The Changing Role of the Entrepreneurial Founder in Emerging Fast-Growth Firms: A Conceptual Model

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Abbreviations

ASP – Application Service Provider

ASIC – Australian Securities and Investment Commission

AUD – Australian Dollar

BDM – Business Development Manager

BRW – Business Review Weekly

CEO – Chief Executive Officer

CFO – Chief Financial Officer

CTO – Chief Technology Officer

DOI – Director of Innovation

GM – General Manager

HR – Human Resources

HRM – Human Resource Management

IR – Industrial Relations

MD – Managing Director

NZD – New Zealand Dollar

RBV – Resource-Based View of the Firm

RQp – Principal Research Question

RQs – Subsidiary Research Question

SARS - Severe Acute Respiratory Syndrome

SME - Small- and Medium-sized Enterprise

VRIN – Valuable, Rare, Inimitable and Non-substitutable

VRIO – Valuable, Rare, Inimitable and Organisation

Declaration

This thesis contains no material that has been accepted for the award of any other degree or diploma at any university or other institution.

I affirm that to the best of my knowledge, the thesis contains no material previously published or written by another person, except where due reference is made in the text of thesis.

…….……..	26th October 2012
Vincent Giuca	Date

Acknowledgements

I acquired an electronic security business in September 2006 that proved far more challenging to manage than I had anticipated at the time. It became all-consuming for extended periods of time with adverse consequences for this research. Fortunately, two managers made it possible for me to effectively delegate most of my operational responsibilities during the last six month in order to complete the thesis. I am, therefore, grateful to Greg Elleman and Vera Poh for their loyalty and dedication, and for making it possible for me to take time off work.

As a consequence, the path to this point has been protracted and, despite this, my original supervisor, Rowena Barrett, did not give up on me even though she changed jobs twice during this period (once to the other side of the planet (De Montfort University) and then to the other side of the country (Edith Cowan University)). Susan Mayson, my current principal supervisor, has also been very patient and supportive having reviewed many drafts. I am indebted to both of them for their friendship, diligence and perseverance. They have been generous and inspiring teachers.

I wish to thank my dear wife, Anne Giuca, for commenting on various drafts and for her support over many years of study, and I do not just mean the PhD. I now solemnly promise (in writing) not to enrol in any other degree course again! My boys, Matthew, David and Dominic, have also been very patient with my long hours of work, study and research. I hope now we can spend more time together.

Thanks also to Cathie Corrick for the last minute proof-reading of some draft chapters.

Abstract

Despite the continuing fascination with emerging fast-growth firms and their entrepreneurial founders, our knowledge about *how* these firms grow into sustainable entities is limited. Building sustainable firms is fraught with many dangers, takes a great deal of hard work and is of particular concern to their founders. The concept of 'firm sustainability' is explored and developed within the context of this study.

The role of the founder in a newly established and rapidly growing firm is critical. Founders have considerable impact on their firms' overall performance, especially in the first few years of the firm's existence. However, for firms to grow and succeed, founders must rely on others, particularly other managers, to perform a range of operational, administrative and other critical activities. This implies that their own roles will change as their firms grow in size and complexity.

While existing literature deals with the professed problem of the founder not being able or willing to 'let go' as his or her firm grows, the topic has not been adequately addressed by academic researchers, particularly within the context of emerging fast-growth firms where time and financial pressures on the founder can be intensive. For firms with two or more founders, their individual roles are likely to be forged, among other things, by the respective role each founder plays. The development of organisational resources and capabilities, including human resource management (HRM), is also linked to the founder's changing roles.

The principle research question examined in the study is: How do entrepreneurial founders of emerging fast-growth firms use organisational resources and capabilities to achieve firm sustainability? In support of this principal research question, four subsidiary research questions also asked are: What is firm sustainability and is it important? In what way do entrepreneurial founder roles change as the firm achieves sustainability? Which organisational resources and capabilities are important for firm sustainability and how are they developed? Are HRM practices important for firm sustainability and, if so, why are they important?

Based on qualitative research methods and a case study strategy, the research begins as an exploratory study. One-on-one semi-structured interviews were conducted with founders and other managers of three privately owned Australian emerging fast-growth firms each with two founders. Consequently, a theoretically and empirically based conceptual model is developed to specifically address how the founder's role evolves, how organisational resources and capabilities develop, and how HRM practices are applied as the firms become sustainable.

There are three important findings regarding changing entrepreneurial founder roles arising from the study: first, the evolving and dynamic relationship between the co-founders; second, the human capital of the individual founders; third, the founders' time allocations and constraints. Furthermore, at the firm level, HRM resources and capabilities (such as selection and recruitment, the management team and performance management) were also found to have important effects on changing founder roles.

The thesis, therefore, demonstrates how evolving founder roles and developing organisational resources and capabilities, including HRM, are closely connected. These linkages are explored using case studies within the context of emerging fast-growth firms that have become sustainable. The study addresses gaps in our knowledge by developing a conceptual model to explain how founder roles change. The thesis uniquely contributes to theoretical knowledge by bringing together entrepreneurship, managerial and organisational studies, the resource-based view of the firm, and HRM and role theory to illuminate the evolving entrepreneurial founder roles in emerging fast-growth firms.

Preface

This thesis is concerned with how the role of the entrepreneurial founder changes in fast growing firms (i.e., business organisations) from the time of their inception to when they become 'sustainable'. While sustainability is not an end in itself, it is used in this thesis to mean a state where the firm can further develop without the encumbrance of its early stage vulnerabilities. I argue that the role of the founders must change for a firm to become sustainable. However, before I begin, I wish to share with you a little of my background in order to briefly explain the journey of how I arrived at this research undertaking and why it is important.

Unbeknown to me at the time, my initial foray into entrepreneurship occurred in November 1997 when I was appointed as the inaugural Director Human Resources (HR) of a newly formed technology consulting firm, Software Integrators.[1] It was an exhilarating period in my professional career. For the first time, I felt I was helping to build a substantial global firm. The environment was dynamic and fast-paced. I was surrounded by groups of young people keen to make things happen. However, within a period of just a few months, the whole edifice started to fall apart and people began to leave the firm in droves and, eventually, I became part of that exodus.

The thesis before you is the result of this journey commenced, but not concluded, at Software Integrators. The episode preoccupied my thoughts for a long time after leaving and many more associated issues surfaced in the meantime as I experienced first-hand a variety of business environments from different vantage points. I will elaborate on a few of these shortly. For now, I wish to introduce myself briefly because I believe that the social researcher's background and experiences have an important bearing on the subject matter under investigation (Layder, 1998; Sayer, 1992; Tosi, 2009). The thesis topic and the research questions asked have been shaped by my experiences and predispositions. I argue that understanding a little of my background will shed more light for the reader on why I have chosen to conduct this research.

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[1] A pseudonym is used in order to maintain confidentiality.

Early Days

Prior to joining Software Integrators, my career could be divided into two broad periods. First, from 1984 to 1992, I was employed in the Australian federal public sector mostly in industrial relations (IR) advisory roles. This period included working as a senior advisor to two Federal Ministers for IR over a period of two and a half years. Secondly, there is the period from 1993 to 1997, where I worked on two separate occasions as IR and HR senior consultant/manager for the global consulting firm, Price Waterhouse (as it was known then) based in Melbourne, Australia. In between these two periods, I was employed as the HR Manager to manage a major organisation restructuring initiative for a State Government financial agency. Following this successful change management initiative, I returned to Price Waterhouse to help establish its HR outsourcing practice.

Therefore, my professional work up to the latter part of the 1990s had straddled IR policy making and advising, IR and HR consulting to multi-national and medium-sized organisations in both the private and public sector, and management of an HR function as well as managing a sizable change management programme for a government financial agency. The latter also entailed the building of the HR and payroll functions almost from scratch. Software Integrators, therefore, presented me with a fabulous opportunity to put into practice many prior, learning experiences. My role at Software Integrators was in many ways an extension of what I had already achieved at the State Government agency but on a broader international scale and without the regulatory constraints of a government agency.

Software Integrators

Software Integrators was a start-up firm, having been established at the end of 1996 as an implementer of software solutions for the utilities sector. At the time, the firm operated out of Melbourne, Australia and Auckland, New Zealand. From the beginning, its flamboyant Founder and Executive Chairman had extremely ambitious plans for the company, viewing it as a global firm. He won a large contract worth around $11 million (NZD) to implement an enterprise resource planning system for a large New Zealand utility, and in doing so beat all the major established global information technology (IT) consulting firms. What was particularly unusual about this contract was the absence of an operating

organisation prior to the contract being awarded. Subsequently, the Executive Chairman recruited people with relevant skills from South Africa – a country with a sizeable number of suitably trained people who desired to migrate to more politically stable countries, such as Australia and New Zealand. The Executive Chairman also enticed young consultants from a major consulting firm against which he had bid. His success in convincing people to join his organisation attested to his considerable sales ability in both winning new work and establishing the firm.

When I joined the firm it had a workforce of approximately 60 people and within the next four months it had doubled in size. The major challenges at the time were associated with finding and recruiting suitably trained and experienced consultants. In particular, our presence in any one location was dependent on the longevity of whatever projects had been secured. Once the project concluded, the expectation was that consultants would relocate to wherever the next project took them (be that in Asia, North America or, indeed, anywhere). Therefore, the pitch to recruit consultants was focused on young individuals who were keen to see the world and travel extensively. The fast growth of the firm and the flamboyant nature of the Executive Chairman meant that we could convincingly entice people on the future outlook of the firm.

However, by mid-1998, I was contemplating leaving Software Integrators as I had formed the view that there was something inherently unstable about the organisation. A newly appointed Chief Executive Officer (CEO) left on a very acrimonious note within a few weeks of starting. On behalf of the firm, I was obliged to apply for and was granted an injunction in a New Zealand court preventing him from further communicating with clients of Software Integrators. Another Director resigned about the same time because of the perceived uncertainty of the firm.

After a personal acquaintance of the Executive Chairman was appointed as the new CEO in August 1998, my resolve to leave hardened. Up to this point the Executive Chairman would not, under any circumstances, entertain hiring contractors. According to him, he only wanted committed individuals – meaning full-time employees – to work in the firm. However, without any explanation or justification from the Executive Chairman, the new CEO's appointment was an exception to this rule. He was appointed as a contractor with a very generous remuneration package.

From my perspective, Software Integrators' foundations were unstable and that was an important factor in my decision to leave. This decision was not based on any concern for my own job security but rather I had lost the belief, by this stage, that the firm could provide a career for young people willing to relocate across national borders and, as the Director HR, I had an ethical dilemma in recruiting or persuading these individuals to remain with the firm on the questionable premise that they had a long-term future. For the first time during my tenure at Software Integrators, employee turnover began to rise as more employees began to raise organisation-wide concerns. A mood of discontent permeated the organisation.

Almost overnight, the new CEO began cost cutting without consulting the management group. His cost cutting approach was in stark contrast to the existing culture of the organisation, fostered by the Executive Chairman (i.e., 'people are our most valuable asset'). Employees found it difficult to reconcile these positions. While I believed there was room to be more cost conscious, the 'crash through' approach taken by the new CEO was divisive and an anathema to how the organisation had operated.

Unlike other organisations I had worked for or known through my consulting work, Software Integrators was vulnerable. It was a relatively new firm and, whenever dealing with external parties, managers went out of their way to emphasise the firm's characteristics and achievements to help it gain legitimacy within the industry. The bottom line was that we still had to prove ourselves, an issue often underlying any recruitment initiative. Internally, we lacked many systems and processes (such as those related to project management and human resource management (HRM)). The need was well recognised and staff were working to develop these systems and processes, but they were not sufficiently advanced to work effectively. The pace of change was relentless and it meant that not everything that needed to be done was done (e.g., team leaders sought guidance on managing team members and setting performance expectations, but the development of a performance management system was a long way off). This placed significant pressures on everyone concerned.

Another key factor in deciding to leave was the lack of a coherent management team and issues of role clarity and responsibility were constantly at the forefront. The Executive Chairman ran the firm making ad hoc and, sometimes, inconsistent decisions. This type of

behaviour was not atypical and it not only undermined the senior management group but it also meant that the professional advice for which the Executive Chairman was paying, was not being sought, let alone listened to. Under such conditions, senior managers were reluctant to make decisions and even when decisions were taken with the support of the Executive Chairman there was no guarantee they would not be overturned. The Executive Chairman prided himself on being one or more steps ahead of everyone else. However, this came across as him being manipulative and having hidden agendas. Software Integrators was not a sustainable firm as, among other things, the policy somersaults by the Executive Chairman were not uncommon and he was not prepared to allow his managers to manage. Furthermore, it was not clear where his executive boundaries lay vis-à-vis that of the CEO.

I left Software Integrators in September 1998 after a tumultuous period. While I was emotionally charged at the time, I also felt rewarded for the rich experience I had gained in a relatively short period of time. Within two months of my leaving, the new CEO was dismissed and, by the end of following year, the firm was down to only a few employees. The Executive Chairman subsequently relocated the firm's head office to North America where he won another sizeable implementation contract and the process of building the firm began again.

The Time After

Since then, the issue of how a stable, on-going, sustainable firm is created has interested me. This was particularly pertinent as I subsequently became involved in a few start-up firms (i.e., agri-biotechnology, health care and IT) as well as other small and medium sized firms as consultant, director and 'business angel' investor. What became evident to me was the precarious nature of fledging firms, particularly those with unstable partnerships and small management teams. I was also interested in the dynamic nature of young entrepreneurial firms and I observed a need for the roles of the key participants to change as these firms grew and encountered new problems and increasing complexity.

In September 2006, I acquired a small electronics security firm that I still own. When I purchased the firm, it had been operating for over 10 years and had a sound client base built around a few reputable national facilities management companies. We have managed

to retain and build on this base while expanding into new areas. At the time of acquisition, the firm was run on a shoestring without any planning, records database or proper documentation. Problems were often glossed over or fixed only when absolutely necessary. The firm was built on personal relationships and the previous owner had no structured pricing policy but rather charged clients whatever he thought he could get away with on an ad hoc basis. He had very few employees preferring to use contractors whenever the workload increased. Processes were not documented or standardised, and the functioning of the firm was almost totally dependent on the prior owner.

From the beginning my aim was to make the firm sustainable and less vulnerable to the numerous risks I foresaw. One of my goals was to significantly reduce the firm's reliance on my personal day-to-day involvement. In order to achieve this, I focused on developing and implementing standardised processes and systems, but this proved far more challenging than I anticipated. One of the main obstacles was that most of my time was taken up with operational matters, leaving very little time to develop and implement new initiatives. Whenever initiatives were implemented, it was difficult to ensure their on-going implementation as new issues surfaced and usurped my time. For much of the time following my acquisition of this business (until recently), I struggled with time management and delegation of tasks despite many efforts to address these problems and despite my years of senior management and HRM experience.

In the first few years I faced significant hurdles in managing and developing the firm because I was unable to attract competent security technicians, that caused major problems in delivering quality and cost effective services and, in particular, held me back from delegating many of my key responsibilities. This did not happen through lack of trying. During the first four years, the firm had turned over four senior managers who I had expected to step up to managing the daily operations of the firm. Each manager fell significantly short of what was reasonably expected of him and on each occasion the repercussions for the firm took numerous months for me to sort out and fix.

During my many moments of introspection, I questioned whether things could have been done differently. While there was room for improvement, our recruitment processes were not noticeably deficient. I ruled out remuneration issues because industry standards of pay were offered. For a small business, we presented professionally with well-crafted

advertisements, documented role descriptions and organizational core values, and semi-structured interviews. Referees were also followed-up prior to any hiring decisions.

However, a major issue that impacted on the quality of candidates was the overall industry shortage of skilled technicians and managers. Coupled with the small size of my firm, attracting the right type of people was highly problematic. As a consequence, I felt I had no choice but to make compromises in order to fill vacancies that, at times, needed to be filled within a short time span. In turn, this created a vicious circle of on-going problems to address and this added to my already heavy work-load and pressures. Breaking this vicious circle was not easy and, at times, felt impossible but eventually through a lot of hard work and persistence the situation was slowly turned around.

Today, in addition to our field technicians and contractors, the firm has a competent and committed Operations Manager who runs day-to-day operations, and an Office Manager who is accountable for all financial and compliance functions. We have a professional approach to the way the firm now operates and we have retained clients who would have migrated elsewhere had my predecessor's mode of operating continued. During the last 18 months, we have installed and commissioned security systems for a major national construction company and have recently been invited to tender for more work at its other sites. The project we have recently completed has helped double our company's annual revenue during the past 12 months. This has occurred during a period when competition in this industry is increasing and when facilities management companies – a key client group – are now proving to be more demanding (e.g., increasing instances of tendering and more stringent compliance requirements). In response, we recently implemented an enterprise resource planning system to manage business workflows and data capturing and reporting that is a significant milestone for a small firm of our size. Proposals for new jobs are presented in a professional manner and legally binding terms and conditions form part of each proposal submitted that was not the case with my predecessor. These are just a few examples of the many initiatives we have implemented since I acquired the firm.

While I have now managed to turn this situation around and the firm is more self-reliant, it still has vulnerable points that continue to be addressed and hopefully will be overcome as the firm grows and develops further. But I have managed to take time off to complete

the write up of this thesis, something that seemed elusive not too long ago. The key insights I have gained from my experiences are elaborated below.

Insights

Experiences are filtered through personal lenses that incorporate past experiences, cognitive preferences, and values, beliefs and prejudices (Holden & Lynch, 2004; Layder, 1998; Sayer, 1992). Relying on just one viewpoint has its pitfalls and the purpose of this Preface is not to provide a justification for my actions in the events outlined above. Rather, the purpose is to place my research within the context of my personal experiences and to give the reader a glimpse of my starting point.

The key insights I formed from these experiences are twofold. The first was that people within organisations matter a great deal. Recruiting the wrong people into a firm, particularly a small one with growth plans, can be very costly and time consuming. Whatever capital reserves a firm has can be whittled away quickly as management's attention becomes absorbed in internal organisational machinations. Therefore, building a sustainable firm, while it entails addressing many different internal and external factors, is first and foremost about acquiring the right HR. Having capable people and managing them appropriately is of fundamental importance for any sustainable firm. For instance, development and implementation of business strategy and financial management are ultimately dependent on having the right mix and calibre of people, especially at senior levels.

The second and related insight is that delegating responsibilities and decision-making can be a particularly difficult undertaking. This becomes especially important when the firm is growing rapidly because its growth adds more complexity to the problems that need to be addressed quickly. Unlike a small business owner, an entrepreneurial founder has plans to grow his or her firm with the added problems associated with managing growth. Managing growth entails some degree of delegation because the founder, however capable, must rely on others to help them manage a larger and growing organisation.

For some founders, delegation does not come easily. A high level of dependency on the founder is inevitable during the formative years of any young firm. However, growth itself is likely to be restricted if the founder does not delegate responsibilities and decision-

making. Furthermore, a firm that is highly dependent on its founder carries a great deal of risk and can fail if the founder is suddenly unable to continue performing his or her existing role. Therefore, the role of entrepreneurial founder is dynamic and changes over time if the firm is to become sustainable. This is taken for granted but is of vital research interest as entrepreneurial founders continue to struggle to make the necessary transition and firms stumble as a consequence.

Doctoral Studies

I returned to part-time post-graduate studies in 2003 when I enrolled in a Doctor of Business Administration (DBA) degree. Following completion of the requisite coursework and a research project, I transferred to a Doctor of Philosophy (PhD) degree in 2005. By this stage, I was keen to explore the above issues in more depth in order to make a substantive contribution to our knowledge in this area.

The above insights, therefore, provided a launch pad for the subject matter of this thesis regarding the changing role of the entrepreneurial founder in emerging fast-growth firms. However, my past experiences and dispositions have not *determined* my conclusions. As stated so eloquently by Siggelkow (2007: 21):

> In my view, an open mind is good; an empty mind is not. It is true that one wants to retain the capacity to be surprised, but it seems useful (and inevitable) that our observations be guided and influenced by some initial hunches and frames of reference …

In disclosing my "initial hunches and frames of reference", I also hasten to add that I have been cognisant and have tried throughout this research to apply an open and theoretically informed mind.

1 Introduction

1.1 Chapter Objective

This chapter provides an introduction to the thesis whose purpose is to develop a conceptual model for explaining necessary factors for the sustainability of emerging fast-growth firms. Using a realist approach (Layder, 1998; Sayer, 1992 & 2000) and case study research design and methods (Eisenhardt, 1989a; Stake, 2005; Yin, 2003), the changing role of the entrepreneurial founder and organisational resources and capabilities, including human resource management (HRM), are examined to explain how and why these are important contributors to firm sustainability. Also, outlined in this chapter is the rationale and objective for the research and the reader is introduced to the research questions, as well as definitions of key terms used throughout the thesis. The research scope is considered and the thesis structure is summarised below.

1.2 Overview of Thesis

Fast-growth firms and their entrepreneurial founders continue to attract considerable public and academic attention (Beaumont, 2005 & 2006; Davidsson, Achtenhagen & Naldi, 2006; Flamholtz & Randle, 2007; Markman & Gartner, 2002; Tansky & Heneman, 2006). However, as Bhidé (2000: 3) suggests, "[e]ntrepreneurs who start and build new firms are more celebrated than studied" and knowledge about *how* these firms grow into sustainable entities is limited. The aim of this research is to help address some of these knowledge gaps.

Building a sustainable firm is fraught with many dangers, takes a great deal of hard work and is of particular concern to founders of emerging fast-growth firms. Emerging firms in industrialised economies do not have good survival records beyond their first few years (Fritsch, Brixy & Falck, 2004; Garnsey, 1998; Kirchhoff, 1994). Furthermore, fast-growth firms are not the norm and, as Davidsson, Achtenhagen and Naldi (2006: 368) point out, "[m]ost firms start small, live small and die small". However, firms that grow are more likely to survive than those that do not grow (Garnsey, Stam & Heffernan, 2006; Giuca & Barrett, 2005; Phillips & Kirchhoff, 1989).

Entrepreneurship literature has focused attention on a diverse range of issues such as opportunity recognition and exploitation (McGrath & MacMillan, 2000; Shane, 2005), innovation (Ireland & Hitt, 1999; Legge & Hindle, 1997), new venture creation (Gartner; Starr & Bhat, 1998; Timmons, 1999) and corporate entrepreneurship (Stevenson & Jarillo, 1990; Timmons, 1999). Considerable research has also been undertaken in the area of firm growth (Almus, 2002; Barringer, Jones & Neubaum, 2005; Davidsson, Delmar & Wiklund, 2006; Lester, Parnell & Carraher, 2003). What tends to be missing from this literature and our knowledge is how emerging firms become sustainable entities, particularly those with rapid growth. Therefore, following this introduction, the study will be situated within the context of literature from entrepreneurship, organisational studies, HRM, the resource-based view of the firm (RBV) and role theory.

The role of the entrepreneurial founder[2] in a newly established and rapidly growing firm is critical and likely to be more so than for any other employee (Andrews & Welbourne, 2000; Johnson & Bishop, 2002). The founder establishes the firm's growth objectives, if any (Wiklund, Davidsson & Delmar, 2003), and has a considerable impact on the performance of the overall firm, especially in the first few years of existence (Mazzarol, 2003). Furthermore, Baron and Hannan (2002) found, in their substantial research of emerging high-technology firms in Silicon Valley (California), that entrepreneurial founders have a significant and on-going influence through the *HRM models* or *blueprints* they introduce at start-up.

For a firm to grow and succeed, the founder must rely on others to perform a range of operational, administrative and other critical activities (Flamholtz & Randle, 2007; Fombrun & Wally, 1989). This implies that the founder's role within the firm will change as others are employed to perform tasks previously performed by him or her and as new tasks are added to the mix. To transform a new and small firm into a sustainable one requires the founder to change and perform new roles (Bhidé, 1996 & 2000).

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[2] Unless otherwise stated, the term 'entrepreneurial founder' or 'founder' will be used interchangeably to include one or more individual entrepreneurial founders. However, this study is principally concerned with firms with two entrepreneurial founders.

The changing role of the founder as the firm grows is very important but has been neglected and remains underdeveloped (Johnson & Bishop, 2002). While existing literature deals with the professed problem of the founder not being able or willing to 'let go' as his or her firm grows (Flamholtz & Randle, 2007; Gerber, 1995 & 2005; Hambrick & Crozier, 1985; Jennings & Beaver, 1996; Rubenson & Gupta, 1990), the topic has not been adequately addressed by academic researchers, particularly within the context of emerging fast-growth firms (Willard, Krueger & Feeser, 1992). The founder's role is likely to evolve and change as the firm grows (Bhidé, 1996 & 2000) and the pressures on the role are likely to be exacerbated within fast-paced environments of increasing complexity (Eisenhardt, 1989b). The literature from the fields of entrepreneurship, managerial studies and social psychology, particularly role theory, will be reviewed in order to consider the founder's role within emerging fast-growth firms.

The founder's role, through delegation, is also likely to be forged by the type and calibre of employees, including managers, recruited and the respective roles they play within the firm. Studies of growing firms have found that valuing employees can be a success strategy in its own right (Welbourne, 1997; Welbourne & Andrews, 1996).

Whether explicitly or not, the founder will utilise a range of HRM practices to attract, manage, motivate, train and, in some cases, terminate employees. HRM practices do not have to be explicitly stated or formally organised in order to exist. Once the founder starts hiring employees, HRM practices will come into play. Therefore, what HRM practices are employed, and how they are used is of particular interest in this study.

While research regarding the importance of HRM in emerging fast-growth firms remains underdeveloped, there have recently been some valuable contributions in this area by a few academic researchers (Alvarez & Molloy, 2006; Barrett & Mayson, 2008a; Barrett, Mayson & Warriner, 2008; Cardon & Stevens, 2004; Kotey & Slade, 2005; Marlow, 2006; Mayson & Barrett, 2006a & 2006b; Mazzarol, 2003 & 2005; Molloy, Tansky & Heneman, 2009). This study will also add to this emerging academic field. This thesis will consider the HRM literature and, in particular, research that examines the intersection of HRM, on the one hand, and entrepreneurship (Baron, 2003; Barrett & Mayson, 2008b; Cardon &

Stevens, 2004; Molloy, Tansky & Heneman, 2009; Tansky, Soriano & Dobón, 2010) and fast-growth (Gilman & Edwards, 2008; Tansky & Heneman, 2003 & 2006), on the other hand.

HRM is a specific firm capability considered among a number, such as managerial (Barbero, Casillas & Feldman, 2011), knowledge-based (Conner & Prahalad, 1996) firm routines (Knott, 2003) and dynamic (Teece, Pisano & Shuen, 1997). Proponents of RBV (Barney, 1991 & 1995; Foss, 2011; Teece, Pisano & Shuen, 1997; Wernerfelt, 1984) argue that the performance of a firm is primarily attributable to its unique set of resources and capabilities rather than the structure of the industry in which it competes (see Hoskisson, Hitt, Ireland & Harrison, 2008). In this thesis, the case studies are used to explore the importance of organisational resources and capabilities, including HRM, in the light of the changing role of the entrepreneurial founder and firm sustainability.

For many founders, building their firm into a sustainable entity is a particularly important goal (Bhidé, 1996; Boxall & Purcell, 2003) because, it not only contributes to short-term survival, but is necessary for long-term prosperity. Many other stakeholders, such as employees, family members, suppliers and investors, also have a keen interest in firm sustainability (DeTienne, Shepherd & De Castro, 2008; Karakaya, 2000). The evolution of the founder's role and how organisational resources and capabilities, including HRM, are developed and are closely connected. The linkages between these will be explored using case studies within the context of emerging but sustainable fast-growth firms.

Consistent with other research, the founders of the emerging fast-growth firms examined for this research faced many challenges. The founders of young and rapidly growing firms typically face considerable hurdles (Flamholtz & Randle, 2007; Thornhill & Amit, 2003) as they attempt to legitimise their firm's existence in the presence of existing and potential stakeholders, and deal with resource constraints (Delmar & Shane, 2004; Harney & Dundon, 2006a & 2006b; Williamson. 2000).

Section 1.3 considers, in more detail, the challenges faced by emerging fast-growth firms and their founders.

1.3 Emerging Fast-Growth Firms and Their Founders

Revenue growth for the emerging fast-growth firm is a tribute to their founder's success in the marketplace (Barringer, Jones & Neubaum, 2005; Covin & Slevin, 1997) and this can be leveraged to further increase the number of customers, suppliers, employees and investors (Garnsey, 1998). Prospective employees, for instance, can be enticed to join the firm on an understanding that they would have a significant influence and role to play as the firm grows. However, a firm's foundations are likely to be less than stable, particularly in the early stages of development, because of the challenges these firms often confront (Churchill & Lewis, 1983, Garnsey, 1998; Garnsey, Stam & Heffernan, 2006; Klofsten, 1997; Strauss, 1974; Thornhill & Amit, 2003).

Rapidly growing firms experience considerable internal change and, even turmoil, in dealing with growth pressures (Flamholtz & Randle, 2007). As fast-growth is measured within the scope of this research in relative terms, firms said to be fast growing are likely to be both relatively young and small in size. Researchers have come to associate liabilities of newness and smallness (Aldrich & Auster, 1986; Cardon & Stevens, 2004; Stinchcombe, 1965) with such emerging fast-growth firms because they are vulnerable on both accounts and their existence can be considered to be precarious. Typically within these firms, resources (including financial resources) are limited, firm-specific knowledge and skills are under-developed, and established firm routines are lacking (Flamholtz & Randle, 2007; Thornhill & Amit, 2003). Emerging fast-growth firms are also likely to face environments that have high levels of uncertainty (Garnsey, 1998; McMullen & Shepherd, 2006) and increasing complexity (Eisenhardt & Sull, 2001; Garnsey, 1998).

Structural challenges faced by emerging fast-growth firms and their founder can be classified into four groups. First, there are challenges associated with liabilities of newness and smallness (Aldrich & Auster, 1986; Freeman, Carroll & Hannan, 1983; Stinchcombe, 1965). Founders of new firms confront legitimacy hurdles when dealing with prospective customers, suppliers, employees and financiers. As new organisations, emerging firms usually do not have adequate internal infrastructure (e.g., internal processes, information technology systems and compliance protocols). Emerging small firms may not have ready

access to basic specialist skills and usually have insufficient resources. If one employee leaves the firm there may not be another employee to immediately take over the tasks of the ex-employee. Liabilities of newness and smallness, therefore, will have implications for a range of organisational resources and capabilities, including HRM, of emerging fast-growth firms.

The second challenge concerns the dominant role played by the entrepreneurial founder in the daily operations of the firm (Johnson & Bishop, 2002, Mazzarol, 2003). Initially, the firm and the individual founder may be inseparable in that the founder carries out all or almost all of the firm's activities. As the firm grows, other individuals will need to be hired and will undertake an increasing number of the operational activities and, as a consequence, there will be pressure on the founder to change his or her role. The interplay between the changing roles of the founder, and the use of HRM practices in order to hire and motivate employees to perform, is of particular interest here.

The third challenge often confronting the founders concerns the scarcity of resources, including financial resources (Goswami, McMahan & Wright, 2006; Hambrick & Crozier, 1985). It is not uncommon for founders of emerging fast-growth firms to operate on a 'shoestring' and to improvise in order to address firm resource shortages (Ebben & Johnson, 2006). The financial position of these firms, therefore, will have implications for whether employees can be afforded and how HRM practices are used.

