Business growth versus organizational development reflected in strategic management of Polish small, medium and large enterprises

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Abstract

Growth and development refer to different processes in organizations. Not every growth leads to organizational development and not every development is demonstrated in company’s growth. This paper seeks to answer a question about the relationship between company’s growth and its organizational development. Is quantitative increase in size associated with management transformation, qualitative change and greater excellence in studied companies? The study was carried out in 150 Polish small, medium and large companies and strategic management practices were its subject. The study concentrated on establishing whether bigger companies are also more advanced in organizational development, demonstrated in more integrity, systems approach and adaptability in their strategic management practice.

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1. Introduction

Terms “growth” and “development” are frequently used interchangeably, but both of the concepts refer to different processes in natural and social systems. According to Encyclopaedia Britannica “growth is an increase in the size or the amount of an entity” whereas development encompasses change not only in the size but also in the function. Growth is generally associated with a quantitative external change, hence it’s easy to observe and measure. Development however is qualitative and internal in nature so it is difficult if not impossible to measure directly. Other definitions portray development as a process of transformation in which diversity, complexity and excellence of a system increase (Tchorzewski, 1992; Szczepanski, 1963).

In business studies – organizational growth is manifested through increase in the number of employees, income, profit, or market share. These are the measures of externally visible quantifiable changes of the organization. Business development is more difficult to define. It is associated with the process of organizational learning and transformation which are qualitative in nature. “To grow is to increase in size or number. To develop is to increase one’s ability and desire to satisfy one’s own needs and legitimate desires and those of others. A legitimate desire is one that, when satisfied, does not impede the development of anyone else. Development of individuals and corporations is more a matter of learning than earning” (Ackoff, 1999).

The relationship between business growth and development is an interesting area for research and study. It is expected that the relationship can be multifold. The two may reinforce each other (Ackoff, 1999) when the physical growth of the company in terms of sales or number of employees is accompanied by increased excellence in management, innovation and pursuit of learning. The two may also be in conflict when a growing company neglects the need of renewal and change. Then growth may be accompanied by decrease in effectiveness, productivity or creativity. This is what Peter Drucker calls a wrong kind of growth (Drucker, 1980) and would mean lack of development.

This paper concentrates on the analysis of the relationship between growth and development reflected in strategic management practice of 150 Polish public companies of different sizes (50 small, 50 medium and 50 large enterprises).

2. Literature and research questions

In order to compare the companies’ growth and development it is necessary to choose criteria featuring both and translate them into strategic management practice observable in the enterprises. Business growth is easily quantifiable in terms of number of employees, sales or market share. Organizational development on the other hand requires further consideration. There is a number of management theories that can be used in the formulation of organizational development criteria. This study derives inspiration from the theories of corporate life-cycle, organizational development, organizational learning and personal development.

Theory of corporate life-cycle depicts organizational development in 3-5 basic stages: birth, growth, maturity, revival, and decline (e.g. Downs, 1967; Lippitt, Schmidt, 1968; Adizes, 1979; Jackson, Morgan, 1982). Development is featured by changing intensity of different management priorities such as entrepreneurship, productivity, administration and integration (Adizes, 1979) or by turbulence of change when companies undergo cyclical revolutions (Greiner, 1972). Integrated model of corporate life-cycle...
theory characterizes organizational development through changes in 3 criteria: entrepreneurship, formalization (control) and adaptability (Quinn, Cameron, 1983).

Works in discipline of organizational development (OD) complement the above set of criteria. The most comprehensive definition offered by the discipline describes “organization development as a systemwide application and transfer of behavioral science knowledge to the planned development, improvement, and reinforcement of the strategies, structures and processes that lead to organization effectiveness” (Cummings, Worley, 2005). Such development is described by the following criteria: organizational renewal, improved profitability and competitiveness, participatory changes of organizational culture, improved organizational well-being, increased processes of learning and adaptation (Egan, 2002).

Peter Senge’s work points at four groups of criteria describing organizational development and maturity. They are: clarity of vision and identity (demonstrated in personal mastery), openness to the organizational context (mental models), ability to team-learn and systems thinking (Senge, 1990).

Finally some inspiration comes from the field of personal development, defined in terms of increasing maturity, self-awareness, integrity and goal orientation. Development can be described as increase in: wisdom, understanding of the world, self-management, awareness of the pluralism of values and ability to discern connections, relationships and meanings (Jakubow, 2000).

