unifying theory that would bridge together different schools of the field. In my thesis I've tried to put together a review of the basis of the literature and extend it towards the current high growth discussion by developing a framework that can be used to analyze different variables of the process. Past literature has shown that the discoveries regarding firm growth is as highly heterogeneous as the research discussion itself, but through the review a similar framework of growth variables kept emerging. Authors codified it differently, but the unifying factors were the entrepreneur, the firm and the strategy work that steered the firm.

Previous studies have found that the key characteristics for an entrepreneur that is to achieve high growth with his or hers firm were experience in the industry or management in general, higher education (the more applicable the better), ability to work with others (and form larger teams to tackle bigger problems) and overall drive to achieve high growth. The findings of this research support the overall categorization that more experienced and more knowledgeable entrepreneurs were seen to have better chances of success, but all of the bloggers also claimed that a truly successful entrepreneur needs to be "sufficiently different from other people that ideas few others can see seem obvious to them". So merely ticking the boxes of working in an industry and getting an education do not necessarily guarantee a prosperous journey as an entrepreneur. Similarly to the past literature, a high dedication to growth was found to be a part of the entrepreneurial mix for success to the extent that some authors called it a drug. Teamwork inclination however wasn't discussed by any of the authors, so it remains unclear if that was seen as totally irrelevant factor or just something that none of the authors had interest in. One of the authors claimed that out of all their portfolio companies, companies founded by a single founder were clearly in the minority, but that can also just mean that they don't like investing in to single founders and not that it would have any relation to odds of success.

The characteristics of the firm were seen revolve around the firm's sector and other contextual variables in past studies. Other characteristics like location or age were not clearly identified. The findings of this study highly support this division, as the market and the company type were unanimously seen to be key factors in determining the growth potential of a firm by all bloggers. All of them discussed the topic of "designed to grow" extensively as it arched from the initial market position (barber shop vs. search engine) all the way to the degree of management complexity that one of the authors called the "black art of scaling a human organization".

Forms of ownership wasn't discussed at all and size in regards to amount of employees only in relation to discussion what it means for a organization to maintain coherence whilst growing.

For the strategy portion of firm growth, past literature had identified the ability to plan over a longer term, raise outside capital, create lasting competitive differentiation and exploit opportunities arising from technical understanding or available support mechanisms. However, the training of management and workers wasn't that clearly observed to be a key factor as far as the strategy dimension was concerned. Empirical findings of this study suggested that in practice, at least in the Silicon Valley context, training both management and workforce was seen as an important factor in coping with the overall growth process. Leveraging external resources and seeking advice wasn't mentioned in high frequency, as was not long term planning either. It might have something to do with the way Silicon Valley startups perceive progress. One of the bloggers described it with a quote from Dwight D. Eisenhower "plans are nothing; planning is everything", suggesting that since things tend to change in rapid pace anyway, it does not pay to do long term plans, yet still always be mindful of the long game. The ability to raise outside capital from investors and developing competitive advantage was given considerable amount of attention by all the bloggers and while it might be because these two areas represent most important parts of the firm's strategy process, it might also be because the authors were investors themselves and by definition look for the companies with the best competitive advantages.

Earlier research had identified parts of the entrepreneurial process that weren't easy to quantify and defied categorization. Such concepts were present from all the way from Penrose's seminal 1959 work on firm theory and the very same abstract dimension of entrepreneurship continued to baffle researchers and complicate studies all the way to the papers still published almost 60 years later. True to their nature, most scholars either seemed to have disregarded this part of the phenomena or give it very little attention. It turned out that even though the data of this study supported notion of a fuzzier part of entrepreneurship being an integral part of a successful growth process, even the bloggers did struggle in describing the exact the nature or value of it.

Despite of the vast amount of literature regarding firm and growth theory, it is my opinion that especially empirical and ethnography based studies are called for to shed more light to the way in which the field and phenomena is evolving throughout time as we're moving towards a more fragmented and complex world where firms are no longer dived in to import and export or into manufacture and services. We're entering a world where some of largest and most valuable companies in an industry don't look anything like the largest and most valuable company in that same industry only five to ten years ago. If the companies are evolving with this pace, shouldn't the literature at least try to keep up in reactive fashion? For a proactive approach, a more widespread application of netnography might offer a solution.

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