The final challenge relates to the high level of uncertainty faced by the founder. To continue growing, their firm often operates within "a highly competitive and dynamic environment" (Goswami, McMahan & Wright, 2006: 29) that increases uncertainty. In addition, as more customers, markets, products and services, suppliers and employees are added, the firm becomes more complex and the organising and co-ordination mechanisms that once worked become stretched and ultimately redundant. As a result of a high degree of uncertainty and increasing complexity, fast-growth adds significant pressures on the founder and his or her managers and other employees. In turn, pressure is also likely to impact on, and possibly be impacted by, HRM practices.

These four sets of challenges represent significant hurdles that the founder needs to address in order for the firm to become sustainable. This study is concerned with particular aspects of these challenges and how they are addressed within newly founded and rapidly growing firms; namely the pivotal changing role of the founders, the development of organisational resources and capabilities, and related HRM practices. In addition, the research examines these three factors in the light of: first, financial and resource constraints, second, high degrees of uncertainty and increasing complexity, and third, liabilities of newness and smallness. Founder roles, organisational resources and capabilities, and HRM are important areas that have not been previously examined in depth within the context of sustainable emerging fast-growth firms.

The concept and usefulness of 'firm sustainability' will be discussed next.

1.4 Firm Sustainability: A Useful Concept?

While 'sustainability' is generally associated with environmental concerns, for the purposes of this thesis, the term is used within a different context and in a particular way. The concern here is with the early stage development of specific types of firms. Therefore, 'firm sustainability' means *sustainability of emerging fast-growth firms* and is defined as *a state where a firm can further develop without the encumbrances of its early stage vulnerabilities*. These vulnerabilities were alluded to in Section 1.3 and will be elaborated further in Chapter 2, *Research Context*.

By addressing and, largely, overcoming these vulnerabilities, emerging fast-growth firms and their founders will significantly decrease the risk of business failure. Therefore, within the context of this thesis, firm sustainability implies a state where the firm has developed its organisational resources and capabilities to the extent that its initial structural challenges have been adequately addressed and, in the main, overcome. Thus, firm sustainability is a state where a firm's present needs do not compromise its future needs. This implies that founders and managers are not taking short-cuts and over-loading people today to the detriment of the firm's future prosperity. Since young start-up firms are usually in a precarious and vulnerable situation, the contention is that the concept of firm sustainability is of critical importance to any founder who wishes to grow their firm.

The characterisation of sustainability used in this thesis has been guided by an influential United Nations report on environmental sustainability where sustainability is defined as follows:

> Humanity has the ability to make development sustainable to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs. (Brundtland, 1987: 24; see also Clarke & Clegg, 2000; Diesendorf, 2000; Hawken, 1993)

In its broadest sense, sustainability involves on-going adaptation to the environment through strategy, resources and capabilities (Boudreau & Ramstad, 2005; Chaharbaghi & Lynch, 1999; Giuca, Barrett & Mayson, 2006; Petty & Martin, 1997). Sustainability, in this sense, is not an end in itself, but a journey where "the nature of the journey itself keeps changing in an unpredictable fashion" (Chaharbaghi & Lynch, 1999: 45). However, in this thesis, interest is centred on emerging fast-growth firms that have overcome early stage vulnerabilities and, consequently, are considered sustainable.

Firm sustainability is a useful concept to employ because it represents a significant transition for emerging fast-growth firms and their founders. Sustainability affords founders a greater degree of comfort and confidence than they experience during their firms' pre-sustainability stage. While firm sustainability does not guarantee on-going success because of continuing environmental changes and risks, it provides a more secure platform from which adaptations can occur. Firm sustainability is also of concern to the stakeholders of the firm, including employees, investors, suppliers, customers and family members of the founders (DeTienne, Shepherd & De Castro, 2008; Karakaya, 2000). A firm that is vulnerable carries higher levels of risk that can adversely impact on stakeholders and, therefore, it is in their interest to see the firm achieve sustainability.

In Section 1.5, the reasoning behind the research will be outlined as will the research objective and research questions to be answered.

1.5 Research Rationale, Objective and Questions

Emerging fast-growth firms that have become sustainable hold particular interest because these are the ones that have overcome considerable obstacles to become (possibly) longer term players in the marketplace and significant employers of labour (Bhidé, 2000; see also Birch, 1987; Davidsson & Delmar, 2006; Hart, Anyadike-Danes, Bonner, & Mason, 2009; Henrekson & Johansson, 2010). While they are not immune from financial loss or business failure, sustainable firms are more likely than their small business peers to make a bigger and, perhaps, more lasting contribution to the communities where they operate. The founders of fast-growth firms play a particularly pivotal role in their firm's overall development and, therefore, are of special interest to researchers (Andrews & Welbourne, 2000; Johnson & Bishop, 2002).

Thus, the principal objective of this study is to understand and develop a conceptual model of how emerging fast-growth firms develop in order to achieve firm sustainability. While the research project started with firm sustainability viewed through a wide lens, the focus subsequently narrowed to one that was more manageable and centred on the changing role of the entrepreneurial founder and its relationship with organisational resources and capabilities, including HRM. These areas of interest, however, are not intended to be dismissive of other factors that may also contribute to firm sustainability, such as business strategy and industry structure. Rather, the focus of the research stems from a need identified in the review of the literature and supported through case study data collection and interpretation. Therefore, changes in founder roles and organisational resources and capabilities are considered in this thesis to be *necessary, but not sufficient* conditions for firm sustainability.

The research is *exploratory* with the intention of developing, but not testing, a theoretically derived and empirically supported conceptual model that integrates the changing role of the entrepreneurial founder with the development of organisational resources and capabilities, including HRM. The model developed from this research, with the changing founder role as its linchpin, will help researchers and practitioners understand how emerging fast-growth firms can become sustainable more quickly and, perhaps, less

painfully than current research and practices suggest (Bhidé, 1999 & 2000; Covin & Slevin, 1997; Flamholtz & Randle, 2007; Roberts, 1999a).

Therefore, the principal research question (RQp) for this thesis is:

RQp: How do entrepreneurial founders of emerging fast-growth firms use organisational resources and capabilities to achieve firm sustainability?

In support of the principal research question, the following subsidiary research questions (RQs) will also be considered:

RQs1: What is firm sustainability and is it important?

RQs2: In what way do entrepreneurial founder roles change as the firm achieves sustainability?

RQs3: Which organisational resources and capabilities are important for firm sustainability and how are they developed?

RQs4: Are HRM practices important for firm sustainability and, if so, why are they important?

A qualitative research method is employed to address the research questions because it is appropriate for exploring complex phenomena close-up and in helping to answer *how* questions (Creswell, 1998; Miles & Huberman, 1994; Pratt, 2009). This research method, together with the use of case study approach, provides a sound platform for exploring the research topic and developing the conceptual model. In particular, the case study research strategy is a popular and appropriate way of building theory (Eisenhardt, 1989a; Eisenhardt & Graebner, 2007). Case studies are especially relevant where the phenomenon in question is complex and disordered (Stake, 2000; Tharenou, Donohue & Cooper, 2007), and the context is critical (Flyvbjerg, 2006; Yin, 2003). This research meets both of these criteria.

The research questions are examined using semi-structured interviews and questionnaires directed at entrepreneurial founders and other managers in three selected Australian fast-growth firms that had become sustainable. A final conceptual model is developed from an analysis of the relevant literature coupled with findings from the three case studies. The final model addresses knowledge gaps regarding emerging fast-growth firms that are

sustainable. However, before reviewing the literature and considering the preliminary conceptual model, key terms used in the thesis are defined.

1.6 Definitions and Terminology

For the purposes of this research, the following terms have specific meanings:

- An 'emerging firm' is considered to be one that is no more than ten years old (McKelvie & Davidsson, 2009) and reference to a firm's 'formative years' means its first five years of existence.

- An 'entrepreneurial founder' (or 'founder') is used in this thesis to mean an individual who creates a firm that is growth oriented and characterised by "innovative strategic practices" (Carland, Hoy, Boulton & Carland, 1984: 358). While there are many other definitions of entrepreneur (such as those concerning the identification and exploitation of opportunities (see Shane & Venkataraman, 2000)) the one associated with firm creation (see Brush, Manolova & Edelman, 2008; Gartner, 1985 & 1988) is particularly appealing because it is through firms that entrepreneurs can deliver their innovations to the market. Growth orientation helps to differentiate entrepreneurial founders from small business owners (Burns & Dewhurst, 1996; Carland, Hoy, Boulton & Carland, 1984). For Davidsson, Achtenhagen and Naldi (2005), the entrepreneurship phenomenon is characterised by early growth of new firms.

- 'Fast-growth' means sales revenue growth of 20 percent or more per year over a period of three or more consecutive years (Johnson & Bishop, 2002; Hambrick & Crozier, 1985; Molloy, Tansky & Heneman, 2009). Davidsson, Achtenhagen and Naldi (2006: 366) point out that "[i]f only one indicator is used and the study has a cross-industry design there is growing consensus that sales revenue growth should be the preferred choice".

- A 'firm' is defined as an organisation engaged in commercial undertakings whose objective, amongst other, is to make a profit and increase wealth for its owner(s) (Penrose, 2009).

- 'Firm sustainability' is defined as a state where a firm can further develop without the encumbrance of its early stage vulnerabilities. It is a state where a firm's present needs and performance do not compromise its future needs and performance. Firm sustainability implies a state where the firm has developed its organisational resources and capabilities to the extent that its initial structural challenges have been adequately addressed and, in the main, overcome. This definition has been guided by an influential United Nations report on environmental sustainability (Brundtland, 1987: 24; see also Clarke & Clegg, 2000; Diesendorf, 2000; Hawken, 1993).

- 'Human resource management' (HRM) is concerned with management strategies and practices associated with acquiring, motivating, developing, managing and terminating employees (Jackson & Schuler, 1995). HRM refers "to all those activities associated with the management of employment relationships in the firm" (Boxall & Purcell, 2003: 1).

- 'Organisational capabilities' are considered to be an organisation's ability to integrate, build, and reconfigure its tangible and intangible resources so that they enable it to implement its strategies (Hoskisson, Hitt, Ireland & Harrison, 2008; Teece, Pisano & Shuen, 1997). 'Resources' are inputs required to produce the firm's products and services.

- 'Organisational transitions' are defined as major or transformative organisational changes (Arbaugh & Camp, 2000; Covin & Slevin, 1997; Flamholtz, 1995).

- 'Roles' are behaviours that are predictable within particular contexts (Biddle, 1986; Katz & Kahn, 1978).

The next section deals with the boundaries of the research.

1.7 Delimitations of Research Scope

Firm sustainability depends on many factors internal and external to the organisation (Bhidé, 1999). As will be demonstrated in Chapter 2, *Research Context*, and Chapter 3,

Conceptual Model Development, a firm's sustainability will be related to the internal factors of the role of the entrepreneurial founder, and development of organisational resources and capabilities. However, that does not mean that industry structure, business strategy, market positioning and other environmental factors are unimportant (see Section 2.4). While it is necessary to acknowledge that there are a multiple number of factors potentially relevant to firm sustainability, it is also possible and legitimate to single out and examine in more detail a few factors to ascertain their importance in order to "stay within feasible limits" (Yin, 2003: 23). This thesis is concerned with a just a few factors internal to firms that have been identified in the literature review. Thus, the task becomes one of identifying factors *necessary, but not sufficient,* for firm sustainability.

The exploratory research analysis occurs at two levels in this thesis: at the organisational level (i.e., the firm) and at the individual level (i.e., the entrepreneurial founder).[3] While it is recognised that not all entrepreneurial activities need be organisationally based (such as identifying and commercialising a new product), development and delivery of entrepreneurial outcomes, in the main, continue to require a firm with a range of people in a variety of roles. In the early stages of a firm's existence, the entrepreneurial founder plays a pivotal role that can have enduring effects on the growth path and development of the firm (Johnston & Bishop, 2002; Klofsten, 1997; Mazzarol, 2003). Therefore, an understanding of emerging fast-growth firms entails a concomitant understanding of the founder.

This study is concerned with entrepreneurial founders who wish to develop substantial and long term businesses. It is not concerned with founders who seek to make quick fortunes through short-term sale of their firms and who are not likely to consider firm sustainability important. In Timmons' (1999: 217) words, these "get-rich-quick entrepreneurs are not the company builders, nor are they the planners of successful ventures".

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[3] See Yin (2003) for distinction between *holistic* (single-unit of analysis) and *embedded* (multiple units of analysis.

The purpose of this study is to develop a theoretically and empirically based conceptual model of emerging fast-growth firms that are sustainable. It is *not* to test a series of hypotheses or to offer generalisable observations about the phenomenon under investigation.

1.8 Structure of the Thesis

In order to address the research rationale, objective and questions, this thesis is structured into nine chapters. This first chapter introduced the research topic and scope, and sets the scene for the rest of the thesis. Key definitions used in the thesis are given and delimitations of the research scope are provided.

Chapter 2 is concerned with the research context and commences with a review of the literature on emerging small firms, giving particular attention to vulnerabilities associated with liabilities of newness and liabilities of smallness. Literature on organisational growth covering problems of fast-growth, as well as how fast-growth is managed, is then discussed, and this is followed with further consideration of firm sustainability within the context of comparable concepts and models (i.e., business platform, sustained competitive advantage, and firm viability). Comparable concepts and models found in the literature will help to form a clearer understanding of firm sustainability and its importance to entrepreneurial founders and their stakeholders. The chapter also discusses organisational life-cycle models and organisational transitions.

Chapter 3 covers the literature review pertaining to the development of the conceptual model and presents the preliminary conceptual model used to guide data collection and analysis. A review of the literature regarding what is known about entrepreneurial founder roles is considered before embarking on a review of RBV and its relationship to HRM and role theory as the theoretical framework within which the analysis of emerging fast-growth firms will occur. RBV sets the wider theoretical agenda about sustainability, while HRM provides the means of attaining and developing organisational resources and capabilities (i.e., the focus of RBV), and role theory helps to hone in on a critical firm resource, namely the entrepreneurial founder. The final part of Chapter 3 deals with the preliminary conceptual model and its theoretical underpinnings. The model is linked to

the literature review as well as the research questions, and provides the framework for data gathering and initial data analysis.

In Chapter 4, the research design, plan and analysis used to conduct the research is presented. The chapter begins with a discussion of two fundamental philosophical considerations for the conduct of social research concerning ontological and epistemological issues with methodological implications. The thesis is informed by the realist scientific paradigm (or worldview). How and why the research uses qualitative research methods and the case study strategy is considered in Chapter 4. Also considered is how the methods and strategy fit the realist paradigm and how they will be applied to address the research questions. Evaluation criteria for qualitative case studies are also discussed and criteria appropriate for a realist paradigm are justified and selected. Finally, the research process is considered in detail, among other things, in order to meet one of the key evaluation criteria.

In Chapters 5, 6 and 7, each of the three case studies is presented in a separate chapter commencing with Healthy Franchise and followed by the Recreation Group and Talent Innovators. In these three chapters, data collected for each case study is presented using within-case analysis and linked to the literature. The material collected for the final case study, Talent Innovators, was more extensive and, consequently, the ensuing discussion is longer than the first two cases. Broadly, the structure of the three chapters is as follows: overview, firm sustainability, entrepreneurial founders, organisational resources and capabilities (including HRM).

Chapter 8 presents an overview of the findings and the cross-case analysis, and these are also linked to the relevant literature. The chapter follows closely the preliminary conceptual model commencing with a discussion of the research context and firm sustainability. Entrepreneurial founder roles are considered within the context of structural challenges facing emerging fast-growth firms together with the influence of founders' motivation for firm growth. This is followed by three key factors affecting the change roles of founders: founder team and lead role, changing time allocations, and human capital and managerial competencies. Key HRM resources and capabilities (i.e.,

selection and recruitment, management team and organisational structure, and performance management) are considered before other organisational resources and capabilities are discussed.

Finally, Chapter 9 brings together the case study findings and literature in the form of the final conceptual model of entrepreneurial founder roles and firm sustainability as it relates to emerging fast-growth firms. The preliminary conceptual model presented in Chapter 3 is briefly revisited together with the research questions before each building block of the final conceptual model is considered. The final model is considered before closing with the study's limitations, future research possibilities and concluding comments.

1.9 Chapter Summary

This chapter has provided an introduction to the study of sustainability in emerging fast-growth firms with a focus on the changing role of the entrepreneurial founder and development of organisational resources and capabilities. The concept of firm sustainability has been introduced and discussed in terms of its usefulness to researchers and practitioners. The research rationale, objective and questions have been presented and key terms to be used have been defined. The research scope has also been addressed and the thesis structure has been outlined. In the following two chapters, a review of the literature underpinning this study is undertaken and a preliminary conceptual model that has been developed from the literature review will be presented.

2 Research Context

2.1 Chapter Objective

The objective of this chapter is to review the literature regarding the study's context. Specifically, the chapter reviews the literature on organisations with particular reference to emerging firms, firm growth and firm sustainability in order to situate the study within its context.

2.2 Emerging Small Firms

This study entails an examination of entrepreneurial founders and the firms they create. A fundamental entrepreneurial activity involves the start-up of new firms (Brush, Manolova & Edelman, 2008; Gartner, 1985; Timmons, 1999) and while this complex phenomenon has been studied extensively, the terrain is diverse and varies widely (Davidsson, 2003; Davidsson, Achtenhagen & Naldi, 2006; Garnsey, 1998). Gartner (1985: 697) captured this view succinctly when he stated:

> New venture creation is a complex phenomenon: entrepreneurs and their firms vary widely; the actions they take or do not take and the environments they operate in and respond to are equally diverse – and all these elements form complex and unique combinations in the creation of each new venture.

Generalisations about the characteristics and challenges faced by emerging fast-growth firms must therefore be treated with caution. For example, growth intentions of the entrepreneurial founder can have a profound effect on the expansionary outcomes of the firm (Delmar & Wiklund, 2008). Nevertheless, existing theories illuminate aspects of emerging firms that are useful in understanding the challenges and growth patterns that their entrepreneurial founder faces.

Often the issue of firm age and size is confounded in the literature, as argued by Cardon and Stevens (2004). Therefore, it is important to distinguish between two fundamental sets of challenges confronting the founder of an emerging firm. On the one hand, there are the liabilities of newness and adolescence and, on the other, there is the liability of smallness

(Aldrich & Auster, 1986; Baum & Amburgey, 2002; Brüderl & Schüssler, 1990; Fichman & Levinthal, 1991; Hannan & Freeman, 1989; Ranger-Moore, 1997; Singh & Lumsden, 1990; Stinchcombe, 1965). These liabilities, coming from the organisational ecology literature, are considered separately in the following two sections.

2.2.1 Liability of Newness and Adolescence

Stinchcombe (1965) argues that, in general, new organisations fail at a discernibly higher rate than old organisations, attributing this to the *liability of newness*. The liability of newness hypothesis has been empirically supported by, among others, Freeman, Carroll and Hannan (1983: 81) who conclude that "[m]ortality rates appear to decline approximately exponentially as organizations age" (see also Carroll & Delacroix, 1982).

In his consideration of the liability of newness, Stinchcombe (1965) points to four challenges associated with new organisations that make them vulnerable. First, new roles need to be created and these need to be learned. New organisations rely on hiring people with outside experience who are required to spend time and effort learning and adapting into their new roles at a cost to the organisation. Second, new roles need to be organised into a structure, and associated rewards and sanctions need to be developed and implemented involving costly transitory inefficiencies and stressful situations. Third, relationships based on trust are precariously balanced in new organisations because social relations are often conducted among strangers. This includes newly hired personnel as well as relations with customers, suppliers and other stakeholders. Finally, new organisations do not have a set of stable social systems and, in particular, routines for dealing with external parties. Developing routines takes time and effort, and makes it difficult to gain, for example, new customers who have existing relations with competitors. These four challenges underpin the "commonly observed monotonically declining cost curve at the firm level, the co-called learning curve" (Hannan & Freeman, 1989: 80) and make new organisations more susceptible to mortality than older organisations.

A complementary account of liability of newness by Hannan and Freeman (1989: 80-81) suggests that "reproducibility of structure increases monotonically with age" and,

therefore, organisational mortality rates similarly decrease with age. Hannan and Freeman (1989: 74-75) define *reproducibility of structure* as follows:

> Reliable performance requires that an organization continually reproduce its structure – it must have very nearly the same structure today that it had yesterday. Among other things, this means that structures of roles, authority, and communication must be reproducible from day to day. In other words, reliability and accountability require that organizational structures be highly reproducible.

Highly standardised routines brought about through organisational learning, co-ordination, socialisation will increase reproducibility of structure (Singh & Lumsden, 1990) in combination with external legitimation by parties outside the organisational structure (Hannan & Freeman, 1989; Singh & Lumsden, 1990). Newly formed firms often lack the legitimacy of their larger well established counterparts and, therefore, their founders invariably have a bigger task in convincing prospective customers, suppliers and employees to transact with them (Freeman, Carroll & Hannan, 1983; Zimmerman & Zeitz, 2002). As new firms do not have established routines, they present a higher risk, than older firms, to these third parties (Nelson & Winter, 1982). Furthermore, founders of new firms may face other disadvantages by having fewer industry networks than their counterparts in more mature firms that can limit their pool of potential external resources, such as people and finances (Freeman, Carroll & Hannan, 1983).

Early empirical studies provided support for the liability of newness hypothesis but later studies, after controlling for organisational size, found that mortality rates are not monotonically associated with age whereby mortality decreases with organisational age (Baum & Amburgey, 2002; Singh & Lumsden, 1990). As a consequence, an alternative formulation of the liability of newness hypothesis has been proffered by Brüderl and Schüssler (1990) and Fichman and Levinthal (1991) who suggest that a *liability of adolescence* hypothesis is more appropriate. Their argument rests on the premise that when a new organisation is first created, its immediate future is not at risk for two reasons: first, there is an initial stock of resources guaranteeing survival for an initial period, and second, (rational) decision-makers postpone making a judgment about organisational success or

failure until there is at least some performance information available, usually after some period of time (Brüderl & Schüssler, 1990). It is only after this initial phase that decision-makers decide whether to continue with the new venture. Thus, according to Brüderl and Schüssler (1990: 533):

> The success or failure of an organization cannot be judged during the very first months of its life. Usually, it takes a certain period of time to establish business connections, to get the technical and administrative structure running, and to distinguish between systematic and random components of performance. In addition, all organizations have a certain amount of initial resources and endowments that helps them to survive for some time in order to give them a chance to establish themselves and to help their founders, clients, and creditors gain a basis for judging performance.

Therefore, the liability of adolescence adds further explanatory as well as empirical evidence to the liability of newness hypothesis and should be seen as complementary, rather than competing, hypotheses (Baum & Amburgey, 2002).

2.2.2 *Liability of Smallness*

Closely related to liability of newness and adolescence is the concept of *liability of smallness* predicting that smaller organisations have a higher mortality rate than larger organisations (Aldrich & Auster, 1986; see also d'Amboise & Muldowney, 1988). Liability of smallness is closely related to liability of newness as most new organisations tend to be small and, consequently, both liabilities are often confounded in empirical studies (Singh & Lumsden, 1990). According to Aldrich and Auster (1986), smaller organisations in comparison to larger organisations are at a disadvantage because of difficulties such as raising capital, greater compliance costs and barriers to hiring labour. Consistent with this view, Harney and Dundon (2006a & 2006b) argue that small- and medium-sized enterprises (SMEs) focus attention on short-term and opportunistic goals, and are concerned with survivability and sustainability issues. Liability of smallness is strongly supported by empirical evidence (Baum & Amburgey, 2002; Ranger-Moore, 1997; Singh & Lumsden, 1990).

The liability of smallness, as well as liabilities of newness and adolescence, also arises from an understanding that larger organisations with greater structural inertia have a lower mortality rate than smaller organisations with less structural inertia (Hannan & Freeman, 1984; Singh & Lumsden, 1990). Therefore, both size and age affect an organisation's structural inertia properties. Internal constraints can arise from four sources: first, an organisation's resource investments, where sunk costs constrain adaptation, second, decision-makers often are restricted by lack of information, third, internal politics, and finally, organisational histories and established ways of operating (Hannan & Freeman, 1984 & 1989). Hannan and Freeman (1984: 149) argue that "individual organizations are subject to strong inertial forces, that is, that they seldom succeeded in making radical changes in strategy and structure in the face of environmental threats". However, they suggest that smaller organisations have greater flexibility in adapting to environmental changes, particularly where the founder is dominant and does not delegate but it is the larger organisations with higher levels of structural inertia that are more likely to survive (Hannan & Freeman, 1984 & 1989).

2.2.3 Implications of Liabilities

Entrepreneurial founders of emerging firms, therefore, face pressures and uncertainties as a result of their firms being both new and small. In general, as an emerging firm grows over time, the two sets of liabilities described above will reduce and the firm's likelihood of survival increases (Gilbert, McDougall & Audretsch, 2006).

Table 2.1 summarises the implications of the liabilities of newness, adolescence and smallness for founders of emerging firm. The table outlines specific liability components as well as providing examples of measures that could be used to address each liability component. Liability components were derived from the literature, whereas the examples are provided by the author to indicate potential measures that could be employed to address specific liabilities. Each liability can be minimised if appropriately addressed as the firm develops over time and in size. Where these liabilities are properly addressed, the results can be self-reinforcing (Garnsey, Stam & Heffernan, 2006; Hannan & Freeman, 1984 & 1989). For example, as a firm grows in size and develops capabilities, it acquires

legitimacy within its business community and, as this legitimacy takes hold, the founder will generally find it easier to attract and retain quality customers, suppliers and employees. Therefore, the improvement of one component (e.g., external legitimisation) can have a beneficial outcome for another component (e.g., hiring staff).

Table 2.1: Implications of Liabilities of Newness, Adolescence and Smallness

Liability Type	Liability Component	Specific Measures (examples)
Newness & Adolescence	New roles not well established	Clarify roles
	Lack of organisational structure & performance measures	Formalise organisational structure & HRM policies
	Lack of social relations	Create opportunities for social interaction
	Lack of organisational routines	Develop and implement organisational systems and processes
	Lack of reproducibility of structure	Increase the reliability & accountability of organisational action through learning, co-ordination & socialisation
	Lack of external legitimisation	Undertake activities for building external relations
Smallness	Difficulties in raising capital	Find alternative means of funding operations &/or reduce reliance of new capital raising
	High compliance costs	Minimise compliance costs wherever possible, such as improving compliance efficiencies
	High barriers to hiring staff	Develop alternative hiring strategies & means of attracting candidates

Source: Aldrich & Auster, 1986; Brüderl & Schüssler, 1990; Fichman & Levinthal, 1991; Garnsey, Stam & Heffernan, 2006; Hannan & Freeman, 1984 & 1989; Stinchcombe, 1965.

Consequently, for founders of emerging firms building organisational capabilities becomes a key consideration, particularly if firm sustainability is their aim. As Dosi, Nelson and Winter (2000: 4) explain capabilities are related to intentions and outcomes:

> To be capable of some thing is to have a generally reliable capacity to bring that thing about as a result of intended action. Capabilities fill the gap between intention and outcome, and they fill it in such a way that the outcome bears a definite resemblance to what was intended.

The founder's quest is not merely about finding resources but is also concerned with mobilising and developing organisational capabilities, and this in turn requires developing appropriate strategies, structures and routines (Teece, Pisano & Shuen, 1997). Therefore,

newly emerging firms require significant input and direction from their founder, the importance of which is recognised among organisational ecologists (Baum & Amburgey, 2002; Brüderl, Preisendorfer & Ziegler, 1992).

2.2.4 Dominant Role of Founder

Founders of emerging small firms often occupy a central and dominating role within the organisation (Brüderl, Preisendorfer & Ziegler, 1992; Brush, Greene & Hart, 2001; Cooper, Gimeno-Gascon & Woo, 1994; d'Amboise & Muldowney, 1988; St-Jean, Julien & Audet, 2008). This is usually as a result of a combination of minimal resources and lack of organisational routines. At this stage, the founders are the organisation and even as they hire staff, most decisions continue to be centralised. Founders with innate capacity and willingness to fill ill-defined niche market needs can differentiate their offerings, a point emphasised by Bhidé (2000: 49):

> The innate talent, motivation, and drive of an entrepreneur can make a significant difference in businesses when standardized processes and inputs do not produce the outputs that customers value.

However, what can be a strength and a source of competitive advantage for a new firm, can become a disadvantage as the firm grows. With growth, a firm requires more resources and the founder's ability to co-ordinate and manage these resources is limited. As Hannon and Freeman (1989: 158) suggest, delegation is a key factor explaining firm failure:

> Indeed, the failure of moderate-sized organizations is often explained as resulting from the unwillingness of a founder-leader to delegate responsibility as the organization grew.

Therefore, as the firm grows a new set of challenges confront the entrepreneurial founder and these are explored next.

2.3 Organisational Growth

While there are many academic (Arbaugh & Camp, 2000; Davidsson & Wiklund, 2000; Johnson & Bishop, 2002) as well as practitioner (Harnish, 2006; McKaskill, 2006; Wilson & Bates, 2003; Zook, 2007) studies on growing firms, there is a lack of research on the consequences of fast-growth firms. In particular, studies on fast-growth often focus on how to achieve and maintain fast-growth. However, it is argued here that fast-growth is not an end in itself and studies of fast-growth firms represent a starting point and not the complete picture. How founders of fast-growth firms deal with the *process of development* arising from organisational growth is of special interest in this thesis. Penrose (2009: 1), in her seminal book on the growth of the firm, takes a similar approach when she looks at growth "as an increase in size or an improvement in quality as a result of a *process* of development" (italics in the original) rather than "merely increase in amount". It is the former perspective that is of particular concern here.

The literature on small firm growth, including fast-growth, is now extensive (Davidsson, Achtenhagen & Naldi, 2005 & 2006). As an overview, and without being exhaustive, research contributions include: growth antecedents and determinants (Davidsson, Achtenhagen & Naldi, 2006; Dobbs & Hamilton, 2007; Glancey, 1998; Gundry & Welsch, 2001; O'Gorman, 2001; Storey, 1994; Thornhill & Amit, 1998; Weinzimmer, 2000); growth strategies (Majumdar, 2008; Weinzimmer, 2000); patterns or forms of growth (Delmar, Davidsson & Gartner, 2003; Navarro, Casillas, & Barringer, 2012); processes and paths of new firm growth (Garnsey, 1998; Garnsey, Stam & Heffernan, 2006); causes of growth rate changes (St-Jean, Julien & Audet, 2008); growth and employment generation (Davidsson & Delmar, 1997 & 2006); growth and profitability (Davidsson, Steffens & Fitzsimmons, 2009; Markman & Gartner, 2002); firm emergence and growth (Davidsson & Henrekson, 2002); and characteristics of growth firms (Burns & Harrison, 1996; Storey, 1994). There are a multitude of factors to explain firm growth and performance (Davidsson, Achtenhagen & Naldi, 2006) but very little is known about how firm-growth is managed to achieve sustainable outcomes. In summary, much of the organisational growth literature is concerned with determinants of firm-growth rather than the consequences of growth and how resulting growth challenges are best managed.

Sections 2.3.1 and 2.3.2 will review the literature on growth consequences, focusing on typical problems associated with fast-growth and how these problems may be managed.

2.3.1 Problems of Fast-Growth

Problems associated with fast-growth have been of interest to academics and practitioners for several decades (see Clifford, 1973; Garnsey, 1998; Kotter & Sathe, 1978; Strauss, 1974). Despite these early attempts at understanding this phenomenon, the subject matter still remains elusive and many divergent prescriptions, discussed in the next section, are offered in order to address the inherent problems faced by fast-growth firms.

