

≈ SUMMARY ≈

INVESTIGATING SUSTAINABLE STRATEGIES FOR TURNING
AROUND 'STUNTED GROWTH' BUSINESSES*Carmine Bianchi**Department of Management, Faculty of Political Sciences, University of Palermo, Italy**Graham W. Winch**University of Plymouth Business School, United Kingdom***Principal Topic**

Within the range of small companies, and especially micro-firms, there is a group that have survived through many years, maybe many generations, providing their owners with acceptable returns and lifestyles, but have remained very small despite them having significant growth potential. This phenomenon is recognised in the literature as the 'dwarf' or 'stunted' small firm (in Italian *nanismo aziendale*). The ability of such firms to break out from this situation varies according to external opportunities, but especially with regard to internal strategic resources and the attributes of the owner-entrepreneurs. Previous work by the authors has used case study evidence to characterise different firms and has then presented qualitative analysis to provide some initial ideas in how such firms could break out from this condition. This earlier work led to the conclusion that a business simulator could be of significant value in investigating the change process, and a preliminary model was posited. The work described in this paper builds from that earlier work by presenting a fully developed insight model. This model includes a more extensive representation of critical strategy assets, reflects the base dynamics (or 'reference behaviour mode') expected of stunted firms, and then examines a wide range of scenarios representing different constraints and opportunities for entrepreneurs to change their firms into ones that could achieve long-term sustainable growth.

Methodology/Key Propositions

The model reflects a set of critical interacting assets, including financial assets, the quality of a firm's products or services, production capacity (e.g. in terms of human resources and/or machinery) and the firm's customer base. Each of these assets has an outflow reflecting loss or deterioration of the asset, and an inflow reflecting that actions can be taken to build them up. The model also associates costs with the adopted strategies aiming to maintain appropriate levels of strategic assets over time in order to pursue the desired returns. The decision processes are set up in the model to reflect what is believed about managers in such firms -if the perceived returns are above or close to their target, then there is tendency for the entrepreneur to be relatively relaxed, making no great efforts to match competitors' quality advances or replace lost customers. However, as the situation deteriorates they will become progressively more concerned and increase their actions to recover.

This model also generates the cyclical behaviour expected for this kind of firm and observed in the original case study firms. The periodicity of the cycles is a function of the delays and decay rates assumed in the model, while the amplification is deduced to depend on the attitudes and strength of response by the simulated firm when managing product/service quality, building capacity, and its efforts to win and retain customers. After establishing base case behaviour

the model was simulated with a range of combinations of management actions that could be contemplated that could enable the firm to move into growth mode. These management actions primarily relate to the entrepreneur's response times in reacting to shortfalls and imbalances in the critical strategic assets. The scenarios also investigated the impact of an entrepreneur deciding on different desired annual growth rates, and the impact of competitors' product service/quality. A number of the scenarios are presented in detail here to indicate the outputs obtained and to consider their implications.

Results

The simulations confirm that the application of simple changes in owner-manager attitudes could potentially enable a stunted firm to break out into growth, but also to gradually generate structural instability or even crisis. A changing set of relevant external variables, such as those related to competitors' strategies, pose further challenges. The results also suggest that the kind of stable asset situation beneficial for sustained growth would require the move to a more reactive attitude to strategic asset management than is perhaps typical in dwarf businesses. Of course, the simulator is only a simple reflection of the selected key assets and at this level of detail and reflecting a generic company structure, it cannot point to specific actions to achieve quality or capacity improvement and build the customer base in a particular company's situation. However, by demonstrating that growth objectives might be feasible, it should stimulate and encourage the owner-manager, perhaps alongside other family stakeholders, to take a more detailed look at the practical options in their own firm's case.

Implications

These results add significantly to the understanding of this particular aspect of growth dynamics in small firms. This type of model could assist policy makers and small firm support agencies in identifying policies for support initiatives and training that will help small business avoid the pitfalls that lead to dwarfism and achieve their growth potential. More directly, the model, in its present form or in a more refined version, could be developed into an an-to-use 'flight simulator' type tool that could be used directly by small company owners to help them understand why their stunted nature means they might be missing opportunities for enhancing their revenues and net worth. Further, it could suggest possible ways forward to release them from the factors that are constraining their growth. For younger firms, it might help them understand how to avoid falling into this situation in the first place.

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