High Growth SMEs: The Evolution of the Gazelles and Some Evidence from the Field

Authors: Sergio Janczak and Franck Bares

Working paper n°: 2010-01

April 2010

ISSN: 0840-853X
Organizational literature has deeply explored the growth of firms and its ties with firm performance. However, there is little literature on high growth companies (the gazelles). Moreover, the majority of literature in organizational growth pays attention to the large companies instead of small and medium enterprises (SMEs). This exploratory qualitative study examines the growth dynamics of 12 gazelle companies in France. We identify the variables that determine the emergence and growth of such enterprises and propose a model that explains their growth. One illustrative case is presented. The results of this study indicate that gazelles are marked by a clear differentiation strategy which privileges their customers’ needs, by clear procedures, by being flexible, and by a very structured HR management. In addition, gazelles smartly use the resources available in their territory. Technology and personal features of the entrepreneurs are only moderating variables for the performance of these companies.
High Growth SMEs: 
The Evolution of the Gazelles and Some Evidence from the Field

SERGIO JANCZAK
KINGS UNIVERSITY COLLEGE AT THE UNIVERSITY OF WESTERN ONTARIO

and FRANCK BARES
ICN BUSINESS SCHOOL

Introduction

Venture capitalists, policy makers, entrepreneurs and researchers are traditionally passionate about high-growth companies, as these firms provide substantial returns for investors, promote regional development, generate satisfaction for managers and employees, and contribute significantly to job creation (Storey et al., 1988).

The small business job-creation thesis can be attributed to David Birch, who placed great emphasis on the job generation process of very rapidly growing businesses (Birch, 1987). However, although Birch and other economists suggest that growth is paramount to entrepreneurial success, most companies do not grow for three reasons: they fail to achieve growth, they prioritize business stability over growth and their owners only aspire to a modest income. In fact, only 3% to 5% of businesses have the potential for significant wealth and job generation (Birch, 1987).

The start-up features of a company can have an enduring effect on firm growth and performance (Boeker, 1989). Understanding these features would help policy makers to identify the high growth companies as early as possible, and, therefore, to allocate scarce economic resources to these gazelles through a policy of 'picking winners' (Storey et al., 1988).

This paper will address a number of key questions about high-growth firms: why do such companies have this ability to engender growth? What are the features of such companies? Can we identify these companies at the outset of their existences? Can we identify the key organizational determinants of firm emergence and growth? The main goal of this study is to gain an improved understanding about the healthy growth of SMEs in the Lorraine region.

Literature Review

Despite the attention devoted to growth and performance, there is a dearth of research on high growth firms (Sexton & Smilor, 1997). Indeed, there is still no commonly accepted definition of ‘fast-growth’ (March & Sutton, 1997). Some authors refer to fast growth as relating to employment growth (Dunkelberg et al., 1987; Storey et al., 1988), while others perceive fast growth as relating to sales and turnover (Birch, 1987; Nicholls-Nixon, 2005). Moreover, in defining fast growth, several authors use a company’s self-perception of growth and yet others use a combination of variables, including growth in profits and sales as well as the number of employees (Smallbone et al., 1995). However, the most widely used definition in the literature characterizes fast-growth firms as having a sales growth rate of at least
twenty percent per year for three or more consecutive years. In addition to agreeing upon a definition, it is critical that managers have an understanding of what causes fast growth in order to achieve or maintain a competitive advantage. Similarly, governments with the responsibility for economic development and employment creation should also be aware of what constitutes fast growth and how it is achieved.

Since the 1980’s researchers have used organizations as the unit of analysis in entrepreneurship studies and the entrepreneur as the actor who enables the existence of the organization (Gartner, 1985). Based on this approach, researchers have focused on the psychological and sociological features of entrepreneurs. In fact, the understanding of individual entrepreneurial features is not a fruitful approach, because such features cannot be changed or replicated. There is no sense in knowing, for example, that top basketball players used to be tall. However, an understanding of the way that a team of mediocre players achieved a high performance would be much more important to the replication of good basketball teams. Thus, the concerns of how companies maintain continuous entrepreneurial behaviours necessitate a process view of how SMEs evolve.

Bhave (1994) describes two entrepreneurial processes for initiating new endeavours: one that is internally triggered and the other that is externally triggered. The most important distinction between these approaches is based on the original stimulus of coping with an organizational situation. The external process begins with a decision to initiate an endeavour and considers a set of potential entrepreneurial opportunities. On the other hand, the internal process starts with the matching of a problem and the potentially feasible solutions.

Sarasvathy (2001) developed March’s (1994) idea about the ‘logic of consequences’ in an entrepreneurial context. She referred to such logic as the “logic of prediction”, arguing that entrepreneurs will control the future to the extent that they can predict it; this is the basis of the rational choice paradigm. However, since in changing markets, managers cannot accurately predict the future, the logic of prediction is a poor model. In contrast, when managers can control the future to a great extent, they will not need to predict it. Thus, by using the “logic of control”, entrepreneurs manage the utilization of available resources rather than satisfying planned goals. Unlike the logic of prediction, the logic of control does not assume pre-existing goals. In fact, decisions made using the logic of control start with a very vague notion of goals, allowing entrepreneurs to use an incremental development in which uncertainty is a benefit rather than a disadvantage in the process. Although Sarasvathy identifies the typical logic used by entrepreneurs, she neither shows which variables are associated with this logic nor explains how to maintain this entrepreneurial style.