However, before launching into a discussion of typical problems associated with fast-growth, it is important to understand that growth is not a linear progression for the vast majority of growth firms and, consequently, this adds complexity and uncertainty to the entrepreneurial equation. Garnsey, Stam and Heffernan (2006), in their study of growth among new firms in the United Kingdom (Cambridgeshire), Germany and the Netherlands, found that new firms experiencing employment growth at less than their sector's mean were more likely to close. They suggest that if a firm is not growing and expanding its productive resources and activities, it will be more vulnerable to environmental changes. Garnsey et al. (2006) also found the growth paths of new firms to be uneven and, in particular, instances of sustained growth were rare and several firms experienced growth discontinuities. Finally, their study "showed growth [was] more likely to follow growth than to follow an episode of plateau or decline" (Garnsey et al., 2006: 16). These three findings suggest that the founder's ability to manage growth may be difficult.

Kotter and Sathe (1978), based on their review of twelve fast-growth firms, found that the need for rapid decision-making within such firms placed stresses on managers as well as on the organisational structure. Problems of co-ordination of roles and work were exacerbated as organisations grew. Furthermore, as the number of people and relationships grew, the amount of distrust, suspicion, bad feelings and misunderstandings also increased and became difficult to manage.

Problems associated with fast-growth have been highlighted by several researchers. As Kotter and Sathe (1978) pointed out, the changes were compressed within short periods of time for fast-growth firms and roles could change significantly within just a few years. Therefore, a major problem stemming from these necessary role changes was when key managers and, at times, the entrepreneurial founder, were unable to change their attitudes and behaviours to suit the new organisational requirements. As a consequence, there was a likelihood of conflict within the management hierarchy and the unmet career aspirations of employees could lead to increased staff turnover. The entrepreneurial founder was placed in a difficult and emotionally "guilt-eliciting" position when employees, particularly those who helped start the firm, were unable to make the necessary adjustments (Kotter & Sathe, 1978: 31). Other problems associated with fast-growth identified by Kotter and Sathe (1978) include the extraordinary recruitment demands, the assimilation and training requirements of new employees, the uncertainty arising from on-going change, and the constraints on resources which added further pressures on existing employees and managers.

Hambrick and Crozier (1985), in their study of 30 rapid-growth firms, found evidence of managerial conflict and people's disaffection and disorientation as these organisations grew. Decision-making was a problem as the old "informal, spontaneous, and face-to-face" approach was no longer effective (Hambrick & Crozier, 1985: 36). With the constancy of change, internal turmoil also contributed to poor decision-making and to decisions which should, but did not get, made. Rapid-growth firms had extraordinary resource needs that were usually unmet. Employees were required to bear the brunt of cash flow constraints and, as a consequence, they simply burnt-out. Thus, "[k]ey people may leave, become lethargic, or keep trying but with increasingly erratic judgement" (Hambrick & Crozier, 1985: 40). Hambrick and Crozier (1985) also pointed out that as a result of favourable experience of having grown quickly, managers of such firms could acquire a sense of infallibility, which can be dangerous in changing markets.

Flamholtz and Randle (2007) speak of the growing pains that managers and employees of rapidly growing firms experienced. These pains included insufficient hours to get things done, on-going crisis management, unclear business direction and employees not being

clear on what they were supposed to be doing. They also pointed to the lack of good managers and the owner's perception that things would get done only if they did it themselves. The authors pointed out that sales revenue growth did not necessarily translate into profit growth for these firms.

A summary of the key problems with fast-growth identified within the literature is shown in Table 2.2. Thus, key problems typically include issues related to management capacity and capabilities, HRM (including recruitment and role boundaries), lack of resources (including financial) and time constraints.

Table 2.2: Problems with Growth

Reference	Key Concept	Key Factors
Flamholtz & Randle (2007)	Growing pains	Insufficient hours Putting out fires Lack of role clarity Unclear firm direction Too few good managers "Do it myself" Meetings are a waste of time Little follow-up to plans People feel insecure Sales growing but not profits
Barringer, Jones & Lewis (1998)	Managerial capacity problem	Adverse selection ▪ Lack of management time Moral hazard ▪ Administrative hierarchy created as a result of 'shirking' ▪ Entrepreneur becomes distant from employees
Harper (1995)	Growth problems	Over-expansion Under-capitalisation Under-resourcing Midas Touch Five Managerial Sins (arrogance, ignorance, complacency, denial & ineptitude) Ostrich Management Quantitative Jeopardy Indicators (eg, not realising sales forecasts) Qualitative Jeopardy Indicators (eg, unclear direction, employee complacency)

Reference	Key Concept	Key Factors
Poza (1989)	Warning signs	Sales growth slowed Over-confident management Facts distorted & denied Board engages in face-saving & rubber-stamping behaviour Expert recommendations ignored Lack of long-term commitment to people Significant financial shareholder commitment Rampant bureaucracy Lack of support for founder's vision
Hambrick & Crozier (1985)	Fundamental challenges	Instant size ▪ Problems of disaffection ▪ Inadequate skills ▪ Inadequate systems A sense of infallibility Internal turmoil ▪ Decision-making suffers ▪ Turf battles abound ▪ People burn out
Kotter & Sathe (1978)	Human resources problems	Need for rapid decisions Rapidly expanding job demands Large recruiting & training demands Constant change Constant strain on resources Interactive effects – the vicious circle

For the founder of an emerging firm with a fast-growth trajectory, the above problems may well be further exacerbated due to the fast-pace of their daily activities and time pressures to make decisions, coupled with individual limitations on cognitive and attentional capabilities (Kahneman, 2011; Gifford, 1992; Johnson & Bishop, 2002; Tversky & Kahneman, 1974). Often emerging fast-growth firms have large appetites for hiring people in order to build organisational capabilities and service customer needs. However, these firms do not, as a rule, grow in a steady linear fashion but rather in discontinuous increments (Birley & Westhead, 1990; Eggers, Leahy & Churchill, 1994; Fombrun & Wally, 1989; Garnsey, 1998; Garnsey & Heffernan, 2005; St –Jean, Julien & Audet, 2008) making it difficult to anticipate and plan for additional resource requirements. The atmosphere inside these firms can be one of hyper-activity and sometimes chaos (e.g., see Malmsten,

2001; Osborne & Dvorak, 1984). As new employees join the organisation, the social dynamics and role expectations change. New employees take on new roles without the benefit of previous incumbents' knowledge and experience. Where there is little or no formal structure, new roles evolve in unclear and ambiguous ways and pressures build up as work demands increase. New employees may easily have an impact on the culture and identity of the firm (Cardon & Tolchinsky, 2006). While this scenario may not be applicable to every newly formed fast-growth firm, it is not atypical. The time and resource intense activities created as a result of rapid growth can be daunting for the founder of an emerging fast-growth firm (Fombrun & Wally, 1989; Hambrick & Crozier, 1985; Kotter & Sathe, 1978; Rubenson & Gupta, 1992).

The literature relating to how fast-growth firms are managed is reviewed in the next part of this chapter.

2.3.2 Managing Fast-Growth

"Managing growth means managing change" (Burns & Harrison, 1996: 60). This theme is also pursued by Kanter, Stein and Jick (1992: 39) who stress the challenges posed by such change: "The entrepreneurial energy responsible for the company's early success can also get in the way of solving the problems of coordination, routinization, and control at the larger size". While these authors adopt an 'emergent' perspective of change, where change occurs outside management plans or intentions, they nevertheless argue that change can be influenced by astute leaders who simultaneously manage the organisation's context and content. In other words, entrepreneurial founders do have choices and can make a difference to the outcomes of their firms.

Fombrun and Wally (1989), in their cross-sectional study of 95 small firms that experienced a five-year growth surge, found that some of the "familiar managerial stresses and strains" were exacerbated by rapid growth. In particular, their findings suggested that managing fast-growth was about resolving contradictions between: first, the need to control costs, and improving quality and producing new products, second, centralising control and diversifying the product range, and third, focusing on internal consistency and encouraging self-managed teams. What follows is a review of the literature that addresses,

at least in part, these issues and associated potential solutions of fast growing firms. A summary of the key points from this literature is shown in Table 2.3.

Table 2.3: Managing Growth (examples)

Reference	Key Concept	Key Factors
Barringer, Jones & Lewis (1998)	Overcoming the managerial capacity problem	Alliance formation Cash forms of incentive compensation Employee empowerment
Flamholtz & Randle (2007)	Keys for success	Stage III ▪ Ability to plan & develop strategy ▪ Ability to develop an appropriate structure and controls ▪ Ability to provide management development
Hambrick & Crozier (1985)	Success patterns	Anticipation of bigness Decentralise task teams Strong organisational culture or ideology Extraordinary attention to recruiting & developing middle managers Staff HR function/professionals in advance of recruiting pressures Deliver intrinsic motivation to employees
Harper (1995)	Sustained growth prerequisites	Do not confuse growth with strength Create & maintain a competitive advantage Demonstrate leadership & develop a strong management team Have a unified vision & maintain focus Implement planning & control systems Have highly motivated & resourceful employees
Kotter & Sathe (1978)	Solutions	Very selective hiring Heavy reliance on team structures Culture of openness, a shared sense of what the company is & where it is going Employees generally believe that the company really cares about its people Organisational & HR planning Generally have a full-time, formally designated HR function HR problems dealt with
Poza (1989)	Stimulating energy for growth	Promote dissatisfaction with the status quo & taking steps for growth Formulating a vision of growth

While Flamholtz and Randle (2007) present a seven stage model for organizational growth, they focus on the first four stages: new venture, expansion, professionalisation and consolidation. The transition to professionalization is of particular interest in this study. Flamholtz and Randle's (2007) prescription for the successful transition to professionalisation is related to the ability to: first, plan and develop strategy, second, develop an appropriate organisational structure and controls, and third, provide management development.

The first key success factor is about developing employee and manager abilities to plan for the future and to develop "systems for setting, monitoring, and evaluating" firm goals (Flamholtz & Randle, 2007: 116). The second success factor concerns the implementation of the right organisational structure and controls to "coordinate efforts and provide information and motivation to employees" (Flamholtz & Randle, 2007: 116). Finally, Flamholtz and Randle (2007: 116) argue that for a firm to make the transition to a professionalised firm it needs to "design and implement programs to provide present and potential managers with the skills needed to perform their roles effectively". They conclude that there are four main lessons to be learnt from their study of rapid-growth firms: first, the problems and challenges encountered by these firms are related to unavoidable time constraints, second, successful firms have managers who recognise the symptoms and do something about these, third, the necessary changes can be painful for the various stakeholders, and fourth, the transition process can take some time, possibly years, to achieve. These authors clearly see a significant role for managers to take an active role in managing the transition to a professionalised firm.

Barringer, Jones and Lewis (1998) focus their research on how rapid growth mitigates the 'managerial capacity problem'.[4] According to the authors, this problem arises as a result of managers' limited time and the absence of appropriate administrative structures. Lack of managerial time makes it "increasingly difficult for a business to locate the right

[4] While new ventures are included in their study, their sample predominantly consists of established businesses. The average growth rate of their sample firms over a three year period is 50 percent of revenue; their lowest growth rate being 7 percent and their highest 280 percent.

employees, place them in appropriate positions, and provide adequate supervision" (Barringer et al., 1989: 99). In addition to these managerial constraints, they state that fast growing firms need to build appropriate internal structures, which in turn place additional capital requirements on the firm. Therefore, in order to overcome the managerial capacity problem, they argue that rapid growth firms often use: first, strategic alliances, second, cash incentives, and/or third, employee empowerment. In their sample of 70 rapid growth firms, Barringer et al. (1989) found that 72 percent used one or a combination of such practices.

While Barringer et al. (1989) highlight a significant problem for fast growing firms (i.e., the managerial capacity problem or lack of management time (Johnson & Bishop, 2002; Penrose, 2009)), their diagnosis and potential solutions appear to be arbitrarily derived and of arguably limited value. For instance, they select managerial practices that fit their interpretation of what constitutes the managerial capacity problem irrespective of the analysis of the data. Recruitment and selection, customer relations and channel development all score much higher (i.e., over 80 percent of 'frequency of emphasis') than the categories they select for attention in overcoming the managerial capacity problem (i.e., strategic alliances (40 percent), cash forms of incentive compensation (54 percent) and empowerment (37 percent) (see Barringer et al., 1989: 105, Table 6)). Their concept of 'moral hazard' which suggests that "new-hires have a propensity to shirk" work and responsibilities (Barringer et al., 1989: 99) is also value laden and questionable. Another concern relates to their research methodology which has limitations in that it lacks comparative data and, therefore, the study fails to make a case for what successful rapid growth firms do that is different from less successful firms. Furthermore, their definition of rapid growth (sales growth above the Gross Domestic Product rate) would include firms with growth above 2.5 percent at the time they conducted their research which is not consistent with what is generally considered as rapid growth in the literature.

Hambrick and Crozier (1985), who studied 30 firms and examined the problems associated with managing rapidly growing firms, focus on the recurring challenges and traps confronting such firms and on the characteristics of firms that avoid or overcome these challenges and traps. While they conclude that many fast growing firms fail due to

mismanagement, Hambrick and Crozier (1985) offer the following patterns for success that they claim have proved fruitful in addressing the various challenges for fast growing firms: first, imagining and foreseeing the firm as a bigger entity, second, hiring and developing people today for tomorrow, third, continuously and passionately reinforcing the core vision, fourth, gradually introducing robust business processes as add-ons, fifth, minimising hierarchy and bureaucracy, and sixth, giving employees a financial stake in the firm.

For Hambrick and Crozier (1985) these success patterns are related to four fundamental challenges that firms face: instant size, a sense of infallibility, internal turmoil and frenzy, and extraordinary resource needs. Therefore, by anticipating future problems related to increased size, relevant solutions can be implemented in rapidly growing firms ahead of time. Successful firms, according to the authors, are constantly vigilant to the changing external environment and adapt their views to new information. In such firms a heavy emphasis is placed on recruiting and developing their people, particularly middle managers, and on maintaining a strong organisational culture, one that often emphasises "openness, egalitarianism, and participation" (Hambrick & Crozier, 1985: 40). Finally, the authors point out that the problem of limited resources is not an easy one to resolve. They offer two solutions that, they argue, are used in successful firms to conserve cash: first, salaries are kept to a moderate level and these are topped up with opportunities for substantial bonuses, and second, "substantial intrinsic motivation [is delivered] to employees in lieu of pay" (Hambrick & Crozier, 1985: 41). While intrinsic rewards can be very effective in retaining and motivating employees (Kohn, 1993; Mayson & Barrett, 2006a; Vecchio, 2003), it is not always practical to offer and maintain moderate salary levels, given the pressures and uncertainties that employees of fast-growth firms face.

In their paper on rapidly growing companies, Kotter and Sathe (1978) consider the associated HR problems and offer a range of solutions, some or all of which successful companies, that they know, use. These authors found that successful fast growing firms place a great deal of stress on recruiting and selecting the right type of people into their organisations. They use team structures for "handling a volatile, rapid decision-making environment" and rely on an informal culture which "include[s] a shared belief in

openness, a shared sense of what the company is and where it is going, a clearly perceived commitment to employee welfare, and norms supporting flexibility and change" (Kotter & Sathe, 1978: 34-35). The authors suggest that successful firms also carry out business and human resource planning, have a well-developed human resources (HR) function and have a management team that is sensitive to, but tough with, HR issues (Kotter & Sathe, 1978).

For other authors, the emphasis is on continuing to fuel the growth (e.g., 'sustaining the prerequisites of growth' (Harper, 1995) and 'stimulating the energy for growth' (Poza, 1989)). Wilson and Bates (2003) question whether growth should remain focused on existing areas or on entering new markets or developing new products and services. Such authors provide general consulting guidelines based on personal experience that sound plausible but often are devoid of sound underlying research.

In summary, managing rapid growth is akin to managing change in a volatile setting with significant time constraints, a key aspect of the 'managerial capacity problem'. This area of the literature has highlighted some responses to this dilemma and these responses are mainly concerned with organisational resources (including acquiring the right people) and organisational capabilities (including developing and motivating employees and managers, addressing tough HR issues, developing processes, and designing structures and teams to provide for flexibility). Other proposed solutions, such as developing and maintaining a core vision for the firm, may also be considered to be part of an organisation's capabilities, while developing and implementing business strategy is viewed as a separate but related component.

Section 2.4 considers the concept of firm sustainability in more detail in the light of the above literature review on challenges arising from liabilities of newness, adolescence and smallness, the dominant role of the founder and problems associated with fast-growth.

2.4 Firm Sustainability

This section defines 'firm sustainability' in more detail (than in Section 1.4) by showing how it relates to the preceding literature on emerging small firms and organisation growth

as well as comparing it to the related concepts of 'business platform' and 'sustainable competitive advantage'. The section also considers how organisational life-cycle models and organisational transitions can help fine-tune the meaning of firm sustainability.

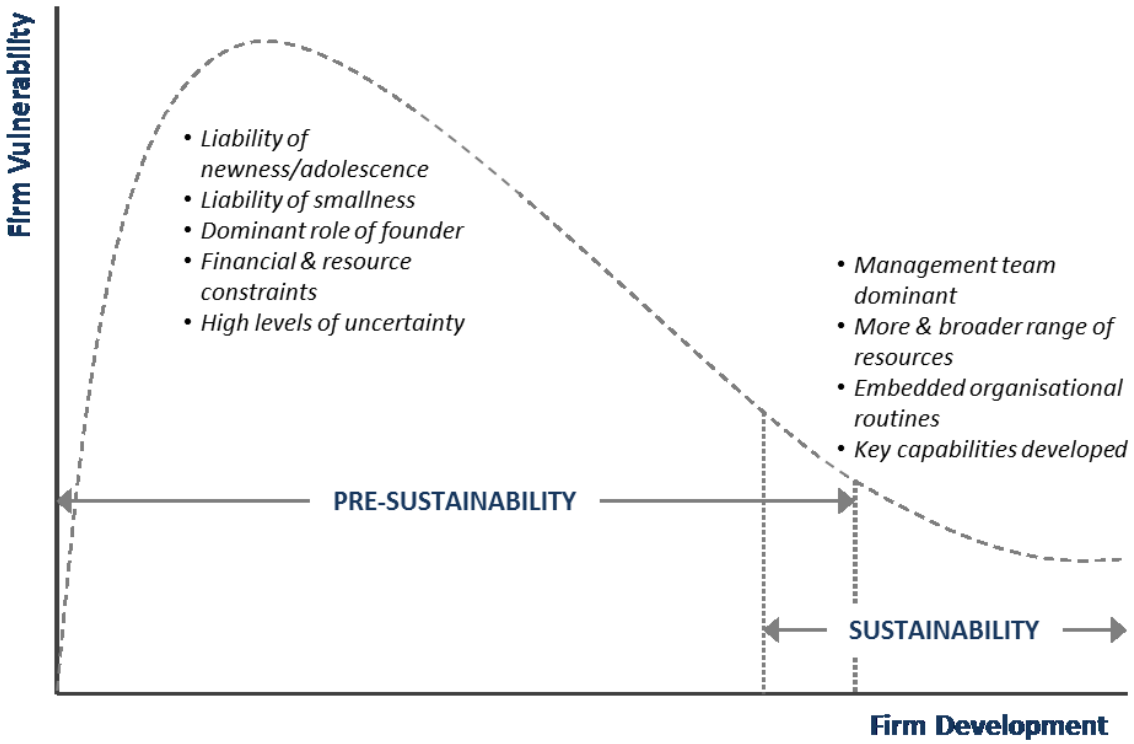
Emerging fast-growth firms are subject to structural challenges that make them vulnerable to failure (Aldrich & Auster, 1986; Baum & Amburgey, 2002; Brüderl & Schüssler, 1990; Kotter & Sathe, 1978; Flamholtz & Randle, 2007; Hannan & Freeman, 1989; Hambrick & Crozier, 1985; Johnson & Bishop, 2002; Stinchcombe, 1965). Structural challenges arise from liabilities of newness, adolescence and smallness, the dominant role of the founder and problems associated with fast-growth. By addressing and, largely, overcoming these challenges, firms and their founders will decrease significantly, but not eliminate, the risk of failure. Therefore, within the context of this thesis, 'firm sustainability' refers to *a state where a firm can further develop without the encumbrances of its early stage vulnerabilities*. It is a state where the firm has developed to the extent that its initial structural challenges have been adequately addressed and, in the main, overcome.

The transition to firm sustainability is not necessarily achieved at a point in time but is likely to occur over a span of time (as shown in Figure 2.1). Figure 2.1 illustrates the structural challenges that emerging fast-growth firms face from inception: liabilities of newness and adolescence (Brüderl & Schüssler, 1990; Fichman & Levinthal, 1991; Hannan & Freeman, 1989; Stinchcome, 1965; Thornhill & Amit, 2003), liability of smallness (Aldrich & Auster, 1986; Baum & Amburgey, 2002; Ranger-Moore, 1997; Singh & Lumsden, 1990), dominant role of the entrepreneurial founder (Bhidé, 2000; Johnson & Bishop, 2002), and problems of fast-growth (Flamholtz & Randle, 2007; Hambrick & Crozier, 1985; Kotter & Sathe, 1978).

Also shown in Figure 2.1 are firm characteristics once structural challenges are overcome and the firm is considered sustainable: first, management team replaces the dominant role of the founder(s), and founders and other members of the management team are able to spend more time on strategic issues, second, there are more, and a broader range of, organisational resources, thus providing more resource slackness, third, organisational routines become embedded, decreasing the need for ad hoc operational decisions and,

fourth, key organisational capabilities are developed, such as recruitment and selection. By this latter stage and where risk reduction strategies have been pursued, liabilities of newness, adolescence and smallness, the dominant role of the founder, and problems of fast-growth are likely to have been minimised or eliminated.

Figure 2.1: Transitioning to Firm Sustainability



Source: Adapted from Aldrich & Auster, 1986; Bhidé, 2000; Brüderl & Schüssler, 1990; Baum & Amburgey, 2002; Fichman & Levinthal, 1991; Flamholtz & Randle, 2007; Hannan & Freeman, 1989; Johnson & Bishop, 2002; Singh & Lumsden, 1990; Stinchcombe, 1965; Thornhill & Amit, 2003.

In this thesis, firm sustainability is used in a particular way to mean that a firm is able to be maintained as an on-going business concern. While it is not an an end in itself or a guarantee of future survival or success, firm sustainability represents a stage of organisational development where initial firm vulnerabilities are overcome. In this sense it is different from the way this term is used by strategic management scholars when referring to 'sustainable competitive advantage'. This will be considered in more detail later in this chapter.

By implication, firm sustainability entails organisational survival and profitability. Many small firms survive while not being profitable. For example, small business owners may persevere for lifestyle reasons or because they have few or no alternative employment opportunities (Burns & Harrison, 1996; Carland, Hoy, Boulton & Carland, 1984; DeTienne, Shepherd & De Castro, 2008; Gundry & Welsch, 2001; Storey, 1989; Wiklund, Davidsson & Delmar, 2003). Therefore, while survival is a necessary condition for sustainability, it is not sufficient.

Likewise, firm sustainability implies profitability because without on-going profits a business will not be viable. Barring external shocks, a sustainable firm would be expected to record healthy profits over time. Nonetheless, financial measures (including profit measures), particularly in the short-term, can be manipulated to look favourable and need to be carefully scrutinised (Merchant, 1990). For instance, a firm can be profitable and yet invest very little or nothing in developing its people or operational systems with potentially adverse consequences for its future profits.

A critical examination of the relationship between firm-growth and profitability was undertaken by Davidsson, Steffens and Fitzsimmons (2009: 389) who found support for the hypothesis that "[f]irms that show high growth at low profitability [*growth firms*] are more likely to reach a state of low growth and low profitability in subsequent periods than are firms that first show high profitability at low growth [*profit firms*]". They also found support for the reverse situation where *profit firms* are likely to reach a state of high growth and high profitability in subsequent periods than *growth firms* (Davidsson et al., 2009). Using RBV as their theoretical lens, Davidsson et al. (2009: 393) argue that *growth firms* "are relatively unlikely to be able to exploit their growth to build resource advantages and subsequently attain superior profitability", whereas *profit firms* are in a position to develop superior value creation strategies leading to competitive advantage. Therefore, within the context of firm sustainability, profitable growth is important and not just growth for its own sake (see also Weinzimmer, 2001).

2.4.1 Comparative Concepts

One way of better understanding a concept is to compare it with other related concepts. The following sections describe concepts related to firm sustainability.

Business Platform

The cue for the firm sustainability concept developed in this thesis was taken from Davidsson and Klofsten (2003: 3) who argue:

> … that firms are vulnerable in their early life and continually run the risk of disappearing from the market. Success in the firm is determined by how well this vulnerability is overcome, and the early development process is one of the most important periods in the life of the firm.

Davidsson and Klofsten (2003) present and test a research-based instrument containing eight *cornerstones* (i.e., the business idea, the product, the market, the organisation, core group expertise, core group drive/motivation, customer relations, and other relations) that make up what they refer to as the 'business platform model'. Firm sustainability, as it is used in this thesis, is concerned with internal factors (founder roles and organisational resources and capabilities) and has a narrower focus than Davidsson and Klofsten's business platform model. It is also more in keeping with Bhidé (2000: 236) who argues that fledgling or emerging firms attain sustainability by developing "a broad portfolio of assets, and effective mechanisms for coordinating these assets".

Sustainable Competitive Advantage

Proponents of the RBV argue that competitive advantage arises from the implementation of value-creating strategies that competitors are unable to replicate (Barney, 1991 & 1995; Hoskisson, Hitt, Ireland & Harrison, 2008; Sirmon, Hitt & Ireland, 2007; Wernerfelt, 1984). To achieve competitive advantage, a firm needs to possess resources and capabilities that

are *valuable*, *rare*, *inimitable* and *non-substitutable* (known as *the VRIN model*).[5] Normally, competitive advantage is only sustainable for a limited period (Hoskisson et al., 2008). However, a firm can claim to have a sustainable competitive advantage once initiatives by competitors to replicate the value-creating strategy have come to an end (Barney, 1991; Hoskisson et al., 2008).

Sustainable competitive advantage is a comparative concept (i.e. relative to competitive firms) and requires on-going efforts of the firm to ensure that its advantage is not lost over time. As Chaharbaghi and Lynch (1999: 45) argue, sustainable competitive advantage is a dynamic concept requiring the firm to embrace change and constantly adapt "to altered ways and new demands through introducing new resource configurations, while at the same time preserving the best of its past". In contrast, firm sustainability, as it is used in this thesis, is an internal and non-comparative concept, and while it can similarly be withered away, firm sustainability can form the building blocks for competitive advantage or sustainable competitive advantage (in the strategic management sense).

Fundamental Strategic Problem: Firm Viability

However, this thesis is concerned, not with 'competitive advantage', but rather with the related and distinct concept of 'firm sustainability'. A useful way of distinguishing between the two concepts is provided by Boxall and Purcell (2003) in their treatment of a firm's *strategic problems*. Convincingly, they argue that the *fundamental problem* that a "firm faces is that of becoming and remaining viable in its chosen market" (Boxall & Purcell, 2003: 30). Therefore, 'strategic' is used by Boxall and Purcell (2003: 30) to mean "critical to survival" and is the essence of the fundamental problem, whereas they present 'sustainable competitive advantage' as belonging to the *second order problem* or that which lies beyond the fundamental problem of viability (see Boxall & Steeneveld, 1999). In the words of Boxall and Purcell (2003: 32):

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[5] A variant of this model is *the VIRO model* where 'non-substitutable' is replaced by the 'organisation' criterion concerning a firm's support activities allowing it to exploit its valuable, rare and costly to imitate resources and capabilities (Barney, 1995 & 2002a).

> Firms which deal adequately with the viability problem have the chance to play in a higher level 'tournament': the contest among leaders of sound businesses to see which firm can secure the best rate of return. They are sufficiently in control of the survival issues to contemplate superior performance.

Addressing the fundamental (or 'table stakes') problem requires critical internal elements to be in place and, according to Boxall and Purcell (2003), there are three critical elements for a firm to be viable: capable people, appropriate business goals, and relevant non-human resources. Of these, they highlight capable people since "[a]ppropriate human capabilities are strategic to the success of every firm" (i.e., capable people ask the pertinent strategic questions that make implementation of a firm's strategy possible) (Boxall & Purcell, 2003: 31).

Therefore, in applying Boxall and Purcell's (2003) logic to this study, before a firm can attain (sustainable) competitive advantage, it must first achieve firm sustainability. The importance of the notion of firm sustainability for small and medium sized firms is supported by Harney and Dundon (2006a: 145) who state that "more attention should be given to issues of survivability and 'table stake HRM' practices required to compete rather than the literature simply being consumed by the rhetoric of sustainable competitive advantage". Therefore, sustainable competitive advantage is not necessarily a goal that founders would wish to pursue (Marchington, Carroll & Boxall, 2003) in the first instance.

2.4.2 Organisational Life-Cycle Models

The notion of an organisational life-cycle has many followers as well as detractors. Various organisational life-cycle or stages of growth models have been proposed to anticipate changes taking place as organisations develop with very little or no empirical evidence (Adizes, 1989 & 1999; Churchill & Lewis, 1983; Flamholtz & Randle, 2007; Galbraith, 1982; Greiner, 1972; Hanks, Watson, Jansen & Chandler, 1993; Scott & Bruce, 1987). These models often differ in the number and nature of the stages proposed and a few include a stage that represents organisational decline (Churchill & Lewis, 1983; Galbraith, 1982; Lester, Parnell & Carraher, 2003; Scott & Bruce, 1987). While most models provide five

stages of growth, the stages are not consistently applied across models as shown in Table 2.4.

Table 2.4: Organisational Life-Cycle Models (examples)

Source	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Churchill & Lewis (1983)	Existence	Survival	*Success**	*Take-off**	Resource maturity
Galbraith (1982)	Proof of prototype	Model shop	Start-up	*Natural growth**	*Strategic Manoeuvring**
Greiner (1972)	Creativity	Direction	*Delegation**	Co-ordination	Collaboration
Hanks, Watson, Jansen & Chandler (1993)	Start-up	*Expansion**	*Consolidation**	Diversificat-ion	Decline
Lester, Parnell & Carraher (2003)	Existence	Survival	*Success**	Renewal	Decline
Scott & Bruce (1987)	Inception	Survival	*Growth**	Expansion	Maturity

** Firm sustainability is broadly located at or between the identified stages.*

Understanding an organisation's life-cycle could be immensely valuable if it accurately identifies the critical organisational changes required within a reliable timeframe, such as when the founder should 'let go' and when to add levels of management, formalise processes and systems, and adjust organisational priorities (see Lester et al., 2003). Unfortunately, the models are not sufficiently fine-tuned to provide such prescriptive outcomes (Storey, 1994).

While many growth theorists argue that their model has general, rather than specific, application, there is an element of determinism that underpins their theoretical disposition (Lester et al., 2003; Penrose, 2009; Sexton, 1986; Watson, 1995). This emanates from the questionable assumption that organisations evolve in the same way as biological organisms (Penrose, 2009; Sexton, 1986). Sexton (1986: 23) is critical of organisational life-cycle models, pointing out that, "while there are general patterns of growth, there is no simple pattern of growth". This view is echoed by Bhidé (1999: 394) who argues that, "these models fail to adequately account for the great variety in the manner in which firms grow and what they can grow into". Each organisation has its own growth path and some owners consciously choose not to grow their firm beyond the limits of their existing resources. Johnson and Bishop (2002) are also critical of organisational life-cycle models

because, as they argue, growth does not occur in a predicable manner, and Kimberly (1980) points out that a firm's chronological age is most likely independent of its growth and development (see also McCarthy, Krueger & Schoenecker, 1990). Others have cast doubt on applicability of each stage within organisational life-cycle models. Eggers and Leahy (1994), for example, find in their empirical study of the Churchill and Lewis (1983) model that some organisations skip stages while others remain at a particular stage of development and do not progress any further.