With the reference to the aforementioned theories, three criteria describing strategic organizational development have been chosen for the purpose of this study. They are:

- **Integrity** (sense of identity and direction, coherence of values and behaviour)
- **Systems approach** (stakeholder sensitivity, relationship and networking orientation)
- **Adaptability** (flexibility, innovativeness)

*Integrity* refers to the company’s sense of identity and coherence of its values and behaviour. Awareness of the company’s values, vision and long-term goals should be increasing in the process of development. Integrity will also be demonstrated in the company’s authentic and credible behaviour when values and declarations are matched with actions.

In the process of strategic development a company would also be expected to improve its skills of **systems thinking**. Being able to see business context with its wide spectrum of cross-influences, to discern relationships and dependencies between different stakeholders, to understand and coordinate various needs and expectations and finally – to manage the relationships and play an active role in network building – would be considered a sign of strategic maturity.

Development is strictly associated with double-loop organizational learning and change management; hence the third chosen criterion of **adaptability**. In the process of development it is expected that companies will improve their ability to respond to the changing environment, demonstrate enough flexibility to change and promote innovativeness to always look for new solutions and opportunities.

The **main goal** of this paper is to determine the relationship between business growth and organizational development of the 150 studied companies. Specifically the study will attempt to find answers to the following **detailed research questions**:

- Does increase in size of an enterprise go together with organizational development, demonstrated in more mature strategic behaviour (improved integrity, systems approach and adaptability)?
- What is the organizational development profile of small, medium and large companies, as reflected in strategic management practice?
3. Methodology

The main goal of the research was to find the relationship between business growth measured by the number of company’s employees and organizational development measured indirectly through the criteria of integrity, systems approach and adaptability, as present in the strategic management practice.

The study was conducted on a sample of 150 Polish companies. The group of the respondents included public limited companies founded after 1989, and comprised 50 small (up to 50 persons), 50 midsize (50-250 persons), and 50 large enterprises (more than 250 persons).

Data was collected through face-to-face interviews (PAPI) with top executives (CEO’s, TMT members, managing board members and strategic management directors). The sampling frame consisted of 740 public companies, the collection method used was stratified random sample.

The survey questionnaire consisted of 84 questions in the attitude and 11 questions in the demographics sections. The questions were formulated as statements to which the respondents referred by rating their answers on a Likert scale used as a measurement tool. The survey questions referred to the strategic management practices of the companies under review, and were divided into four research areas: strategic management process, strategic management participants, strategy form and strategy content.

Out of 84 questions of the main study - 18 were chosen to represent the development criteria of: integrity, systems approach and adaptability (Table 1). Number of company employees was used as a measure of business growth.

Statistical measures used to answer the research questions were: correlation between development criteria and the company size, and average answers calculated for small, medium and large companies.

Table 1. Questionnaire constructs representing organizational development criteria (integrity, systems approach and adaptability) in strategic management.

<table>
<thead>
<tr>
<th>Development criteria</th>
<th>Questionnaire constructs</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTEGRITY</td>
<td>Sense of identity and direction:</td>
</tr>
<tr>
<td></td>
<td>5. We have a clear vision of our future as a company</td>
</tr>
<tr>
<td></td>
<td>9. We have a clear set of values and a mission statement (formal or informal), which direct our actions</td>
</tr>
<tr>
<td></td>
<td>16. I know where I want our company to be in 5 years</td>
</tr>
<tr>
<td>Coherence of values and behaviour:</td>
<td></td>
</tr>
<tr>
<td>8. We regularly monitor if our actions are consistent with our vision</td>
<td></td>
</tr>
<tr>
<td>12. Strategic decisions in our company are aligned with the mission and values</td>
<td></td>
</tr>
<tr>
<td>13. Our mission and values have a great impact on our employees behaviour</td>
<td></td>
</tr>
<tr>
<td>74. All our employees know strategic goals of the company</td>
<td></td>
</tr>
<tr>
<td>75. All our employees know what to do to help the company achieve its goals</td>
<td></td>
</tr>
</tbody>
</table>
4. Results and discussion

In order to answer the research questions and determine the relationship between organizational growth and development as seen in the strategic management practice of the studied companies, a two-step analysis was carried out. In the first step Kendall’s tau (b) correlation coefficients were calculated between 18 questionnaire constructs representing organizational development and the company size measured by the number of employees. In the second step average answers to the 18 questions were calculated and compared between 3 groups of companies: small, medium and large.

The initial analysis of the correlation coefficients indicated only weak relationship between some of the constructs representing organizational development and the size of the studied companies (Table 2). A significant correlation was found in 5 constructs out of 18 (27%). Two of them indicated negative correlation (question 32 and 74) and 3 positive (question 35, 36 and 69).