The main features associated with entrepreneurship include growth (Drucker, 1985), innovation (Shumpeter, 1934), opportunism (Verstraete, 2002) and flexibility (Birch, 1987). However, these variables are dependent rather than independent. Since the focus of this paper is on growth, more specifically, on fast growth, then it is necessary to understand the causes of fast growth.

Method

Data Gathering.

The evolution of companies was tracked by gathering information from interviews and secondary data, such as annual reports, stock exchanges and company web sites. For the
events reported by each company, the nature, the possible causes, and the relationships with past events were identified.

**Data Analysis**

The primary unit of analysis was company milestones, which are different outcomes that each company reports as key points in their corporate development. In particular, milestones show where firms have obtained new performance or skill levels that involve unique abilities or activities across the different departments and functions inside the firm. To identify and analyze milestones, the critical event technique, depth interviews, and grounded theory are used. The critical incident technique provides a guideline for collecting information from individuals about a research topic (Flanagan 1954). The participants, company CEOs, described their experiences with significant events that led to the growth of their firms. This study defines critical incidents as instances that involved the solicitation of individuals’ input for a decision. The characteristics of the critical incident technique provided a pre-interview format used in this study: participants were informed of the study’s purpose, told how and why they were asked to participate, assured of their anonymity and asked permission to record their description of the critical incident.

**The Growth Model**

The growth model, which includes the six drivers of sustained growth, is presented in Figure 1. Specifically, the model indicates that only a selected group of companies have the desire and the ability to grow during their lifetime. In addition, the model assumes technology and competition as moderating variables for organizational growth.
Vision as driver of fast growth

In the literature, the entrepreneur’s vision is addressed as a key factor for quickly growing companies (Mintzberg & Waters, 1985; Filion, 1991). A clear vision of the goals and the future of the organization provide a necessary guide for decision-making within the entire company. Specifically, a strong understanding of the market allows entrepreneurs to develop an anticipatory perception of market opportunities. In fact, Filion (1991) argues that only a significant knowledge of the product and the market allows entrepreneurs to develop a clear and effective vision. Burns and Harrison (1996) also maintain that an experienced entrepreneur should have a strong knowledge of the market and the industry in order to achieve successful growth. In addition, Nicholls-Nixon (2005) maintains that quickly growing companies ‘establish a clear sense of vision and values that guide action in the absence of formal rules and procedures’. However, a clear vision does assure a competitive advantage. Moreover, a strategy will emerge that is based on environmental pressures (Mintzberg & Waters, 1985). Consequently, the vision and the emergent strategy complement one another to assure fast organizational growth. Thus, a proposition can be formulated as follows:

**Proposition 1:** SME strategies that are undertaken by visionary entrepreneurs will facilitate high growth more easily than SME strategies that are undertaken by opportunistic entrepreneurs

Innovation as driver of fast growth

Innovation is a critical source of entrepreneurial economic growth, as it is fostered by the novelties in products, markets, technologies, methods, supply sources, and types of organizational arrangements (Nelson & Winter, 1982). Pouder and St John (1996) state that innovation performance can be measured according to the resources allocated to R&D or the outputs, such as the number of patents issued. However, this innovation approach focuses mainly on new products. More recent definitions expand on the aspect of novelty by also focusing on the creation of value, which accords with Fayolle and Verstraete’s (2005) understanding of entrepreneurship as the implementation of new ideas that generate value. However, research in innovation has focused mainly on larger firms rather than on SMEs. Although SMEs have more potential for creativity, their lack of resources inhibits technological developments in these companies. Similarly, we argue that the innovations of SMEs are more remarkable in the new applications of resources and in the new process of organizing than in generating new technologies:

**Proposition 2a:** Innovation in high-growth SMEs is mainly associated with the new applications of resources and the new process of organizing rather than on generating new technologies.

Since the development of radical innovation requires a substantial amount of resources, it is likely that even high-growth SMEs do not have enough resources to invest in radical changes for product or process innovation.
Proposition 2b: High-growth SMEs mainly develop incremental innovations rather than radical innovations.

HR practices as driver of fast growth
Slowly-growing companies continually transform themselves. Since these firms do not have established procedures, their success relies primarily on the exchange of tacit knowledge among their employees. Thus, one way that SMEs can survive in a market with fierce competition is to obtain maximum value from their human resources. Human capital is a set of intangible resources that can neither be easily understood nor replicated (Barney 1995).

Pascale and Athos (1991) argue that 95% of Japanese and US managers are the same, as “they only differ in core issues,” such as the management of soft matters like human resources. The soft aspects of management include style, staff, skills and shared values (Pascale & Athos, 1991). Style refers to the shared employees and to common methods of thinking and behaving, including organizational culture and involvement in the decision making process. The staff refers to the capable individuals hired by the company, who has trained them successfully and assigned them to the correct tasks based on their skills. In particular, selection, training, reward and recognition, retention, motivation and assignments to appropriate work are all key issues. The term “skills” refers to the fact that employees have the required abilities to accomplish the company’s strategy. Shared values, which are related to a clear vision and to organizational culture, imply that the employees share and strive towards the same guiding values, even when the company has been unprofitable for a significant period of time.