In his review of the criticism levelled at organisational life-cycle models, Kimberly (1980: 9) concedes that while such models are "imperfect metaphors", they "can serve a very useful purpose in the study of organizations". Others point out that metaphors are valuable as a way of helping to examine phenomena from new or different perspectives (Clarke & Clegg, 2000; Morgan, 1997). However, for Kimberly (1980), the value of organisational life-cycle models rests on the important questions that they help to raise. For example, Churchill and Lewis (1983) identify eight main factors for organisational success or failure related to the firm and the owner:[6] four of which relate to the firm (financial resources, personnel resources, systems resources and business resources) and four relate to the owner (personal goals, operational abilities, managerial abilities and strategic abilities). For their take-off stage, Churchill and Lewis (1983: 48) raise the following critical questions that they consider owners need to ask themselves: first, "Do I have the quality and diversity of people needed to manage a growing company?", second, "Do I have now, or will I have shortly, the systems in place to handle the needs of a larger, more diversified company?", third, "Do I have the inclination and ability to delegate decision making to my managers?" and, fourth, "Do I have enough cash and borrowing power along with the inclination to risk everything to pursue rapid growth?" These questions relate to three critical areas that the entrepreneurial founder of an emerging fast-growing firm needs to address if he or she is to achieve sustainability: resources and

[6] The article by Churchill and Lewis (1983) considers business owners and not founders.

capabilities (people, systems and finance) and entrepreneurial founder role (delegation or 'letting go').

Therefore, organisational life-cycle models can help focus attention on key factors "which change in importance as the business grows and develops" and "are prominent in determining ultimate success or failure" (Churchill & Lewis, 1983: 40). In general, they can be useful in describing stages of firm-growth and development but caution needs to be exercised regarding any prescriptive conclusions that may be made regarding particular organisations and their context, including their chronological age (Kimberly, 1980). Thus, the concept of an organisational life-cycle does not need to be accepted in totality in order for it to be a useful research tool. In particular, firm sustainability, as used in this thesis, can be located within particular stages of these models, if only imperfectly. Nevertheless, organisational life-cycle models can provide differing and useful perspectives as illustrated by the questions raised by Churchill and Lewis (1983) regarding their take-off stage.

An alternative approach to organisational life-cycle models is the organisational transitions approach which will be considered in the next section. Unfortunately, there has not been much recent research on organisational life-cycle models and organisational transitions (Davidsson et al., 2006). As Davidsson et al. (2006) point out:

> Process knowledge can make entrepreneurs aware of possible crises and solutions, and researchers should be able to present better alternatives to the portrayals of inevitable growth problems and universally applicable snake oil cures that one finds in the non research-based management literature.

Process knowledge arising from organisational life-cycle models and organisational transitions research is capable of adding useful theoretical as well as practical knowledge (Davidsson et al., 2006; Garnsey, 1998; Garnsey, Stam & Heffernan, 2006).

2.4.3 Organisational Transitions and Fast-Growth

Rather than arguing that organisational growth occurs in a more or less linear manner, proponents of organisational transitions argue that fast-growth occurs through a series of

unique transitions (triggered by frequent restructuring and ever-changing environmental conditions) and not through incremental stages as described by organisational life-cycle models (Arbaugh & Camp, 2000; Johnson & Bishop, 2002). For Arbaugh and Camp (2000: 312), fast-growth focuses attention on "managerial knowledge and skills in administering resources for long-term gain". They categorised transitions into the following six categories: personnel, underlying business model, organizational/management structure, lead role of the CEO/entrepreneur, financial management and external environment (Arbaugh & Camp, 2000). The implications and solutions employed by the CEO/entrepreneur for each of the above transitions are also described by the authors based on the *type of resources* needed (i.e., human, social, technology/physical, financial and organisational) and approach used to *managing complexity* (diffusion, reduction, redefinition, capability building) (adopted from Covin & Slevin, 1997) to produce a matrix as shown in Table 2.5.

Table 2.5: Managing Growth Transitions

Transitions	Solutions, Resources & Approaches
PERSONNEL A valued, long-term senior employee leaves the firm for a better opportunity or because they feel restricted by the new structure as the firm grows. Outgrowing the need for generalists and requiring the added skills of specialists in key areas as the firm grows. Firing a long-term, trusted employee because they cannot keep up with the demands of the job as the firm grows.	**Solutions** "Commit the money to hire superstars rather than average performers. If you can't afford the salary, experiment with other creative ways to compensate top players." **Resources:** Human, Organizational & Financial **Approach:** Diffusion & Capability Building
UNDERLYING BUSINESS MODEL Questioning your underlying assumptions about what business you are in and what niche you are serving.	**Solutions** "Implement an official and formal strategic process." "We reengineered the business several times in the last few years in order to streamline and automate the process and create commonality among all our lines of business. We also put a lot of effort into integrating all the different policies that have evolved as a result of rapid growth." **Resources:** Organizational **Approach:** Redefinition & Reduction

Transitions	Solutions, Resources & Approaches
ORGANIZATIONAL/MANAGEMENT STRUCTURE Recognizing that your business partner has different goals and values than you. Employees begin to lose sight of the original vision. Not having the systems in place that you can use to properly assimilate growth as it occurs. Facing an inability to supply an adequate number of new products, while simultaneously managing increasing demand with a changing management culture.	**Solutions** "Establish the infrastructure that will allow you to focus on creating new products and not dealing with the day-to-day operations of the firm. The infrastructure should look to automate the process as much as possible." "Know your technology needs and employ people that can build the technology base." **Resources:** Organizational, Technology & Human **Approach:** Capability Building & Diffusion
LEAD ROLE OF THE CEO/ENTREPRENEUR Experiencing fast-growth when some of your key managers are gone and the business is undercapitalized. "This was the first time in my life that I realized I couldn't do it all." Recognizing that you are involved too much in the day-to-day operations and that you have too many people reporting to you. Losing touch with the company as you add layers to management. Feeling burned out and disillusioned with the business and you are no longer having fun.	**Solutions** "Delegate responsibility to effective and trustworthy senior managers and learn to live with some failure." "Build a culture that empowers people to take risks and make mistakes so that you can actually delegate responsibility. Open up lines of communication at all levels within the organization." "Define your job within the firm as CEO. Identify where you can add value and where you are a drain on the organization and work to make both lists as short as possible." **Resources:** Organizational & Human **Approach:** Redefinition
FINANCIAL MANAGEMENT Borrowing money for the first time or needing your first infusion of growth capital. Realizing that you are able to grow sales but profit growth is slow or non-existent. Experiencing your first significant loss after several years of profitable operations, all as a result of expanding the business too rapidly.	**Solutions** "We negotiated with another loan officer and were able to secure the line of credit." "Begin with the business model and build the management team around that model." **Resources:** Human, Organizational, Social & Financial **Approach:** Reduction, Diffusion & Redefinition
EXTERNAL ENVIRONMENT Increasing competition as your market gets smaller and smaller. Coming across sudden or unexpected opportunities to: purchase a new product, merge with another company, sell out all together or hire a great employee. It is growing more difficult to just stay abreast of the changing legislation much less comply.	**Solutions** "Continually strive to create niche markets to reduce competition and streamline overhead costs. Don't push growth for growth's sake, but focus on profitable growth." "Don't chase other areas of business that may be 'hot' but not consistent with what you do best." **Resources:** Human, Organizational & Financial **Approach:** Reduction, Diffusion & Capacity Building

Source: Arbaugh & Camp (2000).

Thus, complexity can be managed by: first, *diffusion* where responsibility for dealing with challenging issues is devolved "to subunits within the firm that are better capable of

handling them", second, *reduction* involving "either simplifying the firm's operational structure or redirecting responsibility for certain traditional, in-house functions to outside partners", third, *redefinition* concerning analysis of "growth-derived managerial issues from several vantage points within the firm and utilizing the one perspective that most directly addresses the growth issues from the firm's greatest strengths" and, finally, *capability building* involving the "strengthening [of] the firm's skills and creating new competencies within the firm that enhance the firm's capacity for managing complex issues as the firm grows" (Arbaugh & Camp, 2000: 316; see also Covin & Slevin, 1997).

Table 2.5 contains findings from Arbaugh and Camp's (2000) study based on focus groups with 173 CEOs/entrepreneurs of fast growing firms in 1997 and 1998. In order to participate, CEOs had to be founders of the firms with annual revenue growth rates exceeding 30 percent per year and/or 20 percent per year in the number of full-time employees over the previous three year period. The purpose of the focus groups was to "prompt the entrepreneurs to recall specific transitions in the growth and development of their firm that were particularly defining" (Arbaugh & Camp, 2000: 315). The table shows five transition themes identified by Arbaugh and Camp (2000) giving examples of typical issues faced by the CEOs/entrepreneurs and associated solutions, solution approaches and resources used.

As with Arbaugh and Camp (2000), Johnson and Bishop (2002) also emphasise the importance of organisational transitions. According to Johnson and Bishop (2002), all firms experience transitions irrespective of their rate of growth, but fast-growth firms experience a pace of change that is very rapid and non-linear (i.e., not experienced in any particular order). Neergaard (2003: 163) has similarly pointed out that most existing growth models "do not address the problem that the beginning and the end of a phase may not be directly discernible, i.e. growth sequences tend to overlap".

In summary, while organisational life-cycle models may be of some guidance in understanding emerging fast-growth firm development, the concept of organisational transitions provides a more flexible and non-deterministic tool. Arbaugh and Camp's (2000: 321) research points to "a plethora of transitions that serve as defining moments in

the life of … entrepreneurial ventures" that have the potential to ruin or make the firm stronger. This point is also supported by Johnson and Bishop (2002: 9) when they state that "founders' behaviours and role performances are likely to influence how well the firm makes the needed rapid transitions as it grows, which in turn, may impact venture performance and/or sales growth".

2.1 Chapter Summary

Literature regarding the research context has been reviewed in the chapter. In particular, the literature covering emerging firms, firm growth and firm sustainability has been considered.

The next chapter reviews the literature regarding the entrepreneurial founder as well as three theoretical frames of reference before considering a preliminary conceptual model and the research questions in order to provide a direction for the research.

3 Conceptual Model Development

3.1 Chapter Objective

The objective of this chapter is to extend the review of the literature relevant to the development of the conceptual model. The preliminary conceptual model used as the basis for the data collection will also be introduced. This model, further developed as a result of the case study findings, is presented in its final form in Chapter 9, *Synthesis and Conclusions*.

The research will be analysed at two level: at the organisation level (i.e., firm) and at the individual level (i.e., entrepreneurial founder). This chapter commences with a review of the literature of what is known about the entrepreneurial founder role (a key focus of the study) using role theory before embarking on a review of RBV and its relationship to HRM as the theoretical framework within which the analysis of emerging fast-growth firms will occur. Lastly, the preliminary conceptual model will be linked to the literature review and the research questions.

It is important to note that this thesis draws on existing literature from a diverse but related range of academic disciplines to extend and integrate current knowledge regarding emerging fast-growth firms and their entrepreneurial founders. The purpose is not to build an entirely new theory. Therefore, an extensive review of existing literature and theoretical knowledge is required (Graebner, Martin & Roundy, 2012).

3.2 The Entrepreneurial Founder

As defined earlier and for the purposes of this thesis (see Section 1.6), an entrepreneurial founder is an individual who creates a growth oriented firm characterised by innovative practices (Carland, Hoy, Boulton & Carland, 1984). In particular, growth orientation helps to differentiate entrepreneurial founders from small business owners (Andersson & Tell, 2009; Burns & Dewhurst, 1996; Carland, et al., 1984). The role of the founder in an emerging firm is pivotal, a point that is commonly accepted among entrepreneurship and related scholars (Baum, Locke & Smith, 2001; Brüderl, Preisendorfer & Ziegler, 1992;

Brush, Greene & Hart, 2001; Cooper, Gimeno-Gascon & Woo, 1994; St-Jean, Julien & Audet, 2008; Timmons, 1999). The nature of this pivotal role, involving extensive learning, is illuminated by Cooper et al. (1994: 375) in the following passage:

> In the venturing context, however, outcomes cannot be understood without explicit attention to the role of the founder. Without the benefit of operating history, repositories of "hard" data, well-developed scanning capabilities, or a large management staff, the task of interpretation falls on the entrepreneur. He or she is most often solely responsible for the process that gives meaning to data, identifies the range of alternatives, determines actions, and carries these out.

Therefore, understanding what the founder brings to the firm in the form of human capital, the founder team and how the founder's role changes as the firm develops are important considerations for understanding firm sustainability. The literature regarding these matters is discussed in Sections 3.2.1, 3.2.2 and 3.2.3.

3.2.1 Human Capital of the Founder

Considerable attention was given to the personality traits approach in entrepreneurship from the 1960s to 1980s with mixed results (Gilbert, McDougall & Audretsch, 2006; Shaver & Scott, 1991; Wadeson, 2006). The entrepreneurial founder's human capital characteristics (such as educational background and prior start-up, industry related and managerial experience) provide stronger support for direct links to firm growth (Gilbert et al., 2006; Macpherson & Holt, 2007).

For example, in Storey's (1994) survey of 18 empirical studies, he finds five elements that are generally positively related to rapidly growing firms:[7] motivation for establishing the firm, higher levels of education, prior managerial experience, group founders, and middle-aged owners. Baum, Locke and Smith (2001), in their study involving 307 companies, found support for direct effect of the CEO's industry and technical skills on firm growth. Using a longitudinal study of 1,053 new firms, Cooper et al., (1994) found that higher

[7] There were significant differences in the way growth was measured between the various studies (Storey, 1994: 125).

levels of education of the entrepreneur contributed to the firm's marginal survival as well as high growth performance. Survival and high growth performance was also found to be associated with specific industry know-how (Cooper et al., 1994). Therefore, a founder's accumulated experiences and educational background can be valuable in decision-making, networking, and obtaining and deploying resources (Gilbert et al., 2006). However, Bhidé (2000: 36) in his study of *Inc*. 500 companies found that many founders of start-up firms "often lack deep business experience". Also important is the founder's ability to learn from experience in the context of changing contexts (Andrén, Magnusson & Sjölander, 2003; Macpherson & Holt, 2007).

Related to the founder's human capital is that of the founding team. Based on their study, Cooper et al. (1994: 390) found the size of the founding team to be a significant contributor to firm-growth and concluded:

> Benefits associated with the presence of partners include capital, functional expertise, and a broader range of management experience. There may also be benefits from the psychological support they can provide each other and from the lessened reliance upon a single entrepreneur's drive and judgement.

Similarly, Eisenhardt and Schoonhoven (1990), in their study of the US semi-conductor industry, found evidence of an association between larger founding team size and higher growth rates among new firms. However, a larger team can also lead to disagreement and, while a diversity of perspectives is important for reducing the effects of group-think (Gilbert et al., 2006), disagreements over fundamental or personality related issues can be disastrous (Thurston, 1986). Furthermore, diversity among the founder team may also create inefficient and time consuming management processes with negative implications for firm performance (Gilbert et al., 2006). Nevertheless, an emerging fast-growth firm will require "managerial capabilities to provide specialist functions and processes designed to support and exploit entrepreneurial actions" (Macpherson & Holt, 2007: 178).

3.2.2 Founder Team

A key challenge for emerging fast-growth firms is the dominant role played by the founder in the affairs of the business. While the founder's endowments can be an

important source of energy and direction for the firm, there are significant risks associated with too much dependence on a key person as well as the dangers of attentional and cognitive limitations where decision-making is centralised in a single individual (Kahneman, 2011; Gifford, 1992; Johnson & Bishop, 2002; Tversky & Kahneman, 1974).

Cooney (2005: 226) argues that "the romantic notion of the entrepreneur as a lone hero" is misplaced and should be replaced with the concept of 'entrepreneurial team'. This perspective has received wide ranging support among entrepreneurship academics and researchers (e.g., Birley & Stockley, 2000; Ensley, Pearson & Pearce, 2003; Schjoedt & Kraus, 2009; Ucbasaran, Lockett, Wright & Westhead, 2003). Furthermore, there is evidence to suggest the firms founded by entrepreneurial teams are more successful than those founded by individual entrepreneurs (Birley & Stockley, 2000; Cooper & Bruno, 1977; Eisenhardt & Schoonhoven, 1990). Compared with individual entrepreneurs, entrepreneurial teams have access to more human and social capital and, therefore, are better placed to deal with the vagaries and uncertainties of creating and growing new firms (Schjoedt, & Kraus, 2009).

Various definitions of entrepreneurial teams have been suggested (see Birley & Stockley, 2000) but the one offered by Cooney (2005) is particularly apt for this research, keeping in mind that the focus of this research is on the founders of emerging fast-growth firms. According to Cooney (2005: 229) 'entrepreneurial teams' should be defined as: "two or more individuals who have a significant financial interest and participate actively in the development of the enterprise". While Cooney (2005) does not stipulate that members of the team need to be founders, he states that the focus should be on new venture creation.

Undoubtedly, entrepreneurial founders are a critical component in the creation of any new firm because they establish the foundations, the boundaries and the strategy, however well or ill conceived. They are the initiators and, as such, their imprint is decisive and, maybe, enduring. The upper echelons perspective (Hambrick & Mason, 1984) also reinforces the importance of the top management team within new, as well as established, organisations (Meyer & Dean, 1990). According to this perspective, top managers face many complex issues that they are not able to fully comprehend. Drawing on the work of

behavioural theorists from the Carnegie School (Cyert & March, 1963; March & Simon, 1993), Hambrick and Mason (1984) question their contemporaries' assumptions regarding top level decision-making in organisations. The widely held view, at the time, was that complex decisions were made rationally taking account of technical and economic considerations. However, the Carnegie School theorists introduced new and more realistic notions based on how strategic choices were made by top managers.

> In their view, bounded rationality, multiple and conflicting goals, myriad options, and varying aspiration levels all serve to limit the extent to which complex decisions can be made on a techno-economic basis. Generally, the more complex the decision, the more applicable this behavioral theory is thought to be. So, for that class of choices called 'strategic' – complex and of major significance to the organization – the behavioral theory is especially apt. (Hambrick & Mason, 1984)

Using bounded rationality, the upper echelons perspective states that managers' strategic choices occur through a prism whereby organisational phenomena are subjected to a number of progressively limiting psychological filters (cognitive base and values, limited field of vision, selective perceptions, interpretations, perceptions). However, Hambrick and Mason (1984) place primary emphasis on observable managerial characteristics as proxies for the psychological characteristics; thus, they look primarily at demographic, social, educational and financial characteristics.

Meyer and Dean (1990) have modified the upper echelons model presented by Hambrick and Mason (1984) to take account of the dominant problems encountered in an organisation's life cycle stage. Meyer and Dean (1990) have also added, among other things, the experience that managers bring to a role from previously held roles within the organisation, and their approach and ability to learn. The upper echelons perspective, therefore, provides another way of viewing entrepreneurial teams.

3.2.3 Making the Transition

A school of thought closely associated with the organisational life-cycle model suggests that as organisations grow they need to transition from an *entrepreneurial phase* to a *professional management* phase if they are to be successful. Two exponents of this school of

thought are Flamholtz and Randle (2007) who describe in detail four organisational growth stages – of a seven stage model – which they condense into two broader phases, as shown in Table 3.1. They argue that the transition to the *professionalisation stage* (Stage III) is a requirement for success and is qualitatively different from the previous *expansion stage* (Stage II). Whereas in the expansion stage the emphasis is on acquiring resources and developing operational systems, the requirements for the professionalisation stage are concerned with the development of management systems and tools. Others have similarly pointed out that there comes a point in time when the founder is unable to perform much of the organisation's work directly and this requires significant changes in behaviour on the part of the founder (Bhidé, 1999 & 2000; Jennings & Beaver, 1996; Johnson & Bishop, 2002; Roberts, 1999a & 1999b; Timmons, 1999).

Table 3.1: Stages of Organisational Growth

Phase	Stage	Description	Critical Development Area
Entrepreneurial	I	New venture	Markets & products
	II	Expansion	Resources & operational systems
Professional Management	III	Professionalisation	Management systems
	IV	Consolidation	Corporate culture

Source: Adapted from Flamholtz & Randle (2007).

By management systems, the Flamholtz and Randle (2007) model includes: first, a formal, written business plan, second, a formal organisational structure with written job roles, third, a plan for management development and, fourth, a formal plan for organisational control or performance management.

In making the transition from an entrepreneurial to a professionally managed firm, Flamholtz and Randle's (2007) focus is on planning and formalising many aspects of business activity that were previously ad hoc and informal. A danger inherent in this, which is alluded to by the authors, is that an entrepreneurial culture may become one steeped in bureaucracy (Flamholtz & Randle, 2007; Stevenson & Jarrillo-Mossi , 1986).

However, conventional wisdom suggests that founders of emerging growth firms are often not able to turn their firms into professionally managed entities (Churchill & Lewis,

1983; Flamholtz & Randle, 2007; Gerber, 1995 & 2005; Hambrick & Crozier, 1985; Jennings & Beaver, 1996; Rubenson & Gupta, 1990; Willard, Kruger & Feeser, 1992). Timmons (1999: 239) summarises the predicament faced by many entrepreneurial managers in the following terms: "it has long been thought that the entrepreneur who clings to the lead role too long during the maturation process will subsequently limit company growth, if not seriously retard it". Flamholtz and Randle (2007: 432) suggest that "many entrepreneurial CEOs either do not have the ability to think conceptually or do not feel comfortable in thinking in this way". In support of this view, Hambrick and Crozier (1985: 44) find that "a substantial proportion of the successful high-growth firms had brought in one or more senior level executives with big company experience to complement the owner-founder, or that the chief executive had willingly departed and had been replaced either by an outsider or some other insider who had earlier experience in a major firm". On the other hand, the authors find that unsuccessful firms almost always have the founder CEO at the helm (Hambrick & Crozier, 1985).

According to Flamholtz and Randle (2007: 430), the entrepreneurial founder faces four choices: "do nothing", "sell the business and start over", "move up to chairperson and bring in a professional manager to run the organization", or "make a systematic effort to change his or her personal behavior to fit the needs of the company at its new stage of development". The first option of doing nothing is probably not a viable solution for the entrepreneurial founder of a fast growing firm. As various authors (e.g., Churchill & Lewis, 1983; Timmons, 1999) point out, to do nothing may limit the future growth of the firm and could even manufacture its downfall. The second strategy is to sell the firm and either retire or start a new venture. This will suit those who enjoy the start-up phase and who do not wish to delegate managerial responsibilities and implement other important changes. The third alternative can work providing the founder is able to adapt to the new non-executive role and allow the appointed managers to manage day-to-day operations. Finally, there is the option of making a concerted effort to adapt the CEO role and match the founder's behaviours to the requirements of the firm in transition and into the next phase of its development. This is arguably the most difficult to alternative implement as

old habits can be very difficult to change and new skills are needed to perform the new role effectively.

Clearly there are notable examples of entrepreneurial founders who make the transition and become successful managers of large firms as evidenced by prominent Australian and US figures such as Bill Gates (Microsoft), Larry Ellison (Oracle), Michael Dell (Dell), Gerry Harvey (Harvey Norman), Frank Lowy (Westfield), Richard Pratt (Visy) and Lindsay Fox (Linfox). As Timmons (1999: 239) points out:

> Key to achieving longer-term sustainable growth, and an eventual harvest, is the ability of an entrepreneur to have or develop competencies as an entrepreneurial manager.

The successful entrepreneurial founders mentioned above can be described as 'entrepreneurial managers' in the sense that they are good at, not just identifying and exploiting opportunities, but are also good at building sustainable firms. The ability of founders to change and learn from experience as the firm grows is well supported in the literature (Neergaard, 2003).

As a newly founded firm grows, the role and behaviours of the founder need to change considerably in order for the larger firm to flourish (Johnson & Bishop, 2002). Neergaard (2003) finds that growth in the number of people the firm employs is a common trigger for founders to change their roles. Churchill and Lewis (1983: 40) point to the personal challenges facing the founder:

> This is a pivotal period in a company's life. If the owner rises to the challenges of a growing company, both financially and managerially, it can become a big business. If not, it can usually be sold – at a profit – provided the owner recognizes his or her limitations soon enough.

Often, the founder is unable and/or unwilling to make the transition, in which case the firm flounders or the founder is replaced by someone, possibly from outside the firm, who has the necessary skills and behaviours.

Other research, however, suggests that entrepreneurial founders perform just as well as 'professional' managers. Willard, Krueger and Feeser (1992) conducted an empirical study with 155 high growth firms and compared the performance – using eleven different measures – of entrepreneurial founders with those of professionally appointed managers. The authors did not find support for the conventional wisdom that entrepreneurial founders are not able to adapt to the increasing complexities associated with rapid growth. Willard et al. (1992: 189) make the following very pertinent observation:

> It is not a question of 'Do FCEO [Founder CEO] firms perform as well as NFCEO [Non-Founder CEO] firms?' For this sample, at least statistically, the answer appears to be that they do. It is, rather, a question of 'Why do some FCEO [Founder CEO] firms perform well, while others stagnate, falter or fail?'

The authors stress that there is a lack of research into the issue of when, how and what the transitional implications are for the managerial work performed by founders (Willard et al., 1992). Clearly, while there are those who argue that entrepreneurial founders will often need to be replaced in order for the firm to grow, there is sufficient evidence to suggest that some founders can and do make the transition to successfully managing substantially larger firms (Willard et al., 1992).

The literature suggests that there is considerable scope for improving the knowledge and skills of owner-managers of small firms (Coetzer, Battisti, Jurado & Massey, 2011). Lack of managerial skills has been attributed to high mortality rates among emerging growth firms (Urban & Naidoo, 2012). An important reason for the lack of management development is believed to be the wide divide between what training providers offer and what SME owner-managers need (Coetzer et al., 2011).

Another threshold issue is whether entrepreneurial founders are willing and able to delegate which leads to the question of availability of managerial resources (at the next level) and their competence. As Sexton (1986) points out, many authors have addressed the issue of delegation but rarely has the need to increase the competencies of staff been considered. This important point is related to the issue of firm sustainability in that a founder's (supposed) unwillingness to 'let go' may be valid if the appropriate

organisational resources and capabilities and, in particular, the management team's competence are not in place to sustain the firm without the founder's on-going daily involvement. Nevertheless, the acquisition and development of the relevant resources and capabilities may be stifled because the founder actually does not want to 'let go'. This becomes a circular relationship (where the founder does not want to 'let go' because he or she does not have the organisational resources and capabilities, and the development of these resources and capabilities are stymied by the founder's unwillingness to 'let go' and tolerate mistakes) that may be difficult to untangle. However, the concept of 'letting go' is a key to understanding how and why firms become, or do not become, sustainable. Therefore, the entrepreneurial founder's motivations, intentions and goals also become important factors in arriving at an understanding of firm sustainability.

As discussed earlier in Section 2.4.3, one of the transitional defining moments in the life of entrepreneurial firms identified by Arbaugh and Camp (2000) is the transition in the lead role of the CEO/founder. As the authors point out, little research has been conducted on how these entrepreneurs effectively handle these transitions and they found "that growth-oriented entrepreneurs tend to be slow to recognize the extent to which their changing roles influence the firm's ability to sustain its rapid rate of growth" (Arbaugh & Camp, 2000: 319).

Johnson and Bishop (2002) also emphasise the role and behavioural demands that transitions place on the founder. The pre-eminent role played by the founder in organisational transitions is emphasised by Johnson and Bishop (2002: 10):

> As firms make transitions and grow, those changes require different actions on the part of founders. For fast-growth firms, we suggest that we may gain greater insight into the transitional phases of these rapidly changing firms by investigating founder roles and by identifying the areas of emphasis a founder places on activities that might contribute to firm growth. … It may even be likely that the roles dictated by founders, in part, guide how the firm grows rather than indicate the developmental stages. Thus, role demands made of founders may (or less likely, may not) influence which roles are enacted and emphasized and which may influence how and when the firm grows.

Therefore, Johnson and Bishop (2002: 10) justifiably question whether founder roles dictate firm development rather than the other way around.

In the next section, three theoretical lenses will be considered which will also shed light on the proposed model for firm sustainability.

3.3 Theoretical Framing

As described in Sections 2.2 and 2.3, founders of emerging fast-growth firms are confronted with the liabilities of newness and adolescence, and the liability of smallness (Aldrich & Auster, 1986; Stinchcombe, 1965) as well as problems associated with fast-growth (Flamholtz & Randle, 2007; Garnsey, 1998; Hambrick & Crozier, 1985; Kotter & Sathe, 1978). Founders often need to promote their organisations in order to establish legitimacy in the eyes of potential stakeholders; in particular investors, employees, suppliers and customers (Delmar & Shane, 2004; Freeman, Carroll & Hannan, 1983; Zimmerman & Zeitz, 2002). At the same time, they are constrained by their firm's lack of resources and routines (Brüderl & Schüssler, 1990; Goswami, McMahan & Wright, 2006; Stinchcombe, 1965). For the founders of emerging fast-growth firms, these challenges are confronted at an accelerated pace with (often) the build-up of significant pressures (Flamholtz & Randle, 2007; Hambrick & Crozier, 1985; Kotter & Sathe, 1978). Founders, as well as other individuals, within these organisational settings are likely to face problems associated with their roles (Hambrick & Crozier, 1985; Johnson & Bishop, 2002; Katz, 1993). Typically, as roles evolve and new ones are created within these fast-paced environments, the potential for role conflict, ambiguity and overload is considerable (Eisenhardt, 1989b; Flamholtz & Randle, 2007; Kotter & Sathe, 1978). Particularly, as resources become stretched and overloaded, further pressures tend to be exerted on role incumbents.

These factors may thwart the organisation's growth as management's capacity to absorb past growth and to plan for and service on-going expansionary efforts adds further limitations (Penrose, 2009). Growth problems arise from, not just the rapidity of change, but also from the uneven and discontinuous growth patterns (Garney, Stam & Heffernan, 2006), adding complexity to planning and resource acquisition and deployment.

Sustainable firms are able to build buffers to deal with such contingences as growth interruptions and have the ability to exploit new market opportunities (Bhidé, 1999 & 2000; Garney et al., 2006). However, the founder of a sustainable firm must first acquire resources and develop capabilities in order to make the firm robust and able to withstand the vicissitudes of external markets (Brush, Greene & Hart, 2001).

RBV, considered in the next section, provides the theoretical grounding for analysing organisational resources and capabilities, including those of the entrepreneurial founder and HR more generally.

3.3.1 Resource-Based View of the Firm

With the publication of his *Competitive Strategy* in 1980, Michael Porter was instrumental in shaping strategic management into an academic discipline (Barney, 2002b). Porter conceptualised firm performance in terms of *sustainable competitive advantage*, using economic theory to explain how a firm's performance is affected by industry structure and competitive positioning (Barney, 2002b). The perspective is predominantly industry (i.e., externally) focused, although in a later book, *Competitive Advantage*, Porter develops his value chain framework as a tool to evaluate various discrete activities within the firm (Argyres & McGahan, 2002; Porter, 1985).