Organizational development was defined through 3 criteria: integrity, systems approach and adaptability. 1 out of 8 constructs representing “integrity” showed negative correlation with company size, indicating that as companies grow – the employees are less aware of the company strategy. The remaining 7 questions regarding integrity showed no correlation with the company size.

3 out of 6 constructs representing “systems approach” showed positive correlation with the size of the company. This indicates that as companies grow – so does their ability to play important role in network
creation. Growing companies think about networking more strategically, including some networking guidelines into their strategy. Bigger companies are also more stakeholder sensitive when considering impact of their actions on the environment. As half of the constructs referring to “systems approach” showed positive correlation with the company size – a working hypothesis was formulated that business growth is accompanied by organizational development in the area of systems approach. Bigger companies are better systems thinkers: they are more stakeholder sensitive and relationship and networking oriented.

1 out of 4 constructs representing “adaptability” showed negative correlation with the company size. As could have been expected – the bigger the company – the less flexible and slower in reaction it is.

As the correlation results showed only a partial picture of the relationship between organizational growth and development, the second part of the analysis was carried out. The average answers to 18 questions were analysed and compared in division to small, medium and large companies. The outcome has been presented in the further part of the paper.

Table 2. Statistically significant correlation between organizational development criteria and the company size

<table>
<thead>
<tr>
<th>Development criteria</th>
<th>Questionnaire constructs</th>
<th>N</th>
<th>Correlation with the number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTEGRITY</td>
<td>74. All our employees know strategic goals of the company</td>
<td>142</td>
<td>-0.235**</td>
</tr>
<tr>
<td></td>
<td>69. When making strategic decisions we analyse their impact on business partners, the local community and the environment</td>
<td>146</td>
<td>0.185*</td>
</tr>
<tr>
<td>SYSTEMS APPROACH</td>
<td>35. Our company played a crucial role in creating a cooperation network within our industry</td>
<td>140</td>
<td>0.271**</td>
</tr>
<tr>
<td></td>
<td>36. We have included rules on how to build relationships with our competitors in our strategy</td>
<td>141</td>
<td>0.205**</td>
</tr>
<tr>
<td>ADAPTABILITY</td>
<td>32. Flexibility and quick reaction time is our main competitive advantage</td>
<td>147</td>
<td>-0.200**</td>
</tr>
</tbody>
</table>

** - Kendall’s tau(b) correlation, dual significance 0.01
* - Kendall’s tau(b) correlation, dual significance 0.05
4.1. Company growth vs. organizational development: integrity

Integrity is one of the three organizational development criteria. Manifestations of integrity were sought in the strategic management practices of 150 companies. 8 questionnaire constructs (Table 1) were formulated, with 3 of them referring to “sense of identity and direction”, and 5 to “coherence of values and behavior”. Average answers to these questions were compared between small, medium and large companies in order to construct a development profile for each of these groups.

![Fig. 1. Organizational integrity: average answers of small, medium and large companies](image)

As shown in Figure 1 – all 3 questions referring to organization’s “sense of identity and direction” – show the same pattern. The average answer is distinctively lower for medium sized companies than for small and large ones. As companies grow in size – their integrity is developing in nonlinear way, with the apparent identity crisis in medium sized companies. Medium enterprises’ answers indicate that their vision of future is less clear than in small and large companies, they show more ambiguity about where they want their company to be in 5 years and their mission statement and values direct their actions in lesser degree than in other companies.

Figure 1 shows that the 5 questions regarding organization’s “coherence of values and behavior” demonstrate a less clear pattern. Coherence of values and behavior is represented by questions referring to
company’s ability to stay consistent with the vision, to put afford in aligning decisions with mission and values, and to have employees behavior shaped by the mission and values. Average answers to these 3 questions show no significant difference between small, medium and large companies.

However, the other 2 questions referring to the employees’ knowledge of strategic goals and how they could contribute to achieving them – indicates that as companies grow – it is more difficult to sustain coherence between the top management’s decisions and employees actions.

Medium size companies in the study seem to be suffering from identity crisis. Unclear vision and mission, uncertainty about the future and direction seem to be characteristic to the companies of this size. Medium companies are typically described as the ones outgrowing current markets and products, outgrowing current skills, knowledge and management methods and losing strategic edge and direction (Snaith, Walker, 2002). This tendency is also visible in the study presented in this paper.

4.2. Company growth vs. organizational development: systems approach

Systems approach is the second of the organizational development criteria. In this study it is represented by 6 questionnaire constructs (Table 1), 3 of which refer to “stakeholder sensitivity” and 3 to “relationship and networking orientation”. It is worth mentioning that half of the constructs showed correlation with the company size in this study (Table 2).