Collins (2001) defined the term ‘Culture of Discipline’ by emphasizing that freedom and responsibility facilitate the development of self-disciplined individuals. Discipline alone does not assure growth; however, self-disciplined employees working within a framework will innovate and work regardless of an established hierarchy. According to Collins, “when you have disciplined thought, you don’t need bureaucracy. When you have disciplined action, you don’t need excessive control” (Collins, 2001, p.13).

Since the entrepreneurs in SMEs’ used to be the major investors in their companies, they are more likely to participate in operations and develop close relationships with employees than the managers in large companies. This organizational context enables SMEs to emphasize organizational values and to develop norms and procedures that encourage employees to become deeply committed to their companies. However, not all SMEs necessarily take advantage of the potential for employee engagement with their companies. Therefore, our next proposition is:

Proposition 3: Emphasizing style, staff, skills and values in a synergetic way promotes high growth in SMEs.

Customer focus as driver of fast growth
Based on the arguments of Burns and Harrison (1996), Feindt and his colleagues (2002) highlight the importance of strong rapport with customers and commitments to product quality and/or service in order to achieve a competitive advantage. High-growth companies are more informed of their markets and competitors because their entrepreneurs thoroughly understand the products and the needs of customers. However, this knowledge of products and customers is not static. Rather, by developing strong ties with customers and by paying
attention to the subtle signs and the feedback during sales encounters, high-growth companies appear to be more responsive to customer requirements and to be more prepared to take appropriate steps when an order is lost (Storey et al. 1988, Filion 1991).

High-growth firms do not limit themselves to local markets, as more than half of their sales are generated outside of their region. In addition, these companies seem to have a market orientation that has been embedded into their values since the advent of the firm. In his study of high-growth companies, Storey (1994) argued that customer focus was a discriminate variable, explicitly stating that high-growth companies develop strategies that connect them to their customers (Storey, 1994). These systematic relationships and direct contacts with customers enable the development of differentiation strategies that, in many cases, create custom products and services. Moreover, this strong rapport with customers also allows high-growth companies to proactively meet customer needs by introducing innovations in products and services. Consequently, this proposition can be formulated as follows:

Proposition 4a: Developing close connections with customers will facilitate organizational growth

Since the development of strong relationships with customers utilizes the time and resources of small companies, entrepreneurs have prioritized the formation of a few strong ties rather than increasing the number of weak connections. Granovetter (1973) argues that weak ties are often a means of providing the benefits of social capital while avoiding rigidities. On the other hand, strong ties are frequently associated with tightly-knit communities that foster obligations to reciprocity. By doing business with a myriad of customers, entrepreneurs restrict their ability to develop strong ties with the majority of customers. However, not all businesses contain a linear proportion of the number customers to sales, as trade with business-to-business customers does not present such linearity. The next proposition can be formulated as follows:

Proposition 4b: High-growth is mainly associated with companies that sell to business-to-business customers rather than to companies that sell to business-to-consumer customers.

Strong ties with the territory as driver of fast growth

The territory refers to a broad set of specific environmental variables affecting multiple aspects of business activity. More specifically, the territory is an overlap of geographical and organizational proximity. As a result, the territory may be characterized by multiple factors, including economic stability and growth, legal systems, contracting factors of production or marketing, the level of specialized research and educational institutions, the protection of intellectual property rights, tax burdens, shared social values, and cognitive programs that affect the way individuals notice, categorize, and interpret stimuli from the environment (Porter, 1990; Kostova, 1999).

In general terms, a territory or a local environment corresponds to an outwardly open territorialized complex that includes the technological and market environment as well as the knowledge, rules, standards, values and relational capital (Maillat, 1998). It is characterised by the organizational linkages of firm owners and managers, with training, research and institutions, undertaking related activities reflecting similar and/or complementary interests. A prominent concept related to territory is embeddedness, which considers the role of
personal relations and networks. Such relations result from the anticipation that interactions will lead to profitable growth, and networks and interactions involve a socially-embedded process that encompasses an institutional and cultural context. From this perspective, territory is not a passive medium; rather, it is determined by “its ability to organize its development in an increasingly globalised economy” (Beauviala-Ripert et al., 1993, p. 2). Thus, a territory is not a passive placement of strategies and actors. In fact, a territory is composed of a singular relationship between actors and their dynamics, which creates a socio-economic space where structures are articulated and regulated. A territory does not exist by itself, as it is the result of business encounters that intend to reduce organizational uncertainty, whether these encounters are slow, fast, natural or fostered by institutions (Fourcade & Marchesnay, 1997).

Each territory has its own characteristics. The space of territorial integration, where transactions between small firms occur, encourages change and reduces the costs of environmental uncertainty due to external turbulence.