Nevertheless, in response to perceived gaps within the fledging strategic management discipline, RBV gained prominence from the mid-1980s with important publications by Lippman and Rumelt (1982), Rumelt (1984), Wernerfelt (1984), Barney (1986 & 1991), Dierickx and Cool (1989) and Amit and Shoemaker (1993). However, RBV's antecedents can be traced back to Edith Penrose's seminal book, *Theory of the Growth of the Firm* (first published in 1959), whose contributions include viewing the firm as a bundle of resources under managerial control and arguing that managerial services are in limited supply and, thus, the rate at which the firm can grow is restricted (Penrose, 2009). She recognises the importance of firms establishing *relatively impregnable bases* from which to develop:

> In the long run the profitability, survival, and growth of a firm does not depend so much on the efficiency with which it is able to organize the production of even a widely diversified range of products as it does on the ability of the firm to establish

> one or more wide and relatively impregnable 'bases' from which it can adapt and extend it operations in an uncertain, changing, and competitive world. (Penrose, 2009: 121)

Her observation that a firm comprises "an administrative organization and a collection of productive resources" is critical to understanding her analysis that firms are heterogeneous (Penrose, 2009: 28). HR and, in particular, managerial resources are considered by Penrose (2009) to be the crux of the theory of the growth of the firm. Managerial resources plan and co-ordinate firm expansion and, being firm-specific, cannot be readily acquired in the external labour market (Amit & Schoemaker, 1993; Penrose, 2009).

In contrast to Porter's competitive position perspective, RBV assigns prominence to firm-level factors (Barney, 1991; Rumelt, 1991; Wernerfelt & Montgomery, 1988) while acknowledging the importance of environmental opportunities and threats (Barney, 1991 & 1995). For Boxall and Purcell (2003: 74), RBV "has achieved a *re-balancing* of the literature on strategy, reminding people of the strategic significance of internal resources and their development over time". Therefore, RBV's contribution lies in the analysis of a firm's resources and capabilities and in the way these give rise to competitive advantage (Barney, 1991; Hoskisson, Hitt, Ireland & Harrison, 2008).

Within the RBV perspective, a firm's competitive advantage is seen as arising from bundles of idiosyncratic and difficult to imitate resources and capabilities (Barney, 1991). A popular framework used to analyse organisational resources and capabilities is the VRIN or VRIO framework developed by Barney (1991 & 2002; also see Dallenbach & Rouse, 2007; Foss, 2012). Sustainable competitive advantage is realised where resources and/or capabilities are *valuable*, *rare* and not easily imitated (*inimitable*) or substituted (*non-substitutable*); hence VRIN. Note that, according to Barney (1991), all four criteria need to be met for sustainable competitive advantage to be potentially realisable (Barney, 1991 & 2005). A resource or capability is considered *valuable* if it enables the organisation to exploit its opportunities and/or neutralise its threats. It therefore allows for internal analyses of strengths and weaknesses to be linked with external opportunities and threats.

If a resource or capability is controlled by only a small number of rival firms, it can be considered to be *rare. Inimitability* and *non-substitutability* refer to difficulty, and hence costly effort of imitating or substituting a resource or capability held by rival firms, whether through coping or mobility (see Dierickx & Cool, 1989). Barney (2002) later added a firm's support activities in allowing its *valuable*, *rare* and *inimitate* (or non-substitutable) resources and/or capabilities to be exploited (i.e., *organisation*); hence, VRIO. It is through the exploitation of strategic resources and capabilities that a firm is potentially able to realise its sustainable competitive advantage in relation to its competitors (Dallenbach & Rouse, 2007).

As explained by Barney (1991: 102), competitive advantage becomes sustainable where competitors give up trying to duplicate a firm's strategy:

> … a firm is said to have a *competitive advantage* when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors. A firm is said to have a *sustained competitive advantage* when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy.

Therefore, RBV makes two important assumptions about strategic (valuable and rare) resources and capabilities that contribute to a firm's competitive advantage. First, such resources and capabilities are assumed to exist in bundles and these bundles differ from firm-to-firm (Barney, 1991; Penrose, 2009). In other words, such resources and capabilities are heterogeneous across groups of firms in the same industry. A second assumption contained within this perspective is that resources and capabilities are costly to copy or substitute, and are not mobile. Bundles of resources and capabilities contribute to the difficult-to-imitate nature of such resources and capabilities, especially when they are intangible and dependent on unique histories, thus competitive advantage can be sustained over time (Barney, 1991). For example, if a firm's competitive advantage is confined to a key employee and that individual was poached by a rival firm, the firm in question would lose it competitive advantage as the employee walked out the door. In contrast, if the firm's competitive advantage is bundled across a number of individuals

with firm specific skills as well as organisational systems and processes, the cost of a rival imitating the strategic capability by poaching a key employee is severely diminished. As Daellenbach and Rouse (2007: 14) point out, RBV can contribute theoretically, as well as practically, to answering such questions as: "why firms with advantages from human capital are able to retain this valuable capital and also avoid having the rents created appropriated by this key stakeholder group".

The literature on RBV has been categorised as eclectic (Connor, 2002), given differing notions of the key terms used, making it difficult to develop and test its theoretical foundations. A case in point is the use of the terms 'resources', 'capabilities' and 'core competencies' where some researchers treat each of these as having distinct meanings while others use the terms interchangeably or, at least, as having overlapping meanings (Amit & Schoemaker, 1993; Barney, 1991 & 2002; Grant, 1991; Hamel & Prahalad, 1994; Hoskisson, Hitt, Ireland & Harrison, 2008). Barney (2002: 157), for example, uses the terms 'resources' and 'capabilities' interchangeably but reserves 'core competencies' for the "conception or implementation of diversification strategies". Helfat and Peteraf (2003: 999), on the other hand, refer to a 'resource' as "an asset or input to production (tangible or intangible) that an organization owns, controls, or has access to on a semi-permanent basis", while an 'organisational capability' is defined as "the ability of an organization to perform a coordinated set of tasks, utilizing organizational resources, for the purpose of achieving a particular end result". For the purposes of this research, Helfat and Peteraf's definitions of resources and capabilities will be employed because resources, on their own, rarely lead to performance differences, while capabilities (i.e., the application of those resources) does lead to performance differences between firms (Amit & Schoemaker, 1993; Grant, 1991; McKelvie & Davidsson, 2009; Penrose, 2009). Differentiating between resources and capabilities also helps in addressing the issue of whether resource *possession* or *usage* is the main concern (Wiklund & Shepherd, 2003).

Therefore, the advantage of differentiating between the two concepts is that mere control of, or access to, a resource does not usually make it valuable, rare, inimitable or non-substitutable in its own right (Daellenbach & Rouse, 2007; Grant, 1991). It may have potential value, in the sense that it may be able to be sold as an asset, but it is not

productive until it develops into a capability or becomes part of a larger capability. For example, a financial software package owned by a firm but which has not been implemented does not enable the firm to exploit its external opportunities and/or neutralise it external threats. A useful way of looking at the capability concept is as a set of routines which "implies that in order for performance of an activity to constitute a capability, the capability must have reached some threshold level of practiced or routine activity" (Helfat & Peteraf, 2003: 999). In other words, in order to qualify as a capability, a set of activities must meet a minimum standard of reliability.

Needless to say, RBV has its supporters (Galbreath, 2005; Helfat & Peteraf, 2003; Thornhill & Amit, 2003) as well as its critics (Conner, 2002; Porter, 1991). RBV has been criticised for being descriptive rather than having explanatory strength (Conner, 2002) and Michael Porter suggests that it would benefit from further development and integration with his own work on competitive strategy (Argyres & McGahan, 2002). Similarly, Oliver (1997) is critical of RBV for its lack of explanation of how resources are selected and for its lack of social context. Connor (2002) also argues that because strategic resources and capabilities are intangible, it is difficult for managers to recognise and manage them.

Nevertheless, RBV has an important part to play in helping to better understand firm performance, particularly in its relationships with entrepreneurship (Alvarez & Busenitz, 2001; Brush, Greene & Hart, 2001; Foss, 2012) and HRM (Barney & Wright, 1998; Boxall & Purcell, 2003; Wright, Dunford & Snell, 2001). This sentiment is echoed by Daellenbach and Rouse (2007: 14) who states that "[d]espite continuing critiques, empirical RBV research holds considerable promise for strategy and management as well as numerous other disciplines". Similarly, Foss (2012) points to the modest empirical progress of RBV research and, yet, he is optimistic that scholars are increasingly making the connection between RBV and entrepreneurship. In order to exploit an opportunity, entrepreneurs begin by identifying and assembling resources, and (usually) creating a firm (Brush, Greene & Hart, 2001). This process begins, according to Foss (2012), from an analysis of resources available to the firm and not from an industry analysis (see Porter, 1980 & 1985; Barney, 1986). The challenge for an entrepreneurial founder of an emerging firm is aptly described by Brush et al. (2001: 64):

> The process by which an idea becomes a tangible reality is characterized by bumps and turns, and multiple iterations. Because an emerging venture lacks administrative history, has no loyal customer base, cannot point to its reputation for performance, and has no shared experience, its strategic resource decisions are based on judgments using only current information. Each resource choice has significant implications for survival and growth.

The existential nature of making the wrong resource choices is often at the forefront of the founder's mind and who is constantly reminded of his or her limited time and resources (Brush et al., 2001; Johnson & Bishop, 2002). The resource building process begins with the founder's own personal resource endowments and is followed by choices emphasising one resource over another involving various cost-time trade-offs (Brush et al., 2001). Invariably, initial resource endowments are not complete and attracting resources into emerging firms is arguably the biggest challenge facing the founder (Brush et al., 2001). Once resources are identified and selected, they need to be put to use in the firm involving the transfer and combination of personal resource endowments (including those of the founder) into organisational resources and capabilities.

The linkage between RBV and HRM is evident in Penrose's (2009) work. For example, she recognises the impact of managerial and human resource limitations on the growth of the firm where she argues that the rate at which a firm can grow is limited by management's capacity in two important respects: first, the capacity of the managerial group to plan and make decisions, and second, the capacity of this group to absorb newly hired personnel within the firm and its own ranks. Accordingly, Penrose shows "an early grasp of the kind of cognitive problems of strategic management" (Boxall & Purcell, 2003: 72). As Penrose (2009: 43) warned, organisational resources are not homogenous and cannot simply be hired externally in the market place:

> … if a firm deliberately or inadvertently expands its organization more rapidly than the individuals in the expanding organization can obtain the experience with each other and with the firm that is necessary for the effective operation of the group, the efficiency of the firm will suffer, even if optimum adjustments are made in the administrative structure; in extreme cases this may lead to such disorganization that

> the firm will be unable to compete efficiently in the market with other firms, and a period of 'stagnation' may follow.

Perceptively, Penrose (2009) points out that the pace of firm growth is subject to an upper limit arising from the coping capacity of the managerial group to absorb new managerial resources (Barringer, Jones & Lewis, 1998; Johnson & Bishop, 2002; Penrose, 2009). This raises two sets of related questions for the research on how fast-growth firms attain sustainability. First, what capabilities do founders and their management teams build to address issues arising from rapid growth? Second, how are insatiable hiring needs of fast-growth firms satisfied? How are individuals attracted, selected and recruited to meet the growth needs? These are just a few of the HRM issues faced by founders of emerging fast-growth firms that are explored in more detail in the next section.

3.3.2 Human Resource Management

While HRM gained prominence in the 1980s and 1990s, its antecedents can be traced back to the early part of the twentieth century where views were articulated about increasing firm performance by directing the goodwill of employees (Marlow, 2006; Ferris, Hall, Royal & Martocchio, 2004). In general, HRM is concerned with the way people in an organisation are hired, motivated, developed and managed. More formally it "encompasses (a) specific human resource practices such as recruitment, selection, and appraisal; (b) formal human resources policies, which direct and partially constrain the development of specific practices; and (c) overarching human resource philosophies, which specify the values that inform an organization's policies and practices" (Jackson & Schuler, 1995: 238). Nevertheless, there is a lack of consensus regarding HRM theory (Fleetwood & Hesketh, 2006; Paauwe, 2009), including whether one can talk at all about HRM theory as a coherent body of knowledge (Marlow, 2006). While attempts have been made towards developing integrated frameworks that emphasise the strategic contributions that HRM can make to organisational outcomes (Ferris et al., 2004; Jackson & Schuler, 1995; Mazzarol, 2003 & 2005), others question whether a single grand theory is possible given the breadth and complexity of the field (e.g., Ferris et al., 2004).

Research linking HRM to firm performance is complex and often controversial (Boxall & Purcell, 2003; Paauwe, 2009) and various frameworks have been put forward for further research (Becker & Huselid, 2006; Harney & Dundon, 2006a & 2006b; Jackson & Schuler, 1995; Mazzarol, 2005; Wright, Dunford & Snell, 2001). Since the 1990s, RBV has been a dominant influence in bringing together strategic management and HRM (Barney, Wright & Ketchen, 2001; Becker & Huselid, 2006; Boselie, Dietz & Boon, 2005; Boxall & Purcell, 2003; Wright, Dunford & Snell, 2001). RBV's focus on internal resources and capabilities as a starting point for understanding firm performance has important implications for HRM (Boselie & Paauwe, 2009). HR, in particular, can be an important source of competitive advantage because it can be imperfectly imitable due to being path dependent, socially complex and causally ambiguous (Barney, 1991; Boselie & Paauwe, 2009; Boxall & Purcell, 2003; Wright, Dunford & Snell, 2001). *Path dependency* refers to the "unique historical conditions" by which valuable resources and capabilities are developed (Barney, 1991: 107; Wernerfelt, 1984). Accordingly, resources and capabilities are built over time through opportunities that may be unique and not easily replicable. *Social complexity* denotes the complex set of interactions among individuals within the firm and with external parties that can give rise to valuable resources and capabilities (Barney, 1991). This network of internal and external relations can be a barrier to imitation by competitors. Finally, *causal ambiguity* arises where the links between resources and capabilities, on the one hand, and competitive advantage, on the other, are imperfectly understood (Barney, 1991; Dierickx & Cool, 1989; Lippman & Rumelt, 1982; Reed & DeFillippi, 1990). Because advantages from HR configurations can be characterised by path dependency, social complexity and causal ambiguity, they are important potential sources of competitive advantage (Wright, McMahan & McWilliams, 1993).

Closely related is the debate regarding how HRM should be linked to strategy. Two normative models figure prominently in the debate: *best practice* (or universalistic) model and *best fit* (or contingency) model (Becker & Huselid, 2006; Boxall & Purcell, 2003; Harney & Dundon, 2006a & 2006b; Jackson & Schuler, 1995). Advocates of the *best practice* model emphasise a set of universal HRM practices applicable across organisations (Becker & Gerhart, 1996; Pfeffer, 1994) and, while there is general agreement about what constitutes

'bad' practice, moving beyond these simple prescriptions is more contentious (Boxall & Purcell, 2003). In addition, best practice models have been criticised because of their inherent assumptions regarding "the ability and resource base for long-term investment in HRM practices" that SMEs often lack (Harney & Dundon, 2006b: 108).

In contrast, supporters of the *best fit* model argue that HRM practices should be aligned to organisational contextual elements, comprising external and internal fit (Boxall & Purcell, 2003; Wright & Snell, 1998). For example, HRM practices may be linked to stages of organisational development (e.g., Ciavarella, 2003; Rutherford, Buller & McMullen, 2003) or to competitive strategies (Miles & Snow, 1984; Schuler & Jackson, 1987). Key questions arising from the best fit model concern what is meant by best fit, particularly external fit, and how it is to be realised (Boxall & Purcell, 2003). Harney and Dundon (2006b: 111) are also take issue with best fit models because of their "deterministic ways which may not fully capture SMEs proximity to the environment and resultant insecurity and vulnerability to external change".

The best fit/best practice debate has implications for how HRM is viewed from through the RBV lens (Becker & Huselid, 2006; Boxall & Purcell, 2003). According to RBV, resources and capabilities that do not meet the VRIN/VRIO criteria cannot be a source of sustainable competitive advantage. Therefore, the notion of HRM best practices, to the extent these universal practices are knowable and implementable, implies they cannot be relied upon for achieving sustainable competitive advantage. However, the best fit model also has its limitations, as suggested by Becker and Huselid (2006: 901):

> Because there are only a limited number of competitive strategy types, it follows that there are a limited number of appropriate HR architectures. This notion of fit obviously limits the uniqueness of HR architectures across firms, makes them easier to imitate, and reduces their value as sources [of] sustainable of [*sic*] competitive advantage.

Viewed in this way, best fit is essentially a variant of the best practice model (Becker & Huselid, 2006). While there is little empirical support for the best fit model at the higher competitive strategy level, Becker and Huselid (2006) suggest that contingency is still

important for strategic HRM and that alignment should occur at a point closer to the HR architecture. While they do not define HR architecture, Becker and Huselid (2006) cite Lepak and Snell (1999: 32), who refer to HR architecture as the firm's "different employment modes, employment relationships, HR configurations, and criteria for competitive advantage" For Becker and Huselid (2006), *strategic capabilities*, located between the firm's HR architecture and its performance, hold the key to understanding firm performance. Thus, strategic capabilities are able to be differentiated across competitors and are potential sources of strategic value. The implementation of strategic business processes should be emphasised because they "are a source, perhaps *the* source, of the value customers derive from the firm's products and services" (Becker & Huselid, 2006: 903). Therefore, the level of analysis is a vital element in this debate (Harney & Dundon, 2006b).

Another issue concerning the current state of HRM literature is that while it is well developed for larger organisations, it has received limited attention when it comes to smaller and emerging firms (Alvarez & Molloy, 2006; Baron, 2003; Cardon & Stevens, 2004; Harney & Dundon, 2006a & 2006b; Marlow, 2006; Mayson & Barrett, 2006a; Mazzarol, 2003 & 2005). The distinction between large and small organisations is important because, as various authors have pointed out, the findings from research about the HRM of larger firms does not readily translate to the context of smaller firms (Cardon & Stevens, 2004: Goswami, McMahan & Wright, 2006; Heneman, Tansky & Camp, 2000; Klass & Klimchak, 2006). As Mayson and Barrett (2006a: 450) argue, a key characteristic associated with small firms is the lack of formal planning resulting in less than optimum use of HRM "because informal HRM practices do not necessarily recognize the value of employees". Yet, a strategic approach to HRM, implying some formality and, importantly, some internal logic (Barrett & Mayson, 2008a), is critical, particularly for growth oriented firms with relatively large recruitment needs and changing role requirements (Mazzarol, 2003 & 2005; Messersmith & Guthrie, 2010).

Closely associated with this debate over HRM in small versus large organisations is the literature connecting entrepreneurship and HRM (Barrett & Mayson, 2008b; Cardon & Stevens, 2004; Tansky & Heneman, 2006). For emerging fast-growth firms, HRM practices

that address problems associated with growth and liabilities of newness and smallness will be most relevant and not necessarily the same as those practices found in larger well established firms (Klaas & Klimchak, 2006). As Baron (2003: 253-254) warns:

> The companies founded by entrepreneurs who are unable or unwilling to deal effectively with HRM-related issues find it difficult to attract and retain top employees, are unable to motivate those who remain, and in general, fail to maximize the value of their human resources – often with dire consequences for their survival.

In their answer to the question of why HRM differs in entrepreneurial compared to established firms, Alvarez and Molloy (2006) argue that the difference is determined by the conditions under which the firm are organised; that is, whether they are organised around certainty or uncertainty. According to the Alvarez and Molloy (2006: 8):

> Unlike established firms, entrepreneurial firms operate under conditions in which firm performance outcomes are both unknown and unknowable, yet our current understanding of managerial decision-making (both human resource management decision-making and decision-making related to all other resource coordination issues) is based on the assumption that these courses of action have well-defined probability distributions.

This view is consistent with the findings discussed earlier in this chapter regarding emerging fast-growth firms. These firms are characterised by a set of managerial challenges with important implications for HRM in terms of resource scarcity, rapid change, quick decision-making and large recruitment needs. The implications for HRM are that employee roles are likely to be placed under considerable stress, organisational structures and reporting relationships are likely to breakdown, and employees are likely to be working on activities they are not trained in or competent to perform (Flamholtz & Randle, 2007; Hambrick & Crozier, 1985; Kotter & Sathe, 1978).

Role theory will be considered in Section 3.3.3 where the concepts of role conflict, role ambiguity and role overload are reviewed within the context of emerging fast-growth firms. Within this setting, the consequences can be detrimental to the firm and its people

as decision-making slows, urgent tasks are ignored, expectations are not fulfilled and people 'burn-out' (Flamholtz & Randle, 2007; Hambrick & Crozier, 1985; Kotter & Sathe, 1978). In turn, this can lead to decreased organisational commitment and increased labour turnover, and ultimately to reduced organisational performance (Kotter & Sathe, 1978).

3.3.3 Role Theory

Role theory has played a prominent role within the sociological and social psychology literature (Biddle, 1986; Fields, 2002; Kahn, Wolfe, Quinn, Snoek & Rosenthal, 1964; Katz & Kahn, 1978), but it has been overlooked within the HRM (Jackson & Schuler, 1995) and entrepreneurship (Johnson & Bishop, 2002; Wincent & Örtqvist, 2009) fields. This is despite, according to Biddle (1986: 68):

> Role theory [being concerned with] one of the most important characteristics of social behaviour – the fact that human beings behave in ways that are different and predictable depending on their respective social identities and the situation.

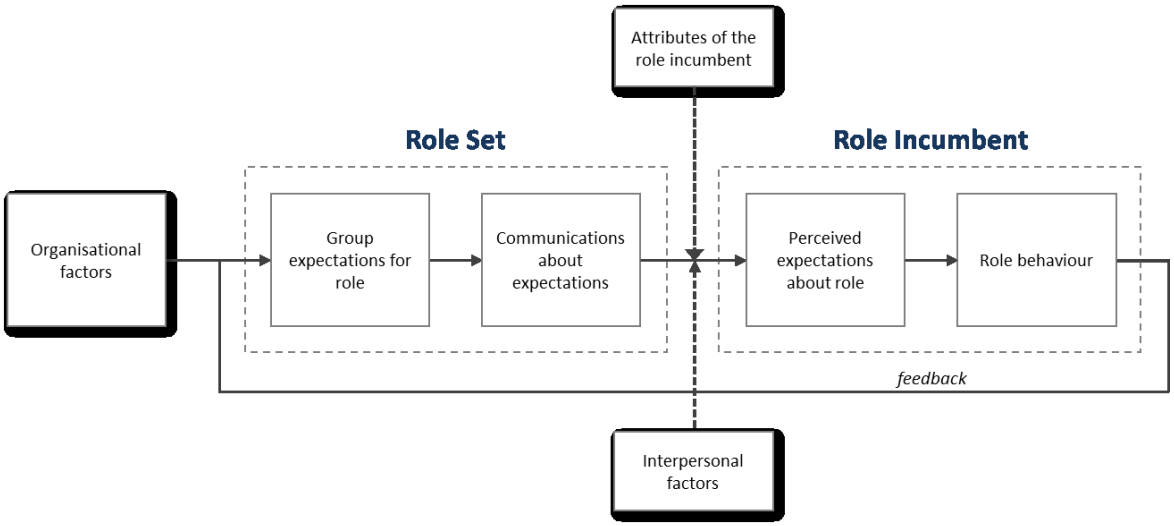
Two articles (i.e., Johnson & Bishop, 2002; Wincent & Örtqvist, 2009) have attempted to address these shortcomings with regard to entrepreneurial role behaviours from a conceptual point of view. Notwithstanding the evidence that role stress is an important issue for both entrepreneurial founders and employees of emerging fast-growth firms (e.g., Flamholtz & Randle, 2007; Hambrick & Crozier, 1985; Kotter & Sathe, 1978), there is a dearth of scholarly examination of this phenomenon.

From Katz and Kahn's (1978) perspective, organisations are social systems consisting of interdependent roles. They defined role behaviours as "the recurring actions of an individual, appropriately interrelated with the repetitive activities of others so as to yield a predictable outcome" (Katz & Kahn, 1978: 189). In their view, the roles enacted by organisational members have more to do with their particular social setting than their own personal characteristics. Nevertheless, role behaviours are influenced by the attributes of the individual (e.g., skills, abilities and knowledge), interpersonal factors (i.e., the role senders' expectations) and broader organisational factors (e.g., growth rate, organisation structure and size, policies and procedures, and rewards and penalties). These are shown in Figure 3.1 that depicts the 'role episode', a frequently used concept for understanding

how organisational roles are developed and changed (Katz & Kahn, 1978; Mitchell, Dowling, Kabanoff & Larson, 1988).

In addition to the attributes of the individual, and interpersonal and organisational factors, role behaviours are influenced by the expectations of the role set (i.e., those individuals with a stake in the role incumbent's performance) regarding the particular organisational role and these expectations are communicated to the role incumbent through various means. The role incumbent interprets these messages and cues that influence his or her actual role behaviour. The feedback loop provides for ongoing readjustments between the role set's expectations and the incumbent's role behaviour if the two are not aligned.

Figure 3.1: Role Episode Model



Source: Adapted from Katz & Kahn (1978); Mitchell, Dowling, Kabanoff & Larson (1988).

HRM has important implications for role theory. In making the link between role theory and HRM, Jackson and Schuler (1995: 239) state:

> HRM is the organization's primary means for sending role information through the organization, supporting desired behaviors, and evaluating role performances; it is effective, therefore, when it communicates internally consistent expectations and evaluates performances in ways that are congruent with the system's behavioural requirements …

According to role theory, roles within organisations should be clearly defined and communicated to incumbents in order to hold them accountable and to guide individual effort in the right direction. Clearly defined roles also increase individuals' understanding of what is to be done and, therefore, tends to increase their feelings of competency (Spreitzer, 1996). This is where HRM practices can make a noticeable contribution. However, roles in emerging fast-growth firms are very difficult to specify in advance as new roles are added and existing roles change substantially within short period of time (Kotter & Sathe, 1978).

Internal changes and disruptions to organisational activities (including routines) can lead to role conflict, role ambiguity and role overload, and ultimately to role stress (Fields, 2002). *Role conflict* is where there is an incompatibility within the role itself or between the expectations of the role incumbent and other organisational members. *Role ambiguity* occurs when there is uncertainty associated with what needs to occur in order to fulfil the role. *Role overload* occurs when the quantity of work is felt by the incumbent to be too great to fulfil within the time available. Role conflict, role ambiguity and role overload are all related to the expectations about the role in question (Wincent & Örtqvist, 2009). Each of these individually and in combination can contribute to increased stress which in turn can cause work attitudes and performance to deteriorate (Fields, 2002).

However, as Fields (2002: 146) reports, "it is also possible that role conflict, ambiguity, and overload have direct effects on key employee outcomes independent of stress". Role theory helps establish a causal connection from role stress to work dis-contentment and dis-illusionment which in turn leads to the likelihood of decreasing organisational commitment and increasing exit rates (Wincent & Örtqvist, 2009). In both cases, reduced commitment and employee withdrawal will have negative consequences for organisational development and performance.

As noted earlier in Section 2.3, a significant issue for founders of emerging fast-growth firms is their on-going recruitment needs and, closely associated, their need to retain employees. High labour turnover rates for an emerging fast-growth firm can be crippling, not only due to the replacement time and costs involved, but also because they have little

or no resource slackness (Barringer & Jones, 2004; Flamholtz & Randle, 2007; Hambrick & Crozier, 1985; Kotter & Sathe, 1978). Little or no resource slackness means that inducting and transferring know-how to newly hired firm members becomes problematic and requires the exertion of more time and effort. Furthermore, emerging fast-growth firms are unlikely to have well developed and documented systems and processes making knowledge transfer more problematic (Flamholtz & Randle, 2007; Hambrick & Crozier, 1985; Kotter & Sathe, 1978).

While Gartner (1985) alluded to the presence of entrepreneurial partners as a vital factor in starting new firms, the area is not well researched. Role theory, therefore, may also shed light on the way entrepreneurial founders' behaviour, not merely towards their employees, but towards each other (where there is more than one founders). Thus, founders not only bring a set of skills, abilities and knowledge (Markman, 2007), but they present to other organisational members a particular configuration of behaviours that will have important implications for the way the organisation operates and performs. For example, without clearly established decision-making protocols, employees can play one founder against the other in order to get the decision they prefer.

As well as reviewing the literature covering RBV, HRM and role theory, this chapter has reviewed studies encompassing emerging firms, organisational growth, firm sustainability and entrepreneurial founders. It has been necessary to undertake this extensive review of the literature (Graebner et al., 2012) in order to demonstrate that, despite the existence of wide-ranging research, there is a lack of integration among the related fields necessary to understand how the entrepreneurial founder role changes in emerging fast-growth firms. This thesis is concerned with building theory by extended existing knowledge (Graebner et al., 2012). The conceptual model presented in Section 3.4, therefore, is derived from the literature reviewed in this chapter and is used as the framework and strategy for conducting the research.

3.4 Research Direction

This study is exploratory and, as argued by Yin (2003: 22), such studies should specify a "purpose as well as the criteria by which an exploration will be judged successful" (Yin,

2003: 22). The principal objective of this study is to understand and develop a conceptual model of how emerging fast-growth firms develop in order to achieve firm sustainability. To this end, a theoretically informed *preliminary* conceptual model, developed to provide direction to the research and to help address the research questions, is presented in this section. The preliminary conceptual model provides the foundation for the final conceptual model presented in Chapter 9, *Synthesis and Conclusions*.

The criteria by which the study is to be judged (Yin, 2003) will depend on the applicability of the research findings to the research questions, and development of a theoretically informed and empirically supported conceptual model. These criteria will be addressed in Chapter 8, *Overall Findings and Analysis*, and Chapter 9, *Synthesis and Conclusions*.

In the second part of this section, the research questions are considered in relation to the preliminary conceptual model and prior to discussion of research design and methods, the subject of the next chapter. It is also important to note that, as this study is exploratory, research propositions are not appropriate (Yin, 2003) and, consequently, have not been developed.

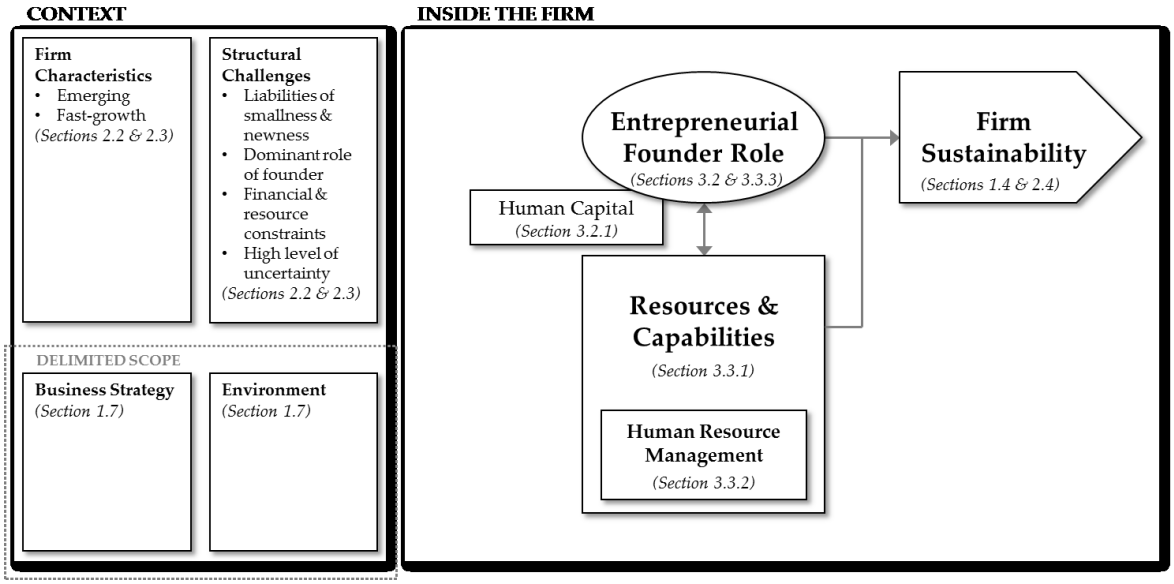
3.4.1 Preliminary Conceptual Model

The preliminary conceptual model shown in Figure 3.2 provides a framework of the factors arising from the literature review and considered important for this study. Yin (2003: 28) argues that constructing a preliminary model (he refers to it as "preliminary theory") "as part of the design phase is essential, whether the ensuing case study's purpose is to develop or test theory" and is a point of differentiation with other related research strategies or methods. Constructing a preliminary conceptual model also affords the researcher the opportunity to make explicit pre-conceptions and theory-laden views within the model.