![Figure 2. Systems approach: average answers for small, medium and large companies](image)

Analysis of the average answers to the 6 questions of small, medium and large companies shows a very clear tendency. In each case the bigger the organization the higher the average answer (Figure 2). It
seems that as companies grow – they also develop stakeholder awareness and sensitivity. Bigger companies analyze their impact on stakeholders, consult strategic decisions with them and feel responsible for their outlook.

Also bigger companies more often declare that they cooperate with partners from other industries looking for new fields of development, play active role in building cooperating networks, and plan how to build their relationships with competitors.

Bigger companies seem to be more relationship aware than the smaller ones. Large companies’ environment is however very complex. Typically there will be a higher number of stakeholders they need to address and relationships they need to manage. They will also be more exposed to external scrutiny, so they are likely to experience more of a burning need for systems approach in strategic management.

4.3. Company growth vs. organizational development: adaptability

Adaptability is the third of the criteria of organizational development, as assumed in this study. It has been defined by companies’ flexibility (2 questions) and innovativeness (2 questions) as shown in Figure 3.

![Figure 3. Adaptability: average answers for small, medium and large companies](image)

Questions on adaptability refer to companies’ ability to constantly look for new areas of development, and to their readiness to alter their current strategic orientation to better respond to the environment. Table 2 and Figure 3 show some interesting findings about the companies’ flexibility. Negative correlation indicates that the smaller the company, the more it relies on flexibility and short reaction time as basis for the competitive advantage (r=−0.211). However, in the same time it is the bigger companies who declare that they would be ready to modify their business profile to get new clients. It seems that small companies’ flexibility is different to big companies’ flexibility. For small businesses it is more related to reaction time and the ability to personalise the product to the customer’s needs. Big companies however
have more resources (financial, know-how, expertise) and can afford bigger risk, so they are better prepared to modify the whole business profile or diversify.

Companies’ answers to both innovativeness questions showed identical pattern. Small and large companies’ average answers were the same, whereas medium sized companies’ average answers were significantly lower. The study shows that medium companies are less active in looking for new areas of development and less frequently base their competitive advantage on innovation than small and large ones. The relationship between the company size and innovativeness is hence equivocal. However it is worth noticing that organizational development in the area of innovativeness seems to be critical when companies reach medium size.

5. Conclusions

The main goal of the paper was to determine the relationship between business growth and organizational development in strategic management of 150 Polish companies. Even though the study sample wasn’t representative and the conclusions cannot be generalised – the findings helped identify some interesting patterns that will inspire further research. Longitudinal study rather than cross-section research would be a preferred future choice.

The main finding of this study is that while businesses grow – their strategic management changes as well, but not necessarily becomes more mature in all the studied areas. Organizational development was identified by 3 aspects: (1) organizational integrity, (2) systems approach and (3) adaptability and each of them showed a different relationship to company’s size.

Business integrity was defined by the sense of identity and direction and the coherence of values and behaviour. The relationship between the company size and its sense of identity indicates that organizational development is not linear and that medium sized companies experience crisis of identity and direction. Coherence of values and behaviour on the other hand seems independent of the company size, only with the reservation that bigger companies struggle to successfully communicate strategy to their employees, which creates a coherence gap between what was intended in the strategy and what the employees know they should do.

Systems approach seems to be growing alongside the organization size. The bigger the company the more it is stakeholder aware and the more active role it plays in cooperation networks within and across industries. This connection might be conditioned by the fact that bigger organizations have more relationships they have to manage hence their more deliberate and organized approach.

Adaptability was the last aspect of the organizational development. It was understood as a combination of flexibility and innovativeness. The research indicates that while organizations grow - their flexibility may be changing from micro level (being able to personalise the products and react quickly to customer needs) to mezzo level (being ready to redefine business and modify the company profile to find new clients). Business innovativeness results show on the other hand that medium companies are experiencing a slowdown or a crisis. Their dedication to exploratory behaviour and focus on innovation is lower than in small and large companies.

Research presented in the paper indicates that in the studied companies relationship between business growth and organizational development is multidimensional and hence ambiguous. There are some aspects of development that correlate with the company’s size, some that are independent of it and some that indicate weakness of being a medium sized company.

Findings of the study raise many questions and encourage further research. In the follow-up study it would be interesting to research medium sized companies more thoroughly in order to find the
background and conditioning of the identity, direction and innovativeness crises they seem to experience. Also there is a need for search for such a model of business growth that would lead to higher strategic maturity and organizational development and hence be sustainable in the long term.

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