Hence, given the importance of the interaction between the entrepreneur and the territory, it is evident that small companies are anchored in a territory, and not only localized (Fourcade & Marchesnay, 1997). Overall, the territory of small companies is crucial because:

- It includes all relations explored by the company;
- It includes social, cultural, economic, organizational and geographical borders that the company faces;
- It includes all encounters that intend to reduce uncertainty (Fourcade, 1992)

There are multiple roles for the organizational territory: it can support the reduction of the perceived risk or the dissemination of the tacit innovation (Maillat & Lecoq, 1992).

Ratti (1991) classifies the environment as including three types of space: the space of support, the space of production and the space of market. This typology can be relevant because it distinguishes the concepts from one another. In particular, Ratti conceptualizes the territory as the space of support, since the ground is the space of production and the market is the meeting place for foreign, or non-local, supply and demand. Indeed, Conti (1996) proposes that the territory, similar to a form of industrial organization, can explain the competitiveness of certain marginal areas to which traditional economic theory grants a secondary role in comparison to the great industrial areas. As a support space, the territory consists of three types of relations: (1) qualified or privileged relations with regard to the organization of production factors, (2) strategic relations between the firm and its partners, suppliers and clients; (3) strategic relations with political agents belonging to the territorial environment. Therefore, the territory, as described above, determines the relations between corporate innovation and the spatial development of a region. As a result, SMEs located in weakly developed regions are likely to be less innovative than similar firms in more strongly-developed regions.

Indeed, some authors view innovation as a product of a milieu. This perspective emphasizes the role of territory in the process of innovation rather than simply regarding the SME as an isolated agent of innovation (Maillat & Lecoq, 1992). Therefore, the next propositions are:

*Proposition 5a: SMEs will have more opportunities to increase growth in a territory that fosters the development of resources.*
Proposition 5b: High-growth SMEs will be more anchored to a territory that nurtures an interaction space for their innovation activities.

Organizational dynamic capabilities as driver of fast growth

The literature on strategy has focused significantly on the resource-based view of the firm, contending that competitive advantage arises from organizational capabilities (Barney, 1995; Harrison, 2003). Consequently, this view suggests that competitive advantage and performance are a consequence of firm-specific resources and capabilities (Barney, 1995). Furthermore, research on dynamic capabilities explores how firms can change by leveraging existing context-specific capabilities. This view assumes that environments are in dynamic equilibrium (Brown & Eisenhardt, 1997), so competitive advantage cannot be rationally planned and conceptually identified. Hence, dynamic capabilities researchers argue that in order to maintain a competitive advantage, firms must continuously create and develop new abilities through dynamic capabilities (Teece et al., 1997).

The importance of dynamic capabilities is well documented (Eisenhardt & Martin, 2000; Teece et al., 1997). A firm’s dynamic capabilities are founded on its abilities to connect internal strength with external needs. Thus, companies need to integrate the internally-oriented and externally-oriented capabilities in order to sustain dynamic competition. This perspective proposed that the continuous creation of core competences and capabilities are necessary for a firm to succeed in dynamic environments (Teece et al., 1997; Eisenhardt & Martin, 2000). Specifically, companies can succeed by reconfiguring their resources and routines (Zahra et al., 2006).

The ability to perform activities in an integrated manner can improve the performance of firms. While previous research has focused primarily on larger firms, Floyd and Wooldridge (1999) contend that SMEs face important challenges in deciding whether to develop their existing organizational capabilities or to pursue entirely new business ventures. Developing new organizational capabilities can integrate production innovation, human resources practises, customer orientation, and the acquisition of new resources, such as equipment and skills (Hoskisson et al., 2004).

Capability represents the perceived internal and external identity of a firm. In particular, it entails the company’s ability to perform more effectively than its competitors using a distinctive and unique set of business attributes (Barney, 1995). The organizational capabilities approach emphasizes three critical factors that are essential for achieving superior and sustainable results; these factors include strategic focus, organizational alignment and operating discipline. Leonard-Barton (1992) maintains that many firms exhibit core rigidities when they are dependent on existing resources, and, as a result, these firms need to continually renew their capabilities. In a global economy, knowledge represents the most important value-creating capability. Accordingly, this paper argues that certain organizational capabilities of SMEs, including delivering products quickly, flexibly adapting to anticipated changes, providing high performance products, applying update technology, mastering finance management and offering consistent quality, are key issues that assure high growth. This proposition can be formulated as follows:

Proposition 6: The ability of development capabilities to achieve cost reduction, high quality and organizational flexibility will facilitate high growth in SMEs’.

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Some evidence from the field

The remainder of this paper is based on twelve case studies in Lorraine, France, where all companies exhibited an outstanding level of performance over a long period of time. A selected group of quotations from the entrepreneurs are presented in Table 1. In order to validate the data analysis, this study also presents a typical case of a gazelle in Lorraine.

<table>
<thead>
<tr>
<th>Drives</th>
<th>Drivers for HIGH Growth:Selected Quotes</th>
</tr>
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<tbody>
<tr>
<td>VISION</td>
<td>In fact, we have a clear mission since the beginning of this Enterprise: Developing new products instead of milking cows. If there is no novelty, we quit the activity.</td>
</tr>
<tr>
<td></td>
<td>The philosophy of the firm is to grow by producing and commercialising the highest quality beauty products.</td>
</tr>
<tr>
<td></td>
<td>We create, develop and deliver technology solutions for people with special needs. Such solutions should create social value and improve our customers’ the lives.</td>
</tr>
<tr>
<td></td>
<td>In all areas of our activities, we face fierce competition from large groups so, in order to keep our autonomy, we work to be one step in advance in terms of applied technology.</td>
</tr>
<tr>
<td></td>
<td>My partner and I decided to become employees of the company in order to foster the development of the company.</td>
</tr>
<tr>
<td>INNOVATION</td>
<td>We did not invent anything; we just put together technologies available in the market.</td>
</tr>
<tr>
<td></td>
<td>What makes our company unique is our ability to implement small improvements in every project; we are condemned to anticipate our customer’s needs. We work for a niche market but our competitors are large multinational conglomerates so we must be proactive.</td>
</tr>
<tr>
<td></td>
<td>I try to make my company more open for changes. In fact, we have a kind of willingness for change. There are so many barriers for change that we have taken advantages from this outside inertia when launching new services to the market.</td>
</tr>
<tr>
<td></td>
<td>We try to do not create barriers. Why should we create or accept them? It sounds ridiculous but there is motto here: Dare to dream, dare to believe, dare to create, dare to create money!.</td>
</tr>
<tr>
<td></td>
<td>You only changed the way we deliver the product. In fact the product is the same as before but our customers started to perceive much more value.</td>
</tr>
<tr>
<td></td>
<td>Let’s say that our family-business culture is very ‘clear’ and ‘transparent’ and we all have the possibility, during formal and informal meetings, to make suggestions and express ideas in order to better develop our business.</td>
</tr>
<tr>
<td></td>
<td>We are still very proactive as entrepreneurs, for example we have developed a lot of new products and acquired another company.</td>
</tr>
<tr>
<td>HR PRACTISES</td>
<td>In our company we encourage all employees to express their expertise, their talent, and their judgment skills.</td>
</tr>
<tr>
<td></td>
<td>There is a shared value among the sixty people in our company; I call this a sense of belonging to the company. We perceive it because employees feel good here.</td>
</tr>
<tr>
<td></td>
<td>My salary is published on the employees’ e message board. When I first published it, many employees said to me that they thought I earned much more money.</td>
</tr>
<tr>
<td></td>
<td>The main criterion to be hired and stay in the company is the enthusiasm.</td>
</tr>
</tbody>
</table>
There are no pessimist people here. They are passionate to their activities.

- In order to keep high employees’ commitment, we implemented a stock-options programme through which every employee can buy our stocks paying only a fraction of the real price. I can tell you that only a few of them have sold their options.
- Since 2000, we have offered sabbatical opportunities to our technical employees. They can spend six months a University lab or in another country if they bring a project that would improve their performance and the company’s performance. Our sabbatical programme became a way to retain and attract high quality people. It drives higher levels of engagement because people are proud to be part of the company.
- A few years ago, we introduced a 360-degree sharing knowledge mechanism where peoples’ experiences are shared by their seniors, subordinates and peers.
- Monthly, the performance of the company through its finance accounts is accessible to all employees. We translate the income statement in a way anyone in the company can understand his/her contribution.

CUSTOMER FOCUS

- You should note that we have grown with our customers. The number of customers we have is almost the same of ten years ago. This long term relationship allowed us to delivery services that are tailor-made to our customers.
- You changed many times our products. In fact, we completely redesigned our software in 1998. We restarted from a blank page; however, we kept the same customers during the whole process because we knew what hey were looking for. Ever since than, we have been proactive, we have also gone beyond the customer for field value assessments.
- We have routine measures of our customer service. Every month, I talk to our main clients in order to get feedback from the field.
- Customers become undoubtedly respectable entities; we must give them all they deserve. If we lose them, it is a crime.
- My salesmen behave more consultants to our clients them sellers. We support our costumers’ decision making processes.
- You have been very selective when choosing new customers.

TIES WITH THE TERRITORY

- The reason we are in this region is because my partner and I graduated from the same university here. In addition, this university offers us a very good quality of mathematicians and IT people.
- I could say that here in Nancy we have not only specific human resources available but also technological knowledge and skilled service capacity.
- Our top technicians prefer to live here in a nice house where they can spend their time with friends than living in Paris. It generates more value to their salaries to be spent with their family. In fact, the countryside life attracts many people.
- This region faced an important economic recession during the late 90s so our employees understand that getting a full time job here is an important achievement. They will not complain for peanuts because they have suffered from misleading union activists and we have learned together.
- Although our market is growing, we have paid special attention to our local market customers because these customers have more loyalty than customers from distant markets.
- The ANVAR (National Agency for Research) is part of the company development because they helped during some critical moments of the company. The mayor also acted to find more resources. I thing that all close actors to the company facilitated the access to the market.
- My old friends from the college worked as gatekeepers to our suppliers.
and even for some great customers.

- Language is a critical point for programming; we cannot just translate instructions; that is why our market is mainly French-speaking countries.

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**DYNAMIC CAPABILITIES**

- We are very flexible with rules set by the R&D management for new product development proposals and investments. We have some guidelines but they may be adjusted to respond to situations. The technical requirements of our products have changed based on the awareness of special needs of disabled people. We try to anticipate the social requirements we will face in 20 years from today. We need to anticipate the technologies that are not yet available in the market. We will not develop them but we will use them in the future.

- During the last ten years, we have exploited many opportunities and discovered some interesting processes and technologies. Since our market changed, my partner and I have delivered services that we could not think about when we launched the company. Through the years, we have developed some intuitive skills to better perceive and explore the opportunities.

- Our company has a twenty-year tradition in generating IT solutions to our customers. Our success depends on the ‘experience’ and ‘knowledge’ gathered and handed down through the years and acquired from outside.

- There was in the 1970s a ‘business restructuring’ through which a lot of problems in production and management were resolved in order to adapt the business to the changing market.

- At that moment, we perceived that we should change our activities because the market was saturated; at the same time, Internet was just starting so we decided to enter in this new market.

- In the first years we grew selling IT management tools like cash flow management and inventory management, than we started to create tools to help our customers to sell more. Nowadays, we work as consultants for them.

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The case Gris Decoupage: A gazelle in a mature industry

The company Gris Decoupage (GD) is a mid-size industrial firm that is situated in a mature industry. Specifically, the industry contains the unique feature of relative technological and product stability, as new groundbreaking technologies are extremely rare, perhaps occurring only once every 50 years. Nevertheless, the competition in this sector is extremely high on both the international and the national level. GD is particularly relevant to our discussion, as the dynamic capabilities concept has historically originated from innovations and R&D research, and most of the articles in this field examine cases of high-tech companies (Teece et al., 1997; Brown & Eisenhardt, 1997). For GD, the possibility of technological and product innovations is highly restricted, so organizational and managerial innovations are the most significant in terms of novelty. In fact, these types of innovations represent virtually the only potential sources of competitive advantage for this company.

**Vision.** 'I absolutely wanted to build my factory beside a highway, because, in my former employment in the steel industry, I have seen Italian industries along the highways. I found this to be an extraordinary way of promotion at a low cost. Therefore, almost by chance, I became established beside this highway.' However, Francis Gris' vision of becoming a market leader in the die-cut washer industry did originate as a result of luck. When he launched this small enterprise in 1984, more than 35% of the French flat washer products were imported, as
there were no washer manufacturing specialists in France. Instead, washers were mainly produced by the major die-cutter stamping firms and automobile subcontractors in Germany and the UK. In France, the production market was fragmented, and producers did not deliver products with the necessary accuracy.

With this vision in mind, and a very clear understanding that success in this field would be based on “productivity, employee engagement and growth”, Francis Gris created the Gris Découpage Company (GD).

**Innovation.** The new company quickly adopted a leading role in the French flat washer market, with a production of 450,000 parts per hour as compared to the industry average of 150,000 parts per hour. In two years, GD increased its productivity to 950,000 parts per hour. The technology that differentiates GD from its competitors is not based on the product itself; rather, it is found in the manufacturing process. While GD’s production process is complex, its final product is simple; very sophisticated machines are used to manufacture millions of simple products according to strict specifications. In 1991, the company took over a Paris-based, traditional tapered-washer manufacturer that had gone bankrupt. Subsequently, the commercial and industrial synergies between the two sites were successful, and the company relocated to a modern plant built at the Pont-à-Mousson site. From 1999 to 2001, GD invested 5 million Euros in new equipment and in a custom developed ERP system, “which was an extremely risky investment when it was made.” However, this major data-processing investment generated outstanding results that allowed the company to improve its performance, even during the economic crisis of 2001 and 2002. In order to apply further innovations to the production process, GD developed a nurturing environment for its employees, encouraging them to freely share knowledge with each other.

**Human Resources Practises.** From 1984 to 1991, when the company culture was developed, GD grew by means of internal resources. Consequently, it was necessary to hire many new employees every year. Francis Gris emphasizes that he was “surrounded not only by employees that were technically qualified, but also by people who share similar values and committed themselves.” Not surprisingly, the company does not have a traditional hierarchical structure. In fact, the structure, even on the website, is represented by a set of interlinked cycles.

Employees receive explanations of the financial statements, and their incomes are directly influenced by the company’s profits and by their personal performance. In order to increase productivity, an ‘improvement programme’ has been implemented since the early years of the company. In addition to a Kaizen programme, established in 1997, GD publishes an internal newspaper that encourages knowledge exchange, announces newcomers, and explains company values. Hence, it is apparent that GD is aware of the importance of shared information among employees for idea generation and innovation. Accordingly, in 1999, the company launched a three-year training programme that was focused on interpersonal skills.

As Francis Gris’ states, “we should support and develop our employees because they will not achieve the best results on their own; thus, it is necessary to help them to reach their full potential.” In 2005, GD applied for the United Nations Global Compact program concerning human rights, labour standards, environmental protection and the fight against corruption. These investments in company values helped GD to achieve its strategies for customer satisfaction, which is the delivery of a standardized product in extremely high volumes, and to develop its innovative style.
Customer Focus. Francis Gris describes his firm as “an industrial company that developed a strategy of listening to and acting for its customers.” Moreover, he also emphasises that “at GD we work with the future in mind; we are not here for a quick sale Therefore, we work to establish long-term relationships with customers. That has been our philosophy since the beginning.” Although the strategy of controlling costs is a key factor for succeeding in this industry, the ability to find new uses for the products and develop new products for customers is the most effective method for gaining access to long-term contracts. Contrary to the tradition in the automotive industry, where suppliers consider purchase managers to be the decision-makers, GD has targeted the design engineers of automotive companies as its customers. From this perspective, new opportunities for developing products have emerged, thus enforcing strong commitments to its customers.

In its initial years, GD established business-to-business relations by visiting customers and talking to engineers. Today, GD exchanges information with its customers, and gains insights about the performance of their products through a shared extranet. For instance, if a GD employee perceives a problem with a customer’s production system, the employee can track the history of the production, including the equipment and the employees involved in the manufacturing. In addition, technicians have the authority to directly access a customer’s order in order to expedite the problem solving process. This procedure has allowed GD to receive a strong commitment from their customers, creating continual opportunities to develop new business.

Ties with the territory. Located strategically in the centre of Europe, the Lorraine Region contains from high concentrations of wealth, technology, infrastructure and prestigious educational institutions. In fact, over 70% of the European Union’s purchasing power is located within a 600 mile radius of Lorraine. This region was historically active due to vast natural resources that enhanced traditional large-scale industries such as steel, coal mining, and textile. When these industries began to decline, the standard of living within the region began to fall rapidly. It has only been in the last 10 years that Lorraine has begun to recover from their post-traditional industry decline. In 1994, Lorraine became a pilot region for the European Commission’s Regional Innovation Strategy: RIS. Specifically, the purpose of RIS was to help regions cooperate and innovate locally while competing globally. The Lorraine Region, in collaboration with ANVAR (l’Agence française de l’innovation), was selected as a pilot study, for the European Committee’s RIS project in 1994, and subsequently, they undertook the Lorraine Technology Policy. The goal of this policy was to increase the efficiency of technology transfer and to enable it for regional SME tools that could be adapted to their demands. Since many automakers and suppliers are established close to Lorraine, GD benefited from their resources and competences. In 1995, GD received an award from ANVAR based on its engagement in the increasing productivity and implementation of innovative management practices. For several years before setting up GD, Francis Gris worked as a sales manager in Metz for the metallurgic industry, where his experience allowed him to build a solid network with purchase managers in the automotive industry. Although he does not perceive himself as a networking person, his previous experience exposed him to key contacts in the Lorraine Region. In fact, he used some of these contacts to support the proposals for financing the launching of the company and when preparing the company’s LBO in 2000. In addition, GD has kept their production in Lorraine because of the “high quality engineers and managers that formed in the region as well as the logistical advantages of being in the very centre of Europe”.

Dynamic Capabilities. During the last twenty-two years, GD faced three stages of growth, each of which emphasised specific capabilities. In order to achieve continuous growth, GD
developed these stages even before they were needed. For instance, Gris created marketing capabilities, including the knowledge of customers and competitors, prior to the start-up of the company.

The first stage of growth occurred from 1984 to 1991, in which the company grew by using internal resources. In this stage, GD’s strategy was to conquer the French market by establishing themselves as the lowest cost provider. Specifically, Gris concentrated his efforts on producing cut washers, demonstrating that management capabilities, such as cost control, were the main focus during this period. GD achieved high growth by increasing process productivity through important investments in the production systems as well as building a strong culture of cooperation within the company. In addition, market-linking capabilities, such as customer-linking, and durable relationship capabilities with suppliers were developed. Although GD experienced high growth during this first stage, the production of only one line of goods could not ensure GD’s future.

During the second stage of growth (1991-2001), GD implemented technological diversification to manufacture more complex products; however, these products were created with the same type of the production process that they had previously utilized. In addition to increasing their diversification with complex products, the company expanded its markets internationally. They made substantial investments in software, which enabled GD to reduce the delivery time and to track their products inside and outside of the company. Although tracking abilities was already one of their core capabilities, the delivery strategy, based on a single complementary product site, enabled the development of the commercial concept, which was encapsulated in the 'the all-round solution' slogan. This concept transformed GD into the European leader in the washer market. In fact, these key proactive decisions enabled GD to overcome the economic collapse of the automotive European industry in the mid-nineties, when more than 50% of SME went out of business. Moreover, this stage also established the foundation for the company’s quality accreditation.

Since 2001, GD has moved to an internationalization process with external growth. In this stage, GD gained access to new markets and additional customers by acquiring several companies in Eastern Europe. In addition, GD launched a buyout that provided financial leverage for the company.

Beginning in 2001, GD’s internationalization process followed a three-phase schema, starting with exports to Europe and South America. The second phase followed with foreign direct investment through plant acquisitions. Finally, the current stage entails a post-merger integration process for all its foreign acquisitions.

The internationalization process transformed GD into a multinational corporation with operations in many countries. Financially, GD is one of the most profitable corporations in the industry; it has developed a cluster of capabilities, creating synergetic effects, which have resulted from an innovative culture that motivated the collaboration between different organizational departments in the innovation initiatives. In order to continue growing, GD has concentrated its resources on finance and acquisition skills.

**Discussion**

Since its inception, GD has experienced a need to increase productivity dramatically in order to differentiate itself from key competitors.
As most of the evident cost-cutting mechanisms were already implemented and GD’s financial results were already well above the industry average, company leaders decided to launch a project aimed at involving all employees, including shop-floor workers, in generating and implementing cost optimization ideas. In fact, this initiative was the key task in the company’s change project. For most companies, this production optimization program would have been an operational level task. However, based on industry specifics, GD’s endeavour can be judged as a strategic level task, as it was important not only for short term success but also for long-term competitiveness. Consequently, the project results were impressive, as the company succeeded in cutting a significant amount of its production costs. However, within the scope of this article, another result was very interesting: the company’s production efficiency has been continuing to grow for over two years since the project has been officially completed.

Although the current rate of growth is not as high as it was during the official project, the growth still continues without purposeful interventions from top managers. More specifically, the company transformed its competence for production optimization into a dynamic capability, as was also the case with the implementation of IT tools, which become a dynamic competence.

This illustrative case emphasizes the fact that neither existence in a high-tech industry nor the possession of exclusive resources is necessary for achieving high growth. In addition, it demonstrates that interwoven companies foster high organizational growth. Francis Gris developed a company based on the clear vision of becoming the leader in the die-cut industry through a growth strategy. His innovation, which was mainly in the management process, was driven by continuous and incremental improvements. Specifically, he implemented an organizational culture of training, trust and commitment. Furthermore, the focus on a limited number of business-to-business customers helped GD to continuously develop and deliver products and services that not only met but exceeded customer expectations. The strong connections with customers and other stakeholders in Lorraine allowed GD to obtain first-hand information about the opportunities and constraints of their environment. Finally, by creating dynamic capabilities in each stage of their development, GD has achieved outstanding results over the last twenty-three years.

Conclusion

This article has examined the high growth of successfully performing SMEs and has presented a model of the success drivers from a variety of theoretical perspectives. Unlike previous studies, in which, with few notable exceptions like Storey (1994), scholars have examined organizational growth in general or have studied the affect of one variable on overall performance, this article has focused on organizational practises, and, more specifically, on strategic organizational practises. In particular, the characterization of strategic organizational practises as being institutionalized over time has induced us to explore the dynamics of such practises.

Specifically, the resource dependency perspectives from organizational theory, in combination with certain theories from economic development, were employed in order to define the key constructs in the model, including innovation, vision, and customer focus. Subsequently, these multiple perspectives were used to develop the propositions.

This article contributes to theories of organizational growth, as these gazelles present extreme examples that challenge the boundaries of these theories in areas that have been previously
overlooked. In particular, these theoretical contributions mainly focus on the strategies and management of SMEs. Hence, a potential contribution entails the conceptualization drivers of high growth. Furthermore, traditional management theory constructs, including innovation and customer focus, have been utilized to define the concept of Gazelles.

This paper represents an important step toward the operationalisation and possible measurement of High Growth Potential Variables, which, to our knowledge, has not yet been explored. Moreover, it purports to initiate an examination of drivers that have been brought to the surface during the study of gazelles in Lorraine. However, this article is just a beginning, as much more conceptual work is required to explore important issues that have not been addressed.

In particular, further exploration is recommended on contingencies that moderate the importance of a particular driver. Additionally, the possible interactions between these drivers may have serious implications for the challenges facing organizations in achieving high growth. Therefore, it is strategically important to learn what drivers might facilitate or impede the process of high growth for SMEs. The model in this article attempts to explain why SMEs may experience difficulties growing. Furthermore, it can be used to derive recommendations for policy-makers and venture capitalists to successfully invest in and develop a region. Lastly, the model emphasizes the critical role that the territory plays in this process.

This article can serve as a basis for subsequent research and theory development, especially the approaches for measuring organizational performance. The propositions are amenable to testing with quantitative methods. Most of the constructs employed are established constructs, or, at least, slight variations of these constructs, with validated measurement instruments, including innovation (Van de Ven, 1986), HR practises (Malos & Campion, 2000), customer focus (Venkatraman & Ramanujam, 1986), vision (Filion, 1991), and dynamic capabilities (Teece et al., 1997). In the future, developmental research focused on measuring territory ties will be required. Specifically, alternative approaches should be explored, such as the development of survey instruments for measuring.

In addition, the article has practical implications. The research question addressed is of significant practical relevance and importance. As suggested in strategic management research (Hoskisson et al., 2004; Nicholls-Nixon, 2005), the ability to effectively grow and achieve high performance is an ideal goal for entrepreneurs, managers and venture capitalists.

Finally, the model presented here has a few limitations. Despite its complexity, it presents a relatively simplified picture of the extremely multifaceted phenomenon under study. As a result, there are many additional research questions that could be addressed in future theoretical developments in order to derive an improved understanding of the process involved with high growth. Some potential future directions could include the following research questions: What are the different and similar effects of the various drivers of growth on the organizational performance? Is there a priority among the drivers? Is there a preferred sequence for implementing and develop such drivers? Lastly, does this sequence vary from industry to industry?
BIBLIOGRAPHY