The preliminary model shows the study's context (i.e., firm characteristics and structural challenges) and factors delimited from the research scope (i.e., business strategy and environment). The preliminary conceptual model also shows the factors that will be explored and examined in detail; namely, the entrepreneurial founder role (and human

capital associated with the founder), organisational resources and capabilities (including HRM) and firm sustainability. In addition, the model helps to establish the research strategy where contextual factors are considered before the factors central to the study are explored and examined.

Figure 3.2: Preliminary Conceptual Model



From a theoretical standpoint, the model draws on RBV to set the wider theoretical agenda regarding firm sustainability and organisational resources and capabilities. HRM is used to evaluate how organisational resources and capabilities are developed, while role theory helps to shed more light on the pivotal role of the entrepreneurial founder.

Before commenting on each factor identified in the model, it is important to note that the preliminary conceptual model relies on two assumptions regarding the founders of emerging fast-growth firms: first, founders have a significant impact on the development of their firms and, second, founders want their firms to become sustainable. While there is support in the literature for the assumption that entrepreneurial founders have considerable impact on the development of their firms (Bhidé, 2000), less is known about how their behaviours affect firm development (Johnson & Bishop, 2002). Furthermore, it is often assumed that founders of emerging fast-growth firms are unable to keep up with the increasing demands of their firm and need to be replaced or have their roles supplemented by 'professional' managers (Rubenson & Gupta, 1992; Willard, Krueger & Feeser, 1992).

The second assumption regarding firm sustainability was selected because emerging fast-growth firms are considered in the literature to be vulnerable and prone to high rates of failure (Flamholtz & Randle, 2007; Thornhill & Amit, 2003) Hence, it is reasonable to presume that founders would strive for their firms to become sustainable. There is precedence in the literature (see Bhidé, 1999 & 2000; Davidsson & Klofsten, 2003; Klofsten, 1997) for a concept comparable to 'firm sustainability'. It is important to add that this study is not concerned with founders who seek to make quick fortunes through short-term sale of their firms. Rather, it concerns those founders who wish to develop substantial and long term businesses and, therefore, firm sustainability will be of interest to them.

Context

The literature reviewed in Sections 2.2 and 2.3 provides the backdrop for the contextual factors shown in the preliminary conceptual model. Combining firm emergence and fast-growth produces difficult challenges for entrepreneurial founders. While business strategy and environmental factors are identified as potentially important, these are delimited from the scope in order to make the study manageable (Yin, 2003). Therefore, within the case studies, business strategy and environmental factors are noted and considered as givens, and not analysed in detail.

The structural challenges arising from the characteristics of the firms being examined were reviewed in Sections 2.2 and 2.3. Emerging fast-growth firms typically have the founder in a dominant role, making important, as well as more mundane, operational decisions (Johnson & Bishop, 2002). Financial and other resources are usually in short supply and there are high levels of uncertainty because of liabilities of smallness and newness (Brüderl & Schussler, 1990; Cardon & Stevens, 2004; Stinchcombe, 1965).

Inside the Firm

In the preliminary conceptual model, firm sustainability is shown as an outcome that founders of emerging fast-growth firms strive to achieve. As mentioned earlier in this section, this is a plausible assumption considered in Sections 1.4 and 2.4.

Entrepreneurial founder role / human capital

As discussed in Sections 2.5 and 2.6.3, the role of the entrepreneurial founder, which is shown at the core of the model, is pivotal for the development of emerging firms (Johnson & Bishop, 2002). In addition to the changing roles of the founder, human capital associated with the founder is considered to be important.

Organisational resources and capabilities / human resource management

Following the RBV perspective (see Section 2.6.1), organisational resources and capabilities are treated as another core component of the preliminary conceptual model. Resources are the inputs required to produce the firm's products and services, whereas capabilities are the firm's ability to integrate, build, and reconfigure its resources so that they enable it to implement its strategies (Hoskisson, Hitt, Ireland & Harrison, 2008; Teece, Pisano & Shuen, 1997).

Implicit in this model is the assumption that the key to attaining firm sustainability is a set of core and enabling capabilities (Leonard-Barton, 1995). Core organisational capabilities are those that are necessary for the firm to deliver its specific set of services and products. Enabling capabilities are those that support or underpin the firm's core capabilities. In this sense, HRM is a critical enabling capability (see Section 2.6.2) and is subsumed within the broader organisational resources and capabilities scope.

Firm Sustainability

Emerging fast-growth firms that have developed bundles of strategic capabilities (i.e., valuable, rare and costly to imitate) and are able to exploit those capabilities (i.e., organisation) relevant to their business strategies and environments are likely to become sustainable and, consistent with RBV perspective, to outperform their competitors (Barney, 1995 & 2002). In contrast to sustainable competitive advantage where firms will need to continually adapt to their competitive environment in order to sustain their competitive advantage (Hoskisson, Hitt, Ireland & Harrison, 2008), firm sustainability is concerned with emerging fast-growth firms achieving a state whereby their early stage vulnerabilities are eliminated or minimised (see Sections 1.4 and 2.4). Despite the focus shifting away from sustainable competitive advantage to firm sustainability, RBV remains

a useful framework for this thesis because of its central attention on organisational resources and capabilities.

3.4.2 Research Questions

The preliminary conceptual model was designed to ground the research direction and assist in developing the research questions. In this thesis, the principal research question arising from the preliminary conceptual model, as well as the literature review, is:

RQp: How do entrepreneurial founders of emerging fast-growth firms use organisational resources and capabilities to achieve firm sustainability?

This question encapsulates the importance of organisational resources and capabilities as well as the pivotal role of the entrepreneurial founder. Having a dominant role within the firm provides the founder the opportunity to make strategic decisions about available and prospective resources, their allocation and their development into organisational capabilities. However, the founder does not operate in a vacuum and decisions are impacted by many constraints, including time pressures and the ability to adapt his or her role to the changing circumstances of the firm.

There are four subsidiary research questions linked to the principal question and each relates to a specific part of the preliminary conceptual model (Figure 3.2).

RQs1: What is firm sustainability and is it important?

The first subsidiary research question regarding firm sustainability is a foundational question in the sense that it provides the starting point for the research. While the literature provides some justification for the construct (Bhidé, 2000; Davidsson & Klofsten, 2003), it is not widely used in the same way it is used in this thesis. Nevertheless, there is justification for the construct (see Sections 1.4 and 2.4).

RQs2: In what way do entrepreneurial founder roles change as the firm achieves sustainability?

The next subsidiary question concerns the changing roles of the founder and while this can shed light on the performance of fast-growth firms, it is an under-researched area (Johnson & Bishop, 2002). Therefore, this question is used to explore and expand a potentially

promising area of entrepreneurship research (Jackson & Schuler, 1995; Örtqvist, Drnovsek & Wincent, 2007). The purpose of this question is to gain an understanding of the changing role of the founder as firm sustainability is achieved. Specifically, it relates to both *what* changes and *how* change occurs.

RQs3: Which organisational resources and capabilities are important for firm sustainability and how are they developed?

The third subsidiary question is influenced by the RBV literature (Barney, 1995 & 2001; Barney, Wright & Ketchen, 2001; Daellenbach & Rouse, 2007; Galbreath, 2005; Sirmon, Hitt, Ireland, 2007) and designed to explore and understand which resources and capabilities have important connections with changes in founder roles and how these connections influence role changes. While there is a wealth of studies regarding organisational resources and capabilities, empirical research is less widespread, particularly regarding questions of how these are accessed and developed (McKelvie & Davidsson, 2009).

RQs4: Are HRM practices important for firm sustainability and, if so, why are they important?

The final subsidiary research question is concerned with HRM, a specific type of resources and capabilities, and its importance to firm sustainability. Since the 1990s, there has also been a growing body of literature connecting HRM and RBV (Boxall & Purcell, 2003; Foss, 2011; Wright, Dunford, & Snell, 2007). Existing theory also suggests there is a connection between HRM and organisational roles, a view supported by Jackson and Schuler (1995).

Consistent with the preliminary conceptual model, the principal and subsidiary research questions provide sufficient clarity regarding the factors to be explored and investigated within the scope of this study. Given the exploratory nature of the research, qualitative research methods, using a case study approach, will be employed to answer the research questions and are discussed in Chapter 4, *Research Design and Methods*.

3.5 Chapter Summary

The underlying premise of this thesis is that organisational resource and capability development is critical if emerging fast-growth firms are to become sustainable. The strength and nature of a firm's resources and capabilities will determine if it survives and whether it attains above average performance. Sustainability is connected to the firm's core and enabling capabilities – a key enabling capability being HRM. However, the development of organisational resources and capabilities is critically dependent on the unique role played by the entrepreneurial founder, who can detract or add to their development.

In this chapter, the literature on emerging organisations, organisational growth, firm sustainability and entrepreneurial founder roles has been reviewed together with literature on RBV, HRM and role theory. Furthermore, the preliminary conceptual model, used to establish the research direction, together with the research questions were presented.

The next chapter will consider issues of research design and methods as well as philosophical considerations.

4 Research Design and Methods

4.1 Chapter Objective

The main objective of this chapter is to present the design and plan, as well as the analysis techniques, applied in the research. Discussed also will be *how* and *why* qualitative research methods and the case study strategy are used. The overall research approach will also be situated within a philosophical context in order to make underlying research assumptions and implications explicit. To begin this chapter, the philosophical considerations and methodology, that inform the research design and methods, used are introduced.

4.2 Philosophical Underpinnings

There are two fundamental philosophical considerations for the conduct of social research concerning *ontological* and *epistemological* issues with *methodological* implications. Ontology is concerned with the nature of social reality (i.e., how one sees the world) and epistemology is concerned with how knowledge about reality is acquired (i.e., how we know what we know). Ontology and epistemology assumptions have consequential implications for choice of methodology (Holden & Lynch, 2004), and are fundamental for the formulation of theory and the practice of social and organisational research (Bryman, 2001; Hussey & Hussey, 1997; Layder, 1998; Reed, 2005; Sayer, 1992). It is also important to understand the philosophical underpinnings of one's research so that hidden assumptions, and the implications for how research is conducted (i.e., methodology), can be made explicit (Holden & Lynch, 2004; Layder, 1998; Perry, Riege & Brown, 1999). However, ontological and epistemological considerations and hidden assumptions are not always clearly stated in social research (Layder, 1998). In this section, these philosophical issues, the underlying assumptions and the implications for the research are discussed.

4.2.1 Realist Scientific Paradigm

This thesis is informed by the *realist* scientific paradigm (or worldview) (Bhaskar, 1979; Blundel, 2007; Guba & Lincoln, 1994; Sayer, 1992 & 2000) where the social world is viewed

as distinctive from the natural world because meaning has a central role in social affairs whereas objects in the natural world are not capable of attaching meaning to their own behaviour (Sayer, 1992). The realist paradigm is favoured because it sits between the more extreme views posited by *positivism* and *constructivism*, as shown in Table 4.1 (Guba & Lincoln, 1994; Healy & Perry, 2000; Perry, Riege & Brown, 1999). Importantly, the realist paradigm also fits closest to the author's view of the nature of social reality.

Table 4.1: Comparison of Three Paradigms: Ontology, Epistemology & Methodology

DIMENSION	SCIENTIFIC PARADIGM		
	Positivism	**Realism**	**Constructivism**
Ontology	Naïve realism: reality is real & apprehensible	Critical realism: reality is 'real' but only imperfectly & probabilistically apprehensible	Critical relativism: multiple local & specific 'constructed' realities
Epistemology	Objectivist: findings true	Modified objectivist: findings probably true	Subjectivist: created findings
Methodology	Experiments/surveys: verification of hypotheses; chiefly quantitative methods	Case studies/convergent interviewing: triangulation; interpretation of research issues by qualitative & some quantitative methods	Hermeneutical/dialectical: researcher is a 'passionate participant' within the world being investigated

Source: Guba & Lincoln (1994); Healy & Perry (2000); Perry, Riege & Brown (1999).

Positivism assumes there is an objective reality that is capable of being grasped by the researcher using scientific (and, chiefly, quantitative) methods (Guba & Lincoln, 1994; Perry, Riege & Brown, 1999). Positivism has been criticised for its naivety in assuming that the social sciences are similar to the natural sciences, where an objective reality is apprehensible and predictable, and observations are not theory dependent (Chalmers, 1976). Positivism maintains that knowledge about social reality can be measured and obtained by observation. However, a major dilemma for proponents of this view is that the social world is open, complex and disordered, and observations are not independent of theory (Sayer, 1992 & 2000). As Sayer (2000: 18) points out:

> Unlike some of the natural sciences, we cannot isolate out these components [i.e., multiple components giving rise to social phenomena] and examine them under controlled conditions.

Thus, abstraction and careful conceptualisation is critical for explaining the possibilities of multiple causes of the social phenomena under investigation (Sayer, 2000).

Constructivism, on the other hand, assumes there are multiple realities constructed by individual subjects that are capable of being understood by the researcher through analysis of perceptions and meanings within particular contexts (Guba & Lincoln, 1994; Perry, Riege & Brown, 1999). Constructivism maintains a view of the world that is relative, relying on individual interpretation and 'construction' (Holden & Lynch, 2004). However, Sayer (1992 & 2000) argues persuasively that reality is not *constructed*, as suggested by proponents of constructivism, but rather is *construed*. In their criticism of constructivism (or what they term 'subjectivism'), Holden and Lynch (2004: 405) point out that "theories are incommensurable, hence one theory cannot be held as more valid than another" and, consequently, development of knowledge is problematic (see Sayer, 1992 & 2000).

In contrast, realists, similar to the positivists, assume that there is an objective reality but it is not necessarily apprehensible and that knowledge of reality may not be perfect (Guba & Lincoln, 1994; Perry, Riege & Brown, 1999). As with the constructivists, context is important for realists (Guba & Lincoln, 1994). Realists sit between the extremist positions of the positivists and the constructionists.

In order to deal with this dichotomous setting between the social and natural worlds, realists make a distinction between the 'intransitive' objects of study that exist independently of their own awareness and 'transitive' objects that are dependent on our theoretical conceptions (Bhaskar, 1975). According to the realist paradigm, the social world consists of parts that belong to the intransitive as well as the transitive realms but, as Sayer (2000: 11) argues, social researchers may *construe* and *interpret* this world without necessarily *constructing* or *creating* it:

> Things are a little more complicated regarding the social world for it is socially constructed and includes knowledge itself and it therefore cannot be said to exist independently of at least some knowledge, though it is more likely to be past knowledge than that of contemporary researchers. When researchers change their minds it is unlikely to produce a significant change in the phenomena they study. For

> the most part, social scientists are cast in the modest role of construing rather than 'constructing' the social world.

Therefore, while realists recognise that there is a constructivist (and interpretativist) element in human affairs, they question paradigms (such as post-modernism and constructionism) that emphasise this element to the (possible) exclusion of the intransitive realm.

Likewise, realists reject the positivist paradigm claiming that the aim of science is to discover universal laws pertaining to regularities about observed natural and social phenomena (Keat & Urry, 1975). In contrast, realists are interested in discovering explanations of phenomena or events. Accordingly, for realists, regular occurrences of phenomena or events do not equate to causality; causality can only be understood once the underlying structures and mechanisms are understood and explained (Bollingtoft, 2007; Sayer, 1992 & 2000). As noted by Sayer (2000: 16-17), realists are concerned with questions regarding *necessity* and not *regularity*, and as such:

> They help us to distinguish between what *can* be the case and what *must* be the case, given certain preconditions. They involve counterfactual, rather than associational thinking: that is they are concerned not merely with what happens to be associated with what, for that may be accident[al], but with whether the association could be otherwise.

The realist research approach, therefore, is an alternative approach to mainstream quantitative research programs that focus on analysing variables that are associated in some way (i.e., regularity) but may fail to explain satisfactorily why particular associations exist and how they may operate. Therefore, according to the realist paradigm, different investigative approaches are required when undertaking social scientific research (Bhaskar, 1979). In a criticism of determinism, Carter and New (2004: 1) alluded to a fundamental issue in social research concerning human agency and its relationship to social structures:

> The complexities of human ambition, desire, interests and relationships are such that social relations could never be reduced to a set of unchanging generalisations. This does not mean that human behaviour is inexplicable or chaotic, but that the many interwoven dimensions of social life are roughly patterned rather than law-determined.

According to realists, phenomena and events in the social world need to be understood from the perspective of the actors involved as well as within the context in which the actors perform (Sayer, 2000). Realism is sympathetic to the post-modern view that the social world is very diverse and complex but it questions the emphasis accorded by post-modernism to subjective and interpretative elements (i.e., the transitive realm) to the (possible) exclusion of objects of science (i.e., the intransitive realm).

Methodological approaches underpinning the three scientific paradigms are also shown in Table 4.1 and, as Holden and Lynch (2004) argue, choice of methodology should be consequential to the researcher's philosophical position (see also Layder, 1998; Sayer, 1992). Important to note is the use of case studies and convergent interviewing as approaches of choice by realists, a discussion that will be further pursued in Section 3.3.

This thesis, therefore, is informed by the realist paradigm and, consequently, is concerned with the question of what is *necessary* for achieving firm sustainability. It is not concerned with investigating regular occurrences of particular phenomena or events, but rather it is concerned with explaining *how* and *why* particular factors are related and in what way they contribute to firm sustainability. In addition to being consistent with realism methodology, qualitative research methods and case study strategies used for this study are an ideal way for proceeding with the type of research undertaken as part of this thesis (i.e., concerned with answering *how* and *why* questions, and establishing necessary conditions). The study is specific to the context of Australian emerging fast-growth firms and the factors examined are limited to internal organisational factors. How this is achieved will be explained in the remaining sections of this chapter.

4.2.2 Research Assumptions and Implications

Developing and presenting a preliminary conceptual model derived from the literature review was an important step in the research process because it made explicit this researcher's pre-conceptions and theory-laden views (see Yin, 2003). The assumptions that "science starts with observation" and that "observation yields a secure basis from which knowledge can be derived" has been discredited by Chalmers (1976: 20) who differentiates between the observations that are made by, and the perceptual experiences of, individuals. It is difficult to disagree with the following statement:

> I accept … that a single, unique, physical world exists independently of observers. Hence, when a number of observers look at a picture, a piece of apparatus, a microscope slide, or whatever, there is a sense in which they are all confronted by, look at, and so, in a sense, 'see' the same thing. But it does not follow from this that they have identical perceptual experiences. There is a very important sense in which they do not see the same thing … (Chalmers, 1976: 25)

Therefore, according to Chalmers (1976) and others (e.g., Layder, 1998; Sayer, 1992), observation statements presuppose, at least implicitly, some theory. As a corollary, the task of the social researcher is to make explicit pre-conceptions that can impact on the phenomena being studied. For this reason, the use of grounded theory was rejected because it presumes that researchers are capable of beginning projects without pre-conceived ideas or theories, although proponents of grounded theory admit "that we never can be completely free of our biases" (Strauss & Corbin, 1998: 99).

There are two important implications arising from these observations. First, a logical starting point for this research program was to review existing literature as a way of supplementing the researcher's pre-existing views and theories. Second, the literature review became the precursor to developing a preliminary conceptual model to help guide the subsequent research.

In Section 4.3, the research design, including the adopted research program, methods and analysis, is presented.

4.3 Qualitative Research Methods and Case Study Strategy

This section elaborates on the choice of qualitative research methods and the case study strategy, and relates methods and strategy to the research questions. A principal issue concerning research design is to ensure there is *methodological fit* or "internal consistency among elements of a research project" (Edmondson & McManus, 2007) and that it matches the purpose of the study (Tharenou, Donohue & Cooper, 2007). This section addresses the issue of methodological fit and evaluation of qualitative case studies prior to consideration of research process that will be dealt with in the next section.

4.3.1 Methodological Fit

This thesis relies predominantly on qualitative research methods and uses a case study strategy in order to understand and generate new knowledge regarding contextually based complex phenomena (Bryman, 1989; Hussey & Hussey, 1997; Eisenhardt, 1989a; Eisenhardt & Graebner, 2007; Yin, 2003). More specifically, the purpose of this study is to understand and generate new knowledge about how emerging fast-growth firms become sustainable focusing on the changing role of the entrepreneurial founder and organisational resources and capabilities. Therefore, as an exploratory study, it requires analysis of rich and in-depth data about recent events and individual behaviours within particular organisational settings. Qualitative research methods using a case study strategy is one of the best combinations for fulfilling the purpose of this study and is consistent with the realist paradigm where perceptions provide "a *window on to* reality through which a picture of reality can be triangulated with other perceptions" (Perry, Riege & Brown, 1999: 18).

Qualitative research involves research "findings not arrived at by statistical procedures or other means of quantification" (Strauss & Corbin, 1998: 10-11) and qualitative research methods are "a set of data collection and analysis techniques that emphasize the fine grained, the process oriented, and the experiential" (Barr, 2004: 166) relying on a range of data (i.e., words rather than numbers), such as interview transcripts, organisational documents, open-ended surveys and observational notes (Tharenou, Donohue & Cooper, 2007). In comparison, case study strategies are empirical inquiries about "contemporary

phenomenon within [their] real-life context, especially when the boundaries between phenomenon and context are not clearly evident" (Yin, 2003: 13). The phenomenon under investigation can be about, but need not be restricted to, an individual, an organisation, an event or a group of such phenomenon.

As Miles and Huberman (1994: 147) argue, qualitative methods are particularly useful for exploratory research where phenomena are complex and contextually based:

> Qualitative analysis, with its close-up look, can identify mechanisms, going beyond sheer association. It is unrelentingly local, and deals well with the complex network of events and processes in a situation. It can sort out the temporal dimension, showing clearly what preceded what, either through direct observation or retrospection. It is well-equipped to cycle back and forth between variables and processes – showing that 'stories' are not capricious, but include underlying variables, and that variables are not disembodied, but have connections over time.

Qualitative methods are uniquely placed to assist the researcher "develop detailed understandings and thick descriptions of the phenomenon of interest" (Barr, 2004: 167).

Similarly, case studies are particularly relevant when the research data are complex and disordered (Stake, 2000; Tharenou, Donohue & Cooper, 2007). Case studies are especially useful where *how* and *why*, rather than *how many* and *how much*, questions are being asked (Tharenou, Donohue & Cooper, 2007; Yin, 2003), as in this study. They are also helpful where the researcher considers that the contextual conditions are significant to the research outcomes (Yin, 2003). The contextual conditions relevant to this study (i.e., emerging fast-growth firms and associated structural challenges) are important with implications at both organisational (i.e., resources and capabilities) and individual (i.e., entrepreneurial founder role) levels. Factors at both these levels are explored and analysed in this study adding to its complexity. Furthermore, and also pertinent to the study, case studies are useful in "mapping the sequence of events" (de Vaus, 2001: 227) and amenable to capturing connections between events (Bryman, 1989), including retrospective analysis.

Thus, used in combination, qualitative research methods and case study strategies can yield new and insightful knowledge and theoretical outcomes. While there is a distinction between case studies and qualitative methods, there is also considerable overlap between the two research approaches, and both approaches are usefully employed in exploratory research with temporal dimensions aimed at theory building (Barr, 2004; Hussey & Hussey, 1997; Stake, 2005; Tharenou, Donohue & Cooper, 2007).

Davidsson, Achtenhagen and Naldi (2006: 385), among others, have argued that more research is warranted in this area and, while there is "a considerable body of generalizable knowledge about small firm growth", this knowledge, however, remains deficient and fragmented. While these researchers are committed to using predominantly quantitative research methods, nevertheless, they are also receptive to, and see a need for, the use of case study research to address knowledge gaps (Davidsson, Achtenhagen and Naldi, 2006). Similarly, Bygrave (2007) contended that there should be more in-depth case study research on entrepreneurial firm development from conception to adolescence. In addition, entrepreneurship researchers have stressed that "the topic of growth processes is arguably an area where some exploration is not only excusable, but badly needed" (Davidsson, Achtenhagen & Naldi, 2006: 388-389). Likewise, Barr (2004) calls for more qualitative research in the neighbouring field of strategic management in order to address knowledge gaps such as how organisational resources evolve. Qualitative case study research, therefore, is a suitable means of understanding and generating new knowledge regarding organisational phenomena within particular settings (see Barr, 2004; Bryman, 1989; de Vaus, 2001; Eisenhardt, 1989a; Yin, 2003).

Thus, qualitative research methods and a case study strategy fit well with the study of how emerging fast-growth firms become sustainable. Growth of firms is a complex phenomenon (Davidsson, Achtenhagen & Naldi, 2006) and, as noted by Penrose (2009), firm growth is more than mere change is quantity; it is also a process of development and, sometimes, a process of disintegration.

In particular, the qualitative case studies approach, as employed in this thesis, was chosen to address the research questions. In what follows, the research questions are restated and

are succeeded by an explanation regarding how they will be addressed using qualitative case studies.

RQp: How do entrepreneurial founders of emerging fast-growth firms use internal resources and capabilities to achieve firm sustainability?

The principal research question encompasses the overall area of investigation. Qualitative case studies provide the means of gathering rich data from (predominantly) interviewees and exploring in-depth each of the broad factors identified in the preliminary conceptual model, thus linking it to existing knowledge and theories. Interviewing entrepreneurial founders and other managers using a semi-structured questionnaire and open ended questions allows for exploration and in-depth probing of specific issues arising from interviewees' perceptions and recollections of past events. Therefore, individual perceptions and examination of past events can take place from multiple perspectives, thus allowing for triangulation of data.

RQs1: What is firm sustainability and is it important?

This question is intended to establish the meaning and usefulness of the concept of firm sustainability within the context of the study. The methods and strategy employed provide the opportunity for further developing the firm sustainability construct by taking account the views and comments expressed by interviewees.

RQs2: In what way do entrepreneurial founder roles change as the firm achieves sustainability?

The purpose of this question is to gain an understanding of the changing role of the founder as firm sustainability is achieved. Specifically, it relates to both *what* changes and *how* change occurs. Using qualitative case studies provides opportunities to explore complex and changing relationships within organisational settings.

RQs3: Which organisational resources and capabilities are important for firm sustainability and how are they developed?

The third subsidiary research question is a broad question about organisational resources and capabilities and is intended to identify those that are important for firm sustainability.

Interest is also centred on how resources and capabilities are developed. Qualitative case studies can be useful in highlighting particular resources and capabilities that are important and how they are developed within their own settings.

RQs4: Are HRM practices important for firm sustainability and, if so, why are they important?

Finally, the subsidiary question regarding HRM is concerned with a sub-set of organisational resources and capabilities considered important by case study participants. Qualitative methods and a case study strategy will be used to identify which HRM practices are highlighted by founders and other managers, and help to better understand why these are important for firm sustainability. Overall, qualitative case studies provide a useful and potentially insightful approach in addressing this study's research questions.

In this thesis, a multiple case study strategy is employed and this can be useful in distinguishing substantive from idiosyncratic elements within cases (Bryman, 1989 & 2001; Eisenhardt, 1989a; Eisenhardt & Graebner, 2007; Yin, 2003). By allowing within-case and cross-case analysis, a greater level of robustness is achieved rather than by simply relying on a single case (de Vaus, 2001; Yin, 2003). As Eisenhardt and Graebner (2007: 27) state, multiple cases can help develop better quality theory:

> Multiple cases also create more robust theory because the propositions are more deeply grounded in varied empirical evidence. Constructs and relationships are more precisely delineated because it is easier to determine accurate definitions and appropriate levels of construct abstraction from multiple cases.

Therefore, a comparative design involving multiple cases can help more readily identify relevant concepts for theory building (Bryman, 2001) and improve (analytical) generalizability (Sommer & Sommer, 1991). However, one potential downside to the use of multiple case studies is the risk that the researcher affords less attention to important specific contextual factors and more to contrasting observations (Dyer & Wilkins, 1991). Thus, while Dyer & Wilkins (1991: 614) endorse the comparative case study design, they provide a word of caution regarding the trade-off "between the deep understanding of a particular social setting and the benefits of comparative insights".

4.3.2 Evaluating Qualitative Case Studies

How qualitative case studies are to be evaluated is a hotly contested topic with many different criteria (Dyer & Wilkins, 1991; Eisenhardt, 1989a & 1991; Flyvbjerg, 2006; Golafshani, 2003; Mays & Pope, 2000). The evaluation criteria adopted by a researcher will have its antecedents implicitly or explicitly derived from a particular scientific paradigm (Healy & Perry, 2000; Mays & Pope, 2000). Criteria used often depends on the paradigm the researcher chooses to adopt with positivism at one end of the spectrum and constructivism at the other end. At the positivist end, the criteria used to evaluate qualitative research is an adaptation of the measures used in quantitative research (i.e., validity, reliability and generalizability), whereas at the constructivist end, the evaluation criteria for qualitative research is assumed to require its own distinctive standards (Bryman, 2001; Denzin & Lincoln, 2003; Mays & Pope, 2000).

Table 4.2 provides examples of criteria associated with the three scientific paradigms considered in this thesis. Healy and Perry (2000: 120-121) argue convincingly that "the quality of scientific research done within a paradigm has to be judged by its own paradigm's terms" and, in support of this argument, they have developed six criteria for evaluating qualitative research within the realist paradigm.

Table 4.2: Comparison of Three Paradigms: Evaluation Criteria

Positivism	Realism	Constructivism
Reliability	***Ontology:***	***Authenticity***
Construct validity	Ontological appropriateness	***Trustworthiness***
Internal validity	Contingent validity	Credibility
External validity	***Epistemology:***	Transferability
	Multiple perceptions	Dependability
	Methodology:	Confirmability
	Methodological trustworthiness	
	Analytical generalisation	
	Construct validity	

Source: Bryman, 2001; Denzin & Lincoln (2003); Healy & Perry (2000); Yin (2003).

The first criterion, *ontological appropriateness*, is to ensure that the research problem is appropriate to the realism paradigm in that it deals with complex social phenomena involving 'reflective people'. Typically, in this situation, the research problem is concerned

with answering *how* and *why* research questions. This thesis can be evaluated based on this criterion from the discussion presented in the foregoing sections of this chapter dealing with realist scientific paradigm (Section 3.2.1) and methodological fit (Section 3.3.1)

The second criterion, also associated with ontological considerations, is concerned with "validity about generative mechanisms and the contexts that make them contingent" and is referred to as *contingent validity* (Healy & Perry, 2000: 123).

Epistemological concerns are at the centre of the third criterion dealing with *multiple perceptions* about a real world. Healy and Perry (2000: 123) suggest that "realism researchers are value-aware" and rely on triangulation of multiple perspectives in order to make sense of the real world, even though it may only be "imperfectly and probabilistically apprehensible". Data triangulation is used extensively throughout the case studies.

The final three criteria relate to methodology and are concerned with *methodological trustworthiness*, *analytical generalisation* and *construct validity*. Methodological trustworthiness is the same as *reliability* within the positivist paradigm (Healy & Perry, 2000) or being able to demonstrate that the case study can be repeated (Tharenou, Donohue & Cooper, 2007; Yin, 2003). This includes such items as use of a case study database, instruments and protocols (Yin, 2003), as well as, an extensive use of quotations in the thesis in support of findings and conclusions (Healy & Perry, 2000). The objective of the methodological trustworthiness criterion is to minimise errors and biases in the case study and to ensure that another researcher could at a later date conduct the same case study if he or she followed the same procedures as provided (Yin, 2003). This thesis provides sufficient evidence to meet this criterion.

The next criterion, *analytical generalisation*, refers to theory building from case studies where generalisation is theoretically induced and not concerned with statistical inferences. Within the positivist paradigm, concerns about generalizability beyond an immediate case study covered by the *external validity* criterion (Tharenou, Donohue & Cooper, 2007; Yin, 2003). As Yin (2003: 47) suggests, each "case should serve a specific purpose within the

overall scope of inquiry" and where the purpose is to provide analytic generalisation and, ultimately, the development of more robust theory. Analytic generalisation involves the application of "a particular set of results to some broader theory" and should not be confused with statistical generalisation used in quantitative methods (Yin, 2003: 37; see also Bryman, 1989; Flyvbjerg, 2006; Siggelkow, 2007). Analytic generalisation is more amenable to theory building, whereas statistical generalisation is more suited to theory-testing (Healy & Perry, 2000). As Yin (2003: 10) suggests, case studies can be viewed in a different light if they are likened to scientific experiments:

> … case studies, like experiments, are generalizable to theoretical propositions and not to populations or universes. In this sense, the case study, like the experiment, does not represent a 'sample', and in doing a case study, your goal will be to expand and generalize theories (analytic generalization) and not to enumerate frequencies (statistical generalization).

In support of analytical generalisation, Bryman (1989: 144) similarly argues:

> … case studies should be evaluated in terms of the adequacy of the theoretical inferences that are generated. The aim is not to infer the findings from a sample to a population, but to engender patterns and linkages of theoretical importance.

A robust and structured process, therefore, has been followed while undertaking this study, as will be shown in the next section dealing with the research process. Case study data is collected and analysed in the light of the preliminary conceptual model using a combination of deductive and inductive methods with the aid of a coding schema. Analytical generalisation is then applied to building emerging theory.

The final criterion, *construct validity*, is analogous to the positivist's *construct validity* and concerns the development of theoretical constructs and closely related to analytical generalisation. Thus, Yin (2003) proposes three tactics to meet this criterion: first, using multiple sources of evidence, second, establishing a chain of evidence and, third, reviewing the draft report by key participants. There is sufficient evidence in the thesis to demonstrate the use of data triangulation and the careful tracking of evidence from the

case study data to coding and conceptual model development. A limitation of the study is that key participants were not involved in reviewing drafts of the respective case study reports. This did not seem feasible given that many participants seemed reluctant to concede more time to the research. In addition, a lengthy time had elapsed between the conduct of the interviews and drafting the individual case study chapters.

Criteria applicable to evaluating qualitative case study research within positivist and constructivist paradigms are also listed in Table 4.2. While there are general similarities between like criteria across paradigms, interpretation and use of each criterion will depend on its associated paradigm. Three of the criteria within the positivist paradigm, *reliability*, *construct validity* and *external validity*, have already been discussed above when considering criteria proposed by Healy and Perry (2000). *Internal validity*, the remaining criterion on the list, is only applicable for research where causal explanations are being investigated and, therefore, is not relevant to this study (Tharenou, Donohue & Cooper, 2007; Yin, 2003).

As presented by Bryman (2001), the criteria listed within the constructivist paradigm are grouped under two headings: *authenticity* and *trustworthiness*. Authenticity, as suggested by Guba and Lincoln (1994) is concerned, controversially, with the political impact of research that has not been particularly influential (Bryman, 2001) and, therefore, will not be considered any further. Trustworthiness has four associated evaluative criteria, each with a related equivalent within the positivist paradigm: *credibility* (related to internal validity), *transferability* (related to external validity), *dependability* (related to reliability), and *confirmability* (related to reliability (objectivity).[8]

This section has presented criteria for evaluating qualitative case study research specifically applicable to the realist paradigm. Also presented, is how the criteria relate to alternative criteria normally used within positivist and constructivist paradigms. Section

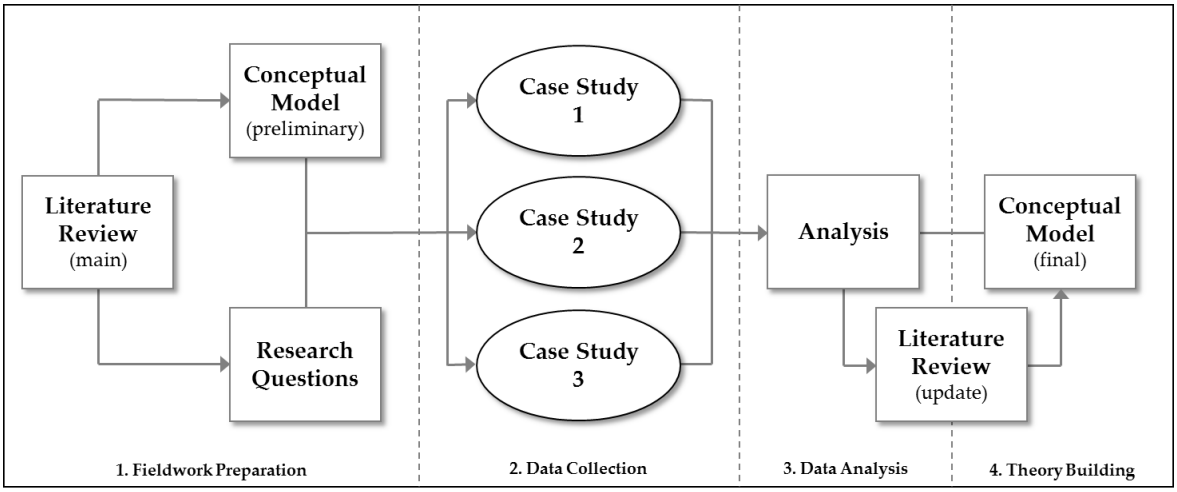
[8] This criterion is related to the *multiple perception* criterion within the realist paradigm.

4.4 presents the research process, the methods used and the mode of analysis employed in the research.

4.4 Research Process

There are numerous prescriptions for embarking on fieldwork (e.g., Bryman, 2001; Hartley, 1994; Hussey & Hussey, 1997; Layder, 1998; Strauss & Corbin, 1998) and this section draws heavily on research processes, methods and analysis advocated by Eisenhardt (1989a) and Yin (2003), recognised authorities on case study research. Figure 4.1 is used as a framework to show the salient steps and activities undertaken that will be discussed in the remainder of this section, together with related issues raised by Eisenhardt (1989a) and Yin (2003). While the research process, as illustrated in Figure 4.1, looks logical and orderly, the actual process as it unfolded involved reviewing and refining earlier work (Hussey & Hussey, 1997). As Pope, Ziebland and Mays (2000: 114) state "because the researcher is 'in the field' collecting the data, it is impossible not to start thinking about what is being heard and seen". Therefore, on-going analysis in qualitative case study research is a common, if not inevitable, characteristic (Eisenhardt, 1989a; Pope, Ziebland & Mays, 2000).

Figure 4.1: Research Process



4.4.1 Fieldwork Preparation

This section considers the first steps in the research process including selection of cases for the study and the development of data collecting instruments and protocols.

Getting Started

At the beginning of the research project, a research proposal was prepared, encompassing the research topic, problem and objective as well as the preliminary research questions. This helped to provide a focus and identify fields of the literature (and theories) to review while retaining theoretical flexibility (Eisenhardt, 1989a; Hartley, 1994). This point is made by Tharenou, Donohue and Cooper (2007: 84) when they state:

> A theoretical framework, no matter how tentative, is needed to structure the study, so as not to be overwhelmed by the amount of data and not end up just in a descriptive narrative.

Due to the study's exploratory aims, "a priori specification of constructs" (Eisenhardt, 1989a: 536) was not attempted, although the concept of *firm sustainability* was incorporated in interview schedules (or protocols) and further explored.

The literature identified, and subsequently reviewed, covered the following areas: organisational growth (including problems and management of fast-growth), organisational life-cycles and transitions, and entrepreneurial founders. In addition, three theoretical fields were identified and reviewed as part of the literature review: RBV, HRM and role theory.

A theoretically informed conceptual model was developed to help explain how prominent factors for understanding firm sustainability may be linked with one another and to help guide future data collection. Hartley (1994) and others suggest using a theoretical framework to help structure and guide the research roll-out even though it may change as the research develops (see also Eisenhardt, 1989a; Layder, 1998; Tharenou, Donohue & Cooper, 2007). During this phase of the project's development, key research design parameters began to unfold, and the research questions were settled.

Consistent with Eisenhardt (1989a) and Yin (2003), a multiple case study strategy was also chosen. Incorporating multiple case studies in the research design provides comparative data aimed at more robust generalisable theoretical insights than would arise from a single case study (Eisenhardt, 1989a & 1991; Eisenhardt & Graebner, 2007; Yin, 2003). However,

not all agree with this proposition. Dyer and Wilkins (1991) argue that the multiple case study strategy can detract the researcher from the unique and specific context of the case. In her critique, Eisenhardt (1991: 626) concludes that their argument is flawed and that "the theoretical insights of case studies arise from methodological rigor and multiple-case comparative logic". In contrast, Yin (2003) contends that both single case, as well as multiple case, design have a rightful place in social research. He argues that "[t]he unusual or rare case, the critical case, and the revelatory case are all likely to involve only single cases", whereas multiple case studies using *replication logic* are viewed akin to multiple scientific experiments where similar or contrasting results are predicted on theoretical grounds (Yin, 2003: 47). Replication logic refers to cases being treated as "discrete experiments that serve as replications, contrasts, and extensions to the emerging theory" (Eisenhardt & Graebner, 2007: 25). Given that the purpose of this study is to develop a theoretical model regarding emerging fast-growth firms that are sustainable, using multiple case studies is an appropriate strategy to use.

Obtaining the ethics approval from Monash University in order to conduct fieldwork for this study is a mandatory requirement. On 28th June 2005, prior to the commencement of the fieldwork and prior to contacting founders of target firms, Monash University's Standing Committee on Ethics in Research Involving Humans approved the 'Application for Ethical Approval of a Low Impact Research Project Involving Humans' for this study. The approved application included the package of documents subsequently used to contact founders of target firms and conduct the fieldwork (see Appendices 1 to 7).

Selecting Cases

Selected cases were not 'statistically' representative of any particular group of firms but were selected for their theoretical relevance (i.e., emerging fast-growth firms) (see Eisenhardt, 1989a; Eisenhardt & Graebner, 2007; Layder, 1998). Eisenhardt and Graebner (2007: 27) have argued this point cogently when they stated:

> A key response to this challenge is to clarify that the purpose of the research is to develop theory, not to test it, and so theoretical (not random or stratified) sampling is appropriate. Theoretical sampling simply means that cases are selected because they

are particularly suitable for illuminating and extending relationships and logic among constructs.

Therefore, case study firms were selected from annual Fast 100 lists appearing in the Business Review Weekly (BRW), an Australian national business publication. Firms appearing in these lists are ranked according to average annual revenue growth in the preceding three financial years (using the fourth year as a base). They must have less than 200 full-time employees (or equivalent) and revenues of more than $500,000 (AUD) in the base year. The BRW Fast 100 lists include stock exchange listed companies as well as privately owned companies.[9] Privately owned companies must have their entry forms signed by an external accountant or auditor. Once nominated, firms are ranked according to a three year average annual revenue growth rate and the top 100 are then chosen.

A shortcoming of these annual surveys is that they are substantially self-selected in that the decision-makers of participant companies self-nominate for consideration in the ranking. However, in the absence of other reliable databases, the BRW Fast 100 lists were deemed to be a suitable base from which to select fast-growth Australian firms, especially given that this research was not reliant on a representative sample of firms. The intention was to identify emerging fast-growth privately owned companies and the BRW Fast 100 lists were a suitable vehicle for this purpose.

Firms that appeared on three separate occasions in the BRW Fast 100 lists and had their head office located in the State of Victoria,[10] Australia were selected. The initial group contacted in 2005 comprised five firms (obtained from BRW Fast 100 lists for 1995 to 1999) and the second group contacted in 2007 and 2008 consisted of nine firms (obtained from BRW Fast 100 lists for 2004 to 2007). Each Chief Executive Officer (CEO) or Managing

[9] Only privately owned companies were considered because firms needed to have the founding entrepreneur actively involved in the firm without the added complexity of public listing.

[10] Cases were limited to the State of Victoria in South Eastern Australia to limit costs. Interviewing multiple participants on a single date was not usually practical.

Director (MD) founder[11] of the target firms was contacted in the first instance by mail and then contacted again by telephone, wherever possible, to ensure they had received the mail and to establish whether they would be interested in participating in the study. Some founders did not return calls despite two or more attempts to contact them and others declined the offer to participate. Targeting CEO/MDs is a common practice in emerging firm research because they have the best overall understanding of the firm (McKelvie & Davidsson, 2009; Zahra, Neubaum & El-Hagrassey, 2002).

The final selection of three case study firms was decided by a process of elimination. The reasons why other firms were deselected are shown in Table 4.3. These firms either had a unique feature that was not suitable for making generalisable theoretical insights (i.e., Regional Manufacturers and Metro Printers) or it was not possible to maintain access following the initial interview(s) due to non-response to the researcher's follow-up calls and emails (i.e, IT Infrastructure, IT Consulting and IT Services).

Table 4.3: Deselecting Case Study Firms

Firm*	Reason for Deselection
Regional Manufacturers	The founder had recently sold the firm and obtaining access to remaining managers was problematic.
Metro Printers	The firm had been through multiple ownership changes making inter-case study comparisons problematic. The founder had merged the firm with another similar inter-state firm and in the process obtained a business partner. Both partners then sold the combined firms to another corporate entity in a related industry and the founder subsequently bought back his original part of the firm.
IT Infrastructure	Following the interview of one of two co-founders and two senior employees, it was not possible to obtain further interview access despite numerous attempts.
IT Consulting	Following the interview of the founder, it was not possible to obtain further interview access despite numerous attempts.
IT Services	Following the interview of one of three co-founders, it was not possible to obtain further interview access despite numerous attempts.

** Pseudonyms are used to maintain confidentiality.*

[11] Only the principal founder was contacted. He or she was identified as the principal founder through the designated role (usually as CEO or MD) obtained either from BRW or from firm websites or other publicly available information.

By coincidence, each of the three participating firms had two founders with active involvement up to the time the interviews took place.[12] Today, each firm continues to be owned by the respective founders and is a thriving business with a national and international presence (checks included: ASIC,[13] Healthy Franchise; ASIC, Recreation Group; ASIC, Talent Innovators; Healthy Franchise, Website; Recreation Group, Website; Talent Innovators, Website).

Crafting Instruments and Protocols

The purpose of instruments and protocols used in the study was to guide the data collection process so that data could be collected in a structured but flexible way (see Table 4.4). Instruments and protocols allow for data to be triangulated within each case as well as comparisons across cases, thus allowing for theoretical flexibility (Eisenhardt, 1989a).

Table 4.4: Data Collection: Instruments and Protocols

Instrument/Protocol	Purpose	Comment
Questionnaire (Appendix 4)	To obtain background information from founders about themselves and their firms To triangulate data, especially firm data	Was pilot tested on two founders of a local IT services business known to the researcher
Interview Schedule: Founder (Appendix 5)	To guide the conduct of semi-structured interviews with founders	Based on the research questions
Interview Schedule: Non-Founder (Appendix 6)	To guide the conduct of semi-structured interviews with non-founders (other managers)	Modified from the interview schedule used for founders (Appendix 5)
Timeframe Template (Appendix 7)	To assist during the interviews with discussions regarding past events	Completed during interviews in an interactive manner

[12] Bhidé (2000: 303) found in his sample of *Inc.* 500 companies (from the 1989 list) that "two-thirds of the ventures started as partnerships had just two founders, and none had more than four".

[13] The Australian Securities and Investment Commission (ASIC) is Australia's corporate, markets and financial services regulator. ASIC administers corporations laws and regulations, and is responsible for the registration of companies in Australia.

The instruments and protocols developed for collecting data appear in Appendices 4 to 7 and are summarised in Table 4.4. The Questionnaire (Appendix 4) was sent out with the initial letter inviting founders to participate in the study. It was either returned by mail separately or collected at the interviews. Separate arrangements were also made for the co-founder to complete the questionnaire.

The other instruments or protocols listed in Table 4.4 were developed for and used during the interviews. The Timeframe Template (Appendix 7) was developed as a visual aid to assist interviewees with placement and sequencing of key events. This proved to be a useful tool during the interviews.

4.4.2 Data Collection

In this section, the challenges of gaining and maintaining access to case study participants is considered along with a list of the participants and how data was collected

Gaining and Maintaining Access

Researchers need to be cognisant of access barriers to organisations and its members (Bryman, 1989; Curran & Blackburn, 2001). For this study, there were inherent barriers associated with the target group of firms and their founders. Emerging fast-growth firms whose founders are conscious of their limited time and resources provides the researcher with considerable access challenges. Therefore, the research design took account of access challenges in order to increase the likelihood of firm participation. This was done by requesting access to only a few firm members (founders and a few managers, particularly ones with longevity in the firm) and by keeping interview lengths to under 60 minutes.

Discussions with two founders who declined to participate in the study mentioned time constraints as the main problem. This is in keeping with Bryman's (1989) suggestion that reasons for denying access typically concern the amount of time that may be consumed by the data collection exercise. However, some 'gatekeepers' may have suspicions about the researcher's intentions (Bryman, 1989). 'Gatekeepers' include not just senior managers (or entrepreneurial founders, as in the case of this research project) but also receptionists or

assistants to senior managers. This latter group may veto communications for the simple reason that their manager does not want to be disturbed or is too busy at the time.

In order to minimise the risk of rejection, a letter with attachments explaining the nature of the research and the anticipated time commitment was mailed to the founders of the target firms (Appendices 1 to 4). This was followed up soon thereafter with a telephone call to establish whether the founders had received the posted material and whether they wished to participate. Using this approach, rather than calling in advance, had the advantage of often being able to bypass the receptionist or assistant because the call was about following up correspondence already sent.

As discussed earlier, some founders declined outright because they claimed to not have the time to participate in the study, while others were not available whenever calls were placed and did not return messages. In two separate cases, access was gained and interviews were conducted with the respective principal founders – one for each firm – and permission was given to interview other founders and senior managers. However, scheduling of subsequent interviews proved not to be possible because the researcher's calls and emails did not receive responses.

Nevertheless, three firms participated in the study and these are listed in Table 4.5 together with the interviewees, their positions at the time of interview and the date of the interview. In most cases, only one interview was possible due to access issues. Pseudonyms are used for firm and interviewee names in order to maintain confidentiality.

Table 4.5: Case Study Interviewees

Firm	Interviewee	Position*	Interview Date
Healthy Franchise	Clive	Chief Financial Officer	26th October 2005
	Deidre	Human Resources Manager	26th October 2005
	Elizabeth**	Executive Chairman	7th August 2005
	Peter**	Director	26th October 2005
	Sylvia	Franchisee / Past Consultant	9th November 2005
Recreation Group	Eric**	General Manager Finance & Information Technology	20th October 2005
	Georgia	Human Resources Manager	1st December 2005

Firm	Interviewee	Position*	Interview Date
	John**	Chief Executive Officer	6th September 2005
	Tim	General Manager Business Operations	20th October 2005
Talent Innovators	Dianne	General Manager Client Services General Manager Client Portfolio Management General Manager Shared Services	20th September 2007
	Gordon**	Chief Technology Officer (later Director of Innovation)	30th August 2007 23rd October 2007
	Julia**	Chief Executive Officer	30th August 2007 23rd October 2007 13th March 2009
	Mark	Business Development Manager (overseas posting)	6th April 2009
	Patricia	General Manager Sales & Marketing	2nd October 2007
	Richard	Product Manager/Architect	19th September 2007

*Note: * Indicates interviewee's organisational position at time of interview; **Indicates founder.*

Collecting the Data

All of the data for this research was collected by the researcher, thus eliminating potentially inconsistent data collection methods. However, using a single researcher – a PhD thesis requirement – to collect (and analyse) the data does not provide opportunities to tap into the complementary insights and convergence of observations that are possible from multiple researchers (Eisenhardt, 1989a). Wherever possible, multiple sources of data collection were used to strengthen triangulation; an important research validation method (Yin, 2003). Other sources of data collection included case study firm websites, publically available interviews with relevant founders and secondary articles about the case study firms and/or their founders.

Prior to attending interviews, the firm's websites and any articles which were available from public sources were reviewed. In this way, the researcher acquainted himself with background information about the firms and their founders and, in so doing, the time was minimised and questions, to confirm whatever information had been gathered about the firm, could be asked.

All participants completed the Consent Form (Appendix 3) prior to participating in the interview and they all agreed to be audio-taped. All interviews were audio-taped using an electronic taping device. The interviews were conducted in a semi-structured format using the Interview Schedules (Appendices 5 and 6). Semi-structured interviews (or "guided conversations" (Yin, 2003: 95)) provide flexibility for the researcher to pursue new or more in-depth lines of inquiry or both (Eisenhardt, 1989a). Semi-structured interviews are useful where there is a reasonably clear focus of the field of investigation but where flexibility is required for further exploration (Bryman, 2001).

Interviews were scheduled for a minimum of 45 minutes each and, if more time was required, permission was sought to extend the time and this was generally given. Interviews generally lasted between 45 and 60 minutes. While time was monitored closely throughout the interviews, there was sufficient scope for participants to elaborate on their answers to the interview schedule questions and for follow-up questions to be asked. The interview approach adopted, therefore, was a "focused interview" (Yin, 2003: 90) where the "respondent is interviewed for a short period of time – an hour, for example" and "the interviews may still remain open-ended and assume a conversational manner, but you are more likely to be following a certain set of questions derived from the case study protocol" (or Interview Schedule).

Founders completed a structured questionnaire (Appendix 4) regarding their personal background and their firm's financial and employment history prior to being interviewed. At the beginning of the interviews with the founders, their responses to the questionnaire were reviewed to ensure they had answered all questions and did not have any queries. Interviews with other key managers were also conducted to obtain different perspectives and in order to help triangulate the data. Other senior managers were interviewed following the interviews with the respective founders. In almost all cases, these occurred on a subsequent visit.

The Timeline Template (Appendix 7) was used to note key events and to help interviewees place these within their broader context. This method proved to be useful as the interview

unfolded and, in particular, during subsequent interviews. It was one method used to triangulate the data.

4.4.3 Data Analysis

The use of analytical techniques is a central element in the conduct of qualitative case study research "but it is both the most difficult and the least codified part of the process" (Eisenhardt, 1989a: 540; see also Yin, 2003). Nevertheless, researchers would agree that qualitative research relies on "analytical categories to describe and explain social phenomena" (Pope, Ziebland & Mays, 2000: 114). This section discusses within-case data analysis before discussing the use of thematic coding in the research process. In the next section, thematic coding will be considered in the context of cross-case data analysis and theory building.

Analysing Within-Case Data

While within-case analysis is important in helping researchers sort through the voluminous amount of data emanating from case studies, there are no prescribed standards for undertaking such analysis (Eisenhardt, 1989a). As Eisenhardt (1989a: 540) states, within-case analysis often begins with a descriptive write-up of the case study in order to "become intimately familiar with each case as a stand-alone entity". This is done to hasten cross-case comparisons and to help with generalisable theoretical insights:

> This process allows the unique patterns of each case to emerge before investigators push to generalize patterns across cases. In addition, it gives investigators a rich familiarity with each case which, in turn, accelerates cross-case comparison. (Eisenhardt, 1989a: 540)

For this research, descriptive drafting of each case study occurred using a framework based on the preliminary conceptual model. This allowed for initial structuring of the data.

Analytical Categorising and Coding

The use of categorising data can help to reduce information processing bias in qualitative case study research (Eisenhardt, 1989a). As Eisenhardt (1989a) points out information

processing bias can stem from any number of sources (e.g., leaping to conclusions based on limited data, dropping disconfirming evidence, and being overly influenced by descriptive vividness or more elite respondents) (see also Gardner, 2010; Gilovich (1991); Kahneman, 2011; Lehrer, 2009).

Categorising and coding data is also the main process for helping researchers to develop explanations and build theory (Pope, Ziebland & Mays, 2000) by providing the means of linking empirical evidence and emergent or existing theory. For this research, the preliminary conceptual model (see Section 2.7.1) was a natural starting point for developing categories and codes. Initially, codes were derived *deductively* from the preliminary conceptual model based on the review of the literature. However, as data was collected and analysed, other codes emerged *inductively* and were added to the coding mix and used to code transcripts of interviews. Table 4.6 presents the coding schema showing categories and codes used to undertake the analysis (Strauss & Corbin, 1998) and relate these to the conceptual factors (or dimensions) in the preliminary conceptual model. Codes are separated into three groups: those arising from the main firm characteristics (i.e., foundation codes), those found in the literature (i.e., theoretical codes), and those emerging from the data (i.e., emerging codes). Typically, and consistent with Pope, Ziebland and Mays (2000), transcription items and statements included multiple codes.

Table 4.6: Coding Schema

Dimension	Categories	Codes*
Firm Characteristics	Emerging Fast-growth	Emerging (F) Fast-growth (F)
Structural Challenges	Founder Dominance Liabilities Resource Constraints Uncertainty	Founder Dominance (T) Liability of Smallness (T) Liability of Newness (T) Resource Constraints (T) Uncertainty (T)
Business Strategy	Business Strategy	Strategy (T)
Environment	Environment	Environment (T)
Entrepreneurial Founder	Human Capital Role Changes	Founder Role (T) Founder Team (E) Human Capital (T)

Dimension	Categories	Codes*
		Lead Role (E) Managerial Competencies (E)
Organisational Resources & Capabilities	Financial Management Management Team Systems & Processes	Build (E) Compliance (E) Financial (T) Management Team (T) Organisational (T) Systems & Processes (T)
Human Resource Management	HRM Selection & Recruitment	HRM (T) Organisational Structure (E) Performance Management (E) Selection & Recruitment (T)
Firm Sustainability	Sustainability	Growth (E) Organisational Life Cycle (T) Organisational Transitions (T) Profitability (E) Survivability (E) Sustainability (E)

** E = Emerging code; F = Foundation code; T = Theoretical code.*

Coding of the interview transcriptions then allowed for data to be compared and contrasted (Strauss & Corbin, 1998) between interviewees within a case. Data triangulation was given more (qualitative) weighting than data not able to be triangulated. *Data triangulation* is defined as data collected "from multiple sources" and "aimed at corroborating the same fact or phenomenon" (Yin, 2003: 99).

However, in practice, this researcher found making judgements about data triangulation (for qualitative research) is more an exercise in assessing *shades of grey* than making *black and white* decisions. Whether one source of data was *confirmed* by another, was not always strictly possible. Rather, where it was not possible to obtain a convergence of views on a particular issue or event, this researcher looked for evidence of consistency and credibility among the different sources of data. In other words, there was an element of judgement required in assessing whether one was to place importance on one piece of data as opposed to another. Therefore, the researcher is cognisant of analysing and presenting the data in the light of this triangulation issue.

Data Transcription and Software

Audio-taped interviews were transcribed using an external transcription service[14] and these were checked against the electronic audio-tapes once returned. The transcripts were then uploaded into NVivo, a qualitative research software package, used to help manage and make sense of the interview data. The software package was used to sort, arrange and analyse the data using the codes discussed above. However, this research was aware that appropriate uses of qualitative research software "requires the researcher's analytical skills in moving towards hypotheses or propositions about the data" (Pope, Ziebland & Mays, 2000: 115).

4.4.4 Theory Building

The purpose of this thesis is to build theory by developing a conceptual model for explaining necessary factors for the sustainability of emerging fast-growth firms. The theory building process, as summarised by Eisenhardt and Graebner (2007: 25), "occurs via recursive cycling among the case data, emerging theory, and later, extant literature". This step in the process, therefore, represents the culmination of the research that is built on top of existing theory using empirical evidence from three qualitative case studies.

Cross-Case Analysis

An extension of *within-case analysis* is *cross-case analysis* whereby coding applied to each case is compared and contrasted across cases in order to strengthen and enrich the theoretical insights (Eisenhardt, 1989a; Eisenhardt & Graebner, 2007; Yin, 2003). According to Eisenhardt (1989a: 541), cross-case analysis helps the researcher "to go beyond initial impressions, especially through the use of structured and diverse lenses on the data" as well as increasing the potential of novel discoveries. The coding schema used for this research was developed with these considerations in mind and is aimed at maintaining a structured but flexible way of managing the data.

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[14] A written confidentiality agreement was obtained from the transcription service providers.

Shaping the Conceptual Model

Developing hypotheses or propositions, as suggested by Strauss and Corbin (1994) and Yin (2003), is not the only path to building emergent theory. As Eisenhardt (1989a) states, building theory can also incorporate developing a new conceptual model (or framework) to explain phenomena. In this thesis, the preliminary conceptual model is used as the springboard for the fieldwork and, through an iterative process involving analysis of case study data, a final conceptual model is developed.

Enfolding Literature

Relating emerging theory with existing literature is essential to theory building (Eisenhardt, 1989a). Similarities, as well as conflicting findings, in the literature are important. As Eisenhardt (1989a) suggests, examining conflicts between existing literature and emerging theory is important for two reasons: first, in order to increase the confidence in the findings and, second, because it creates an opportunity to be more creative and find deeper insights.

It is also important to examine literature with similar findings because it can bring "together underlying similarities in phenomena normally not associated with each other" (Eisenhardt, 1989a: 544). For instance, this research deals with the emergence of fast-growth firms that are privately owned within an Australian context. However, much of the research on fast-growth firms is concerned with founders seeking venture capital funding within the United States context. Applying existing theory, developed with a different context in mind to the Australian context, can present opportunities for new insights.

Finally, Eisenhardt (1989a: 545) summaries the importance linking existing literature and, hence theory, to emergent theory as follows:

> Overall, tying the emergent theory to existing literature enhances the internal validity, generalizability, and theoretical level of theory building from case study research.

Reviewing the literature again during, and immediately following, the analysis phase can provide its own insights in the light of the empirical evidence. In other words, theory building is an iterative process with much interaction between the data and the literature until closure is reached.

Reaching Closure

In her discussion of bringing closure to a research project, Eisenhardt (1989a) considers two issues. The first concerns when to cease adding cases and the second relates to when to cease the iteration process between theory and data. In relation to the first point, she argues that researchers should stop once theoretical saturation is achieved (i.e., "the point at which incremental learning is minimal because the researchers are observing phenomena seen before" (Eisenhardt, 1989a: 545). However, Eisenhardt (1989a: 545) concedes that there are "pragmatic considerations such as time and money" that has a bearing on when data collection ends. It is difficult to pinpoint when theoretical saturation is achieved unless one has many cases to examine and incremental learning is clearly seen to be diminishing. Practical consideration of time and effort were a key factor in limiting the number of cases to three in this study and this is recognised in the next section.

Eisenhardt's (1989a) second point, regarding when to cease on-going examination of the link between theory and data, is similarly concerned with reaching a saturation point. Once again this involves stopping the theory building process once the incremental improvements are minimal. Eisenhardt (1989a) suggests developing a conceptual framework as one possible theory building outcome, a path pursued in this thesis.

The next section considers limitations associated with the research design and methods, including the use of retrospective data collection methods.

4.5 Recognising Limitations

As discussed in the preceding section of this chapter, gaining and maintaining access to case study participants proved to be challenging. This was understandable given the group of firms and founders that were the target of the investigation. Typically, founders

of emerging fast-growth firms are under considerable time and resource pressures and participating in a research project will not be high on their agenda. Nevertheless, access was gained and usable data was obtained from participants in three Australian firms. Most participants showed signs of time pressures during the interviews and a few wound-up their respective interview because of other pressing commitments. A question that needs to be asked is whether these three firms were characteristically different from other emerging fast-growth firms on the BRW Fast 100 lists. The answer is likely to be in the affirmative in that these firms had become (or were close to becoming) sustainable, whereas other firms whose founder declined to participate in the study may not have been sustainable and, consequently, did not have the time, nor available resources, to contribute.

This study is concerned with the group of emerging fast-growth firms that are sustainable and firms were selected with a view to obtaining theoretical insights about such entities and their founders. Nonetheless, a potential criticism could be made regarding the choice of 'successful' cases, in contrast to a mix of 'successful' and 'unsuccessful' cases. While, arguably, there could be some benefit in contrasting these two types of cases, the findings are unlikely to yield much important evidence, a point highlighted by Penrose (2009: 37):

> That there are firms who consistently make mistakes, over-estimate what they can do, guess wrongly the future course of event, no one can doubt, but they do not interest us here; no theory of growth will explain their actions – only a theory designed to explain 'mistakes' or failure.

Nevertheless, such an approach was briefly considered but it proved too difficult to trace the founders and other managers of firms that had failed. Furthermore, it was unlikely they would want to talk about their firm's failures if they could have been found. The chances of triangulating the data were also a concern because source documents and accessibility to people who had 'moved on' would have been another significant hurdle. Therefore, it was concluded that this approach would have been more of a distraction to the main focus of the inquiry and efforts were better expended on the 'successful' firms and their entrepreneurial founders.

As indicated in Section 3.3.2, a limitation of the study is that participants were not involved in reviewing drafts of the respective case study reports. It did not seem feasible to return to participants and ask them to review case study drafts given their time constraints and given that interviews had taken place several years ago. For these reasons, most of the data was collected up to the time of the final interviews in each of the respective cases.

This research is concerned with examining past events and problems associated with this type of research design are well recognised and include bias recollection, reinterpretation of past events in the light of current developments, and mistaking event sequences (Cox & Hassard, 2007; Fessel, Epstude & Roese, 2009; Glick, Huber, Miller, Doty & Sutcliffe, 1990). While longitudinal case studies would have been ideal, that approach was not feasible. Conducting longitudinal research over many years is a time absorbing and costly process, and is particularly difficult for a single researcher with limited resources and time. In addition, organisational access would have been more difficult to obtain over extended periods of time with no guarantee that subsequent access would be available. Therefore, there was little choice but to ask people to recall pertinent past events while trying to minimise the magnitude of the inherent research problems.

In adopting a retrospective approach as a compromise, there was a need to be mindful of the associated shortcomings and attempts were made to minimise these wherever possible (see Bryman, 1989; Huber & Power, 1985). Research based on retrospective methods in management and organisational disciplines is not uncommon and can be found in leading management and organisational study journals, such as those of the Academy of Management (Cox and Hassard, 2007).

The main tool used to minimise these shortcomings was the data triangulation method. Obtaining data from different sources and comparing these for consistency is a valued method of reducing bias recollection, reinterpretation of events in the light of current developments and mistaking event sequences (Yin, 2003). As mentioned earlier, a timeline template was used during interview to assist participants with plotting events in a

graphical format in order to place events within a broader context and to help reduce errors with event sequences.

4.6 Chapter Summary

This chapter began with a discussion of the research method and its positioning within a philosophical context. This was followed by a brief consideration of the research questions before moving onto a discussion of why qualitative research methods and the case study strategy were adopted. The research process was then considered incorporating the research design, how the research unfolded, and how analysis was undertaken. Research limitations were also discussed.

The next three chapters present the case studies researched for this thesis, including background information about each firm followed by consideration of the entrepreneurial founders and organisational resources and capabilities. Each of these chapters will also contain analysis of the particular case study. Cross-case analysis is contained in Chapter 8, *Overall Findings and Cross-Case Analysis*.

5 Case Study 1: Healthy Franchise

5.1 Chapter Objective

The objective of this chapter is to present the first case study used to explore the changing role of the entrepreneurial founder and development of organisational resources and capabilities, including HRM. The chapter begins with an overview of the first case, Healthy Franchise.

5.2 Overview of Healthy Franchise

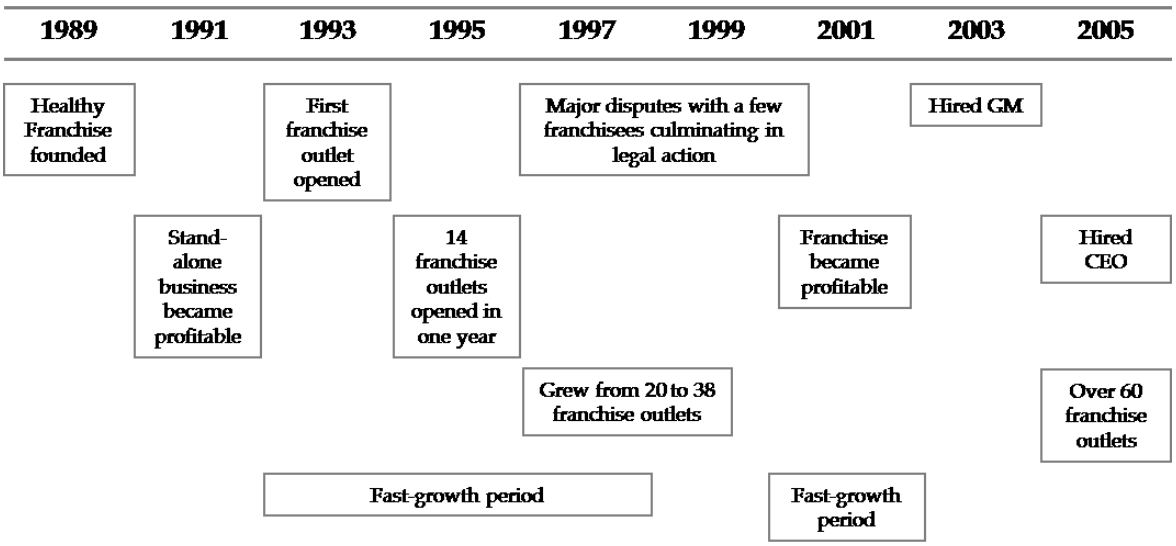
Healthy Franchise, established in 1989, is a nationally based franchise group operating in the sports and recreation sector. It is owned equally by the two founders, Elizabeth (Executive Chairman)[15] and Peter (Director), who while remaining involved in the business, had by 2005 delegated their day-to-day operational responsibilities to an executive team managed by a CEO (Peter, Director, Interview & Questionnaire Response; Elizabeth, Chairman, Interview & Questionnaire Response).

The co-founders originally started the firm as a self-funded standalone business with minimal capital (Healthy Franchise, 2009 & 2010) and, according to Elizabeth, within two years the business was profitable (Elizabeth, Executive Chairman, Interview). Given the early success of their small business, when the firm was about three years old, the co-founders decided to take the bold step of implementing a franchising model. In doing so, they were encouraged by some customers to expand their unique concept (Elizabeth, Executive Chairman, Interview; Peter, Director, Interview). Without prior experience in franchising, it took another two years before they opened their first franchise club and, by 2005, they had expanded to over 60 clubs throughout Australia (Elizabeth, Executive Chairman, Interview & Questionnaire Response; Peter, Director, Questionnaire Response). The overwhelming majority of these clubs were franchises with only a few franchisor

[15] At the time of the interview, Elizabeth's title was *Executive Chairman* and not the gender neutral *Executive Chairperson*.

managed clubs. In just over a decade the founders had achieved substantial growth and, eventually, profitability. In 2010, the business operated as a stable and recognisable national franchise (Healthy Franchise, Article 1). Figure 5.1 provides an overview of Healthy Franchise's timeline.[16]

Figure 5.1: Healthy Franchise's Timeline (1989 to 2005)



Source: Clive, CFO, Interview; Elizabeth, Executive Chairman, Interview & Questionnaire Response; Peter, Director, Interview & Questionnaire Response; Sylvia, Franchisee, Interview; Healthy Franchise, Website.

From the time the co-founders implemented their franchise model in 1992, the business grew rapidly. Healthy Franchise's significant growth period in the mid-1990s occurred within an extremely financially constrained context and one where financial institutions were not prepared to provide the founders with funds (Elizabeth, Executive Chairman, Interview; Peter, Director, Interview; Healthy Franchise, Article 2).

The co-founders had turned to the franchise model as a way of rapidly expanding the business without needing huge capital injections on their part (Peter, Director, Interview). Nevertheless, they still found themselves under enormous financial pressures as the franchise network grew (Elizabeth, Executive Chairman, Interview; Peter, Director, Interview). As Elizabeth (Executive Chairman, Interview) stated, it was at that point that

[16] As discussed in Section 4.5, most of the data was collected up to the time of the final interview in 2005.

she "was committed and very accountable" to other people; meaning that she personally felt she had an obligation to franchisees who had invested their own time and money in their respective franchise businesses. For Elizabeth, the introduction of franchising took the business and the associated pressures to a completely new and higher level. This was not to say that she was not committed before this point, but rather that the enormity of the commitment became more tangible. In her view, as she faced franchisees whose livelihood now depended on the success of the franchise network (Elizabeth, Executive Chairman, Interview). In the words of one senior manager, Healthy Franchise "was a small rural company that had grown into a national company fairly quickly" (Clive, Chief Financial Officer (CFO), Interview).

From its inception, Healthy Franchise's revenue growth was uneven and not incremental (see Table 5.1). However, the firm had very significant growth phases (e.g., during the period 1993/94 to 1997/98 revenue grew annually by an average of almost 620 percent). While the firm's annual revenue growth was strong until 2002, that growth was not steady and, as shown in Table 5.1, it fluctuated from a high of 66.7 percent in 1999 to a low 18.2 percent in 2003. Similarly, employment growth was uneven and varied from a high of 78.6 percent in 1999 to a low of 18.6 percent in 2002.

Table 5.1: Healthy Franchise's Annual Revenue & Employment Growth (1997 to 2006)

Year	Revenue	Employment
1997	22.7%	n/a
1998	31.5%	64.7%
1999	66.7%	78.6%
2000	46.7%	28.0%
2001	45.5%	34.4%
2002	37.5%	18.6%
2003	18.2%	21.6%
2004	28.8%	29.0%
2005	19.4%	18.8%
2006	3.8%	n/a

Source: BRW (1998, 1999, 2000 & 2002); Elizabeth, Executive Chairman, Questionnaire Response; Healthy Franchise, Article 2.

In 1995, the number of new clubs more than doubled when 14 were opened. This was in contrast to an annual average growth of 5.5 clubs from the time they began franchising to 2005. As one of the co-founders observed:

> Growth was huge in 1995. And you don't do it properly. That year, when we opened 14 [franchise clubs] was when we were struggling and you pay for it for the next three to four years. (Peter, Director, Interview)

These so called 'growing pains', are not unusual for fast growing businesses (Flamholtz & Randle 2007; Hay, 1992) and, in Healthy Franchise's case, the founders experienced a number of problems brought about by the firm's fast-growth, including inappropriate recruitment decisions and lack of funds. In this sense, Healthy Franchise displayed typical characteristics associated with fast-growth (Hambrick & Crozier, 1985; Kotter & Sathe, 1978).

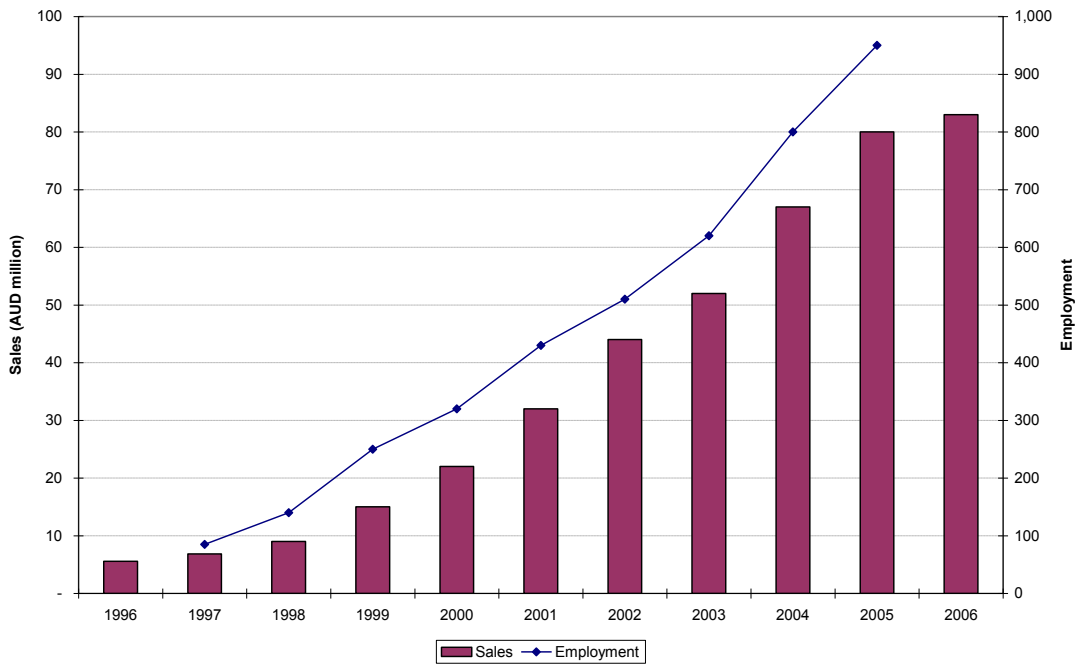
The journey for the co-founders was tumultuous but, by 2005, they had a sustainable business which continued to grow and flourish into a pre-eminent national franchise. In 2007, it supported a national network of 75 franchise clubs and, a year earlier, the first international master franchise was awarded (Healthy Franchise, Website). In addition to Healthy Franchise's high profile marketing campaigns and being listed on four annual Business Review Weekly (BRW) Fast 100 lists (1998, 1999, 2000 & 2002), the firm and/or the Executive Chairman won various national awards (regarding franchising and business woman of the year), thus increasing the firm's business and community profile, and addressing legitimacy concerns arising from the liability of newness.

Table 5.1 and Figure 5.2 show the business continuing to grow rapidly until 2005 and, while it continued to grow, the subsequent growth was less dramatic. By 2007, annual revenue was reported to be $100 million (AUD) (Healthy Franchise, Website). The employment figures in Figure 5.2, displaying the workforce size of the franchise group as a whole, shows employment increasing by similar proportions to the revenue figures.

BRW, in addition to producing Fast 100 lists used for selecting the case study firms, publishes a list of the Top 500 Private Companies in Australia. From 2008 to 2012, Healthy

Franchise was in this top 500 group with revenues of between $90 million to $100 million (AUD) demonstrating its continuing national presence but also indicating the firm had plateaued in terms of revenue (BRW, 2008, 2009, 2010, 2011 & 2012).

Figure 5.2: Healthy Franchise's Annual Revenue & Employment Numbers (1996 to 2006)



Source: BRW (1998, 1999, 2000 & 2002); Elizabeth, Executive Chairman, Questionnaire Response; Healthy Franchise, Article 2.

The next section explores in more detail the concept of firm sustainability and, in particular, how the case study participants viewed this concept.

5.3 Firm Sustainability and Survivability

Case study participants were asked for their views on what they considered to be a sustainable business and they were encouraged to consider internal factors consistent with the delimited scope of this study. They were purposely not given a definition of the term 'firm sustainability' so as not to influence their responses. The two founders of Healthy Franchise approached the concept of firm sustainability from different angles. Elizabeth, who at first considered it as more akin to 'survivability', had the following to say:

> Sustainable is not really the right word, it's survival … and when you come out the other end of all of that then you're in a very strong position. … I've learned a lot of

> skills, survival skills and the business is tough and I'm tough because of it. (Elizabeth, Executive Chairman, Interview)

Elizabeth also linked sustainability to personal growth and learning. For her, sustainability was also about overcoming the personal challenges (such as stress) and the learning that comes from making wrong decisions, working hard and being under constant financial pressures:

> It's a lot of blood, sweat and tears and stress and making decisions and making them again and getting them right and getting them wrong and learning from them and going forward and not having any money and doing whatever it took to get there. (Elizabeth, Executive Chairman, Interview)

In keeping with the definition used in this thesis, firm sustainability is concerned with more than mere survivability, a point also supported by another of Elizabeth's observations. In another instance, she highlighted the time when the co-founders' concern shifted from whether the business would survive to a more positive and proactive outlook. This occurred around 2001 and was captured in Elizabeth's words when she discussed the time when profits were put back into the business and when conscious decisions were able to be made about how to invest these profits.

> You go through a stage where you know when you don't have any money and … you put in every dollar that you've got back into driving the business. … Every bit of money just goes, gets gobbled up and there are no profits and then you sort of change from that to a time where you're making a certain amount of money and then you make a conscious decision to put the money into the business rather than you having to survive. And that's a better time because then you can make business decisions based on what you should do rather than what you can afford to do. … It's probably like a transition from where you were to where we are now and where we are now is in a very comfortable situation where we choose to do what we want to do and we plan our profit, we plan our strategy of how we're going to get that profit. (Elizabeth, Executive Chairman, Interview)

The transition that Elizabeth refers to is the essence of moving towards firm sustainability, albeit with the use of a financial lens. Firm sustainability, in this sense, is a more comfortable stage – when compared to the previous seven or eight years in the case of Healthy Franchise – where plans can be better accommodated for the future of the firm rather than the short-term financial juggling that can overwhelm strategic decisions of a financially strained business. While it is difficult to pinpoint exactly when the transition to firm sustainability occurred for the founders of Healthy Franchise, it was a major phase in the development of this emerging firm as Elizabeth suggests.

As pointed out earlier, firm sustainability is not just about survivability or being profitable at one point in time. As illustrated in Healthy Franchise's timeline (see Figure 5.1), issues surrounding the lead role of the CEO were not resolved until 2005 (i.e.; four years after the franchise business became profitable). During this four year period, many HR issues continued to plague the business, as will be illustrated shortly.

Peter, the other co-founder, did not specifically point to any internal factors that contributed to the business becoming sustainable. For him, the business was sustainable because of luck in developing its market position and its franchising business model.

> I think maybe by luck, that we are in a business that has more sustainability than nearly any other business around. (Peter, Director, Interview)

> Well, franchising for a start because you've got each club has got its owner there. We've only introduced franchising because we wanted to expand our concept. But now that I know, understand we've been franchising now for quite a while, franchising is a fantastic business concept. And I think any business is more sustainable in a franchised environment than someone who tries to do it on their own. (Peter, Director, Interview)

The co-founders wanted to grow the business but recognised that they could not afford the necessary substantial financial commitment and, as a consequence, they turned to a franchising model (Elizabeth, Executive Chairman, Interview; Peter, Director, Interview). Franchising can be an effective means to grow quickly where large amounts of capital are

required. However, it is not the only means (e.g., one may raise capital through groups of private investors) and it depends on whether a franchising model provides the right structure for the type of business involved (i.e., whether business operations can be decentralised with corporate head office managing franchise-wide issues, such as marketing and advertising, and information technology (IT) infrastructure).

In the same vein Clive[17], Healthy Franchise's CFO, stressed the importance of increasing the number of franchise clubs in a profitable manner. According to Clive, firm sustainability for Healthy Franchise is about having profitable franchisees:

> Part of our strategic vision is that we have profitable franchise partners. … Whether for me it will be when we reach a peak at a 100, 180 or 200 – but those clubs that are operating can enjoy a profitable ongoing relationship with us and business for themselves. That's my view of sustainability and that we, as the franchisor, can continue to make a solid return that's not eroded over time. It's either maintaining the status quo or else increasing each year by a couple of points. The more the better but certainly not being eroded. That's my view on the sustainability of it all. (Clive, CFO, Interview)

However, building a large network of profitable franchise clubs requires many other ingredients. Aiming for a growing number of profitable clubs is one thing, making it happen is quite another. For Sylvia[18], sustainability is about ensuring that franchisees complied with franchisor standards. Compliance issues were raised by all interviewees as important for the firm's success.

> If I put myself in [Peter] and [Elizabeth's] shoes ... and when I was consulting to them, sustainability for their business is, number one, compliance. And that is absolutely what would have to matter. If they don't have compliance, they've lost control. And you would have everyone doing all bits and pieces of what they need to

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[17] Clive joined the organisation in 2003 originally as the Financial Controller. He was previously employed in similar roles working for large commercial firms.

[18] Sylvia joined Healthy Franchise in 1996 as a part-time consultant and became a franchisee in 1999.

> do and therefore you no longer have a brand and therefore you don't have franchise. So I would imagine that the number one factor for long-term sustainability is compliance, getting everyone on the same page while still allowing some latitude for innovation which is something they probably still need to grapple with. … So, compliance, absolutely, would have to be it for them, as well as probably their second sustainability would be to get rid of a number of their company clubs and make them franchises. I am sure that they would probably want mostly franchise clubs and only a sample of good demonstrable company clubs. (Sylvia, Franchisee, Interview)

However, wearing her franchisee 'hat', she was keen to emphasise the prominent role played by her people in making her franchise club sustainable.

> For me, if I just look from my one club and potentially two and not from the franchisor's hat but from the franchisee … the first part of sustainability is that I can run a tight knit human resource operation. For me, it's all about the people. That sustainability for my business will only be successful if I have a really geed-up great team of girls that know how to create an atmosphere beyond anything else around us because we are atmosphere driven. So, that is, I think, above all else the most important. If I don't have a team that really knows how to make someone feel like they're making their day when they are walking in the door, it wouldn't matter what system, what national marketing you have in place, it doesn't matter a bugger, it would fall down. So that's to me, absolutely the most important thing for long term sustainability. Number one. (Sylvia, Franchisee, Interview)

Nevertheless, for Sylvia, being part of a national franchise group with strong compliance and branding, was also a key element in Healthy Franchise's sustainability mix. She went on to explain:

> Number two is belonging to a franchise which means the strength of compliance and that's the biggest change that's happened over the years. Sustainability. It would be having a national brand that means something ….., something that I can't do. I can get my team going but I need the franchisor to make that brand a household name, to make it appear on every [one's] lips so that when they just see us or hear about us locally they go "Ooh, I need to go there". So sustainable for me is national marketing

> and PR. Not just marketing. I think the PR has been underplayed but I think that's really important for [Healthy Franchise]. (Sylvia, Franchisee, Interview)

While there is no clear consensus here about what constitutes a sustainable business, financial viability and revenue growth were prime considerations as performance outcomes. However, to achieve these outcomes in a sustainable way, the co-founders continued to face a growing number of complex organisational issues that they seemed to have difficulty in addressing adequately for some time. These issues ranged from recruitment and selection, compliance, team development, and decision-making.

Nevertheless, three overarching and related issues stood out during the in-depth interviews as being critical for firm sustainability. These issues related, first, to the founders' roles and how these changed as the business grew. In this case, the founders recognised their own limitations and foresaw a need to bring in managers with corporate experience. The second and related issue, therefore, concerned building and developing a management team. The third issue involved the founders' admission that they made significant and inappropriate selection and recruitment decisions concerning employees as well as franchisees. The recruitment decisions proved costly and time consuming for the firm.

These three issues will be elaborated on in more detail below. In the case of Healthy Franchise, the transition from start-up[19] to sustainability occurred during the period 2001, when the franchise business become profitable, to 2005, when the new CEO was appointed and Elizabeth ceased to control business operations on a day-to-day basis. This was the time when the financial fortunes of the business began to turn around and when there was a concerted effort to change the founders' roles within the business.

In the following sections, more light will be shed on what happened and how the co-founders dealt with the transition to firm sustainability.

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[19] Healthy Franchise effectively had two start-ups: the first involved the start-up of the initial standalone business in 1989 and the second start-up occurred three years later when the founders began implementing their franchising model.

5.4 Entrepreneurial Founders

It is commonly accepted among entrepreneurship and other related scholars that the role of the founder in an emerging firm is pivotal (Baum, Locke & Smith, 2001; Brüderl, Preisendorfer & Ziegler, 1992; Brush, Greene & Hart, 2001; St-Jean, Julien & Audet, 2008). As well as extensive interaction with the management team, the role involves wide-ranging learning and development on the job (Cooper, Gimeno-Gascon & Woo, 1994). Therefore, the founder's contribution in the form of human capital and the founder's role changes are important for understanding firm sustainability. These issues are considered in the next two sections.

5.4.1 Human Capital

Researchers have found evidence that the founder's human capital characteristics (such as educational background and prior start-up, industry related and managerial experience) provide strong support for direct links to firm growth (Gilbert, McDougall & Audretsch, 2006). Nevertheless, relating quantitative findings of this nature to a case study, with its own unique characteristics, leads to the question: so what? There are always exceptions to the norm. The more pertinent observations lie in the potential explanations that arise from the case study data.

Of the two Healthy Franchise founders, only Peter had previously worked in the same industry and had prior start-up business experience (Elizabeth, Executive Chairman, Questionnaire Response; Peter, Director, Questionnaire Response). The co-founders do not have tertiary qualifications and neither have undertaken any extensive business or management training prior to or while managing the business (Elizabeth, Executive Chairman, Questionnaire Response; Peter, Director, Questionnaire Response). Elizabeth commenced, but did not complete, a short business course when she first began the (Elizabeth, Executive Chairman, Interview).

Therefore, one could conclude that despite the founders, in the main, lacking much of the human capital relevant to starting a business in the sports and recreation sector, they eventually succeeded in establishing a sustainable and nationally based franchise business.

However, what is absent from this simple conclusion is the dangerous roller coaster ride endured by the founders. From a theoretical perspective, the interesting issue is whether the path undertaken by the founders could have been less hazardous had their own mix of human capital been different. The indications are that with more managerial and HRM experience and training, they many have had a less perilous journey, particularly with regard to recruitment and selection of staff and franchisees, and building and developing a management team.

5.4.2 Roles and the Search for a CEO

Johnson and Bishop (2002) have argued that, by studying the changing roles of founders of fast-growth firms, scholars and practitioners will be in a position to better understand how these businesses develop and what is required to make their development more effective. In the case of Healthy Franchise, both founders admitted that their respective roles changed significantly over time as the business grew from a single site to a large national franchise network (Elizabeth, Executive Chairman, Interview; Peter, Director, Interview). Initially, Elizabeth worked in the business with Peter's wife, virtually as a hobby business and, as it grew, Peter entered the business on a full-time basis. By the time, the business was being franchised in late 1993 and early 1994, Elizabeth became the MD and Peter took on a behind the scenes role. Peter explained what his new role entailed under the franchise umbrella and the challenges faced by him as an owner and manager:

> Then all of a sudden I had to change my focus and think, hang on a minute, I've got to go and negotiate with landlords, which I had never done before, work out deals on properties. All of a sudden I was buying a lot more equipment and negotiating deals. Then I had to learn how the hell to fitout a franchise club and do it the same all around the countryside. (Peter, Director, Interview)

Peter gave the impression that he was thrust into this new role without much preparation. To some extent, the co-founders seem to have muddled through until they were able to afford to hire 'professional' managers. Reflecting on Peter's role in the business, Elizabeth appeared to be somewhat dismissive of his contribution:

> His role has been, well we started it together although I sort of worked in the business, he didn't. And there's been like a 50:50 partnership, we said we'll do it, he had the … equipment and I did the business and that's how it's been. … One of his roles would be to dot the i's and cross the t's. He's one that would read a contract when I might not read it so thoroughly – at least I hope he did – because I signed them after he did. We have an in-house lawyer now, but of course in the earlier days we didn't have that so, we didn't have any money either so we'd read our own contracts … he would get involved in property things, but of course now we have a property department doing all of that so he doesn't get involved in that much any more now so. (Elizabeth, Executive Chairman, Interview)

From this passage, Elizabeth appeared to be critical of her business partner, suggesting that he may not have contributed to the business as much as she had. She made the point that while they had equal shares in the firm, Peter did not work in the business in the early days (Elizabeth, Executive Chairman, Interview). One may also read into her statement some doubts about whether he had been doing his job of checking contracts thoroughly and she implied that his role was now redundant because they have an in-house lawyer and a property department. In an almost dismissive manner she added that he was "not as active as I have been" (Elizabeth, Executive Chairman, Interview). While specific evidence of any overt conflict between the two founders was not available, given the above statement by Elizabeth, it would be surprising if there had not been conflict between the two of them at various stages. A resolution of sorts would have been associated with the introduction of professional managers who took away Peter's day-to-day responsibilities concerning, in particular, legal and property development matters. By 2005, Peter had no direct reports and his only organisational link was to the Executive Chairman (Healthy Franchise, Organisational Chart).

This appraisal of Peter's role is confirmed by Sylvia who provided an insider's perspective as a consultant and later as a franchisee:

> [Peter]'s role I haven't seen a lot of that over the years. [Peter] is more the stalwart. He's been there, likes it. I don't honestly see the impact of [Peter] in the business. I think in a way he's been made redundant in a lot of ways. This is my opinion from

> sitting back there. Even when I was there ... I think [Peter] is a wonderful bloke. I think they have probably as a franchise failed to find his niche of what he can do to be proactive for a franchise of this size. And that's about it. Although I must admit I wish they could because as a person he is popular with the old partners. That's a sentimentality and not a sustainability factor. (Sylvia, Franchisee, Interview)

In Sylvia's assessment, Peter's potential in the firm was not fully realised because his role, or "his niche", was not properly developed. However, she was also quick to point out that this was about "sentimentality" and not firm sustainability, perhaps implying that he was not likely to make a big impact on the firm in any case.

During the interview with Peter (Director, Interview), his demeanour was more deferential towards Elizabeth than the latter's was towards him (Elizabeth, Executive Chairman, Interview), and it was clear that Elizabeth was the main driver in the development of the business (Sylvia, Franchisee, Interview). In this case, the role of one of the co-founders became dominant (i.e., Executive Chairman), while the role of the other founder became almost redundant (i.e., Director). The respective roles were resolved over time but, perhaps, not to the ideal satisfaction of either founder, especially Elizabeth who seemed to resent the apparently less valuable contribution of her co-founder. Peter, on the other hand, did not raise this specific matter during the interview (Director, Interview).

At start-up, time and financial commitments of the co-founders were less onerous than after the franchising model was implemented. For Elizabeth, there was a new sense of commitment and accountability once the first franchisee joined the group (Elizabeth, Executive Chairman, Interview). She was the entrepreneurial and passionate driver behind the growth of the firm (Sylvia, Franchisee, Interview). Soon after the founders began franchising, the business went through major difficulties which adversely impacted its financial position.

While the franchising model (with various stakeholders who had a lot to lose if the business collapsed) helped ensure the business survived, Elizabeth's hard work and determination was also a significant factor (Sylvia, Franchisee, Interview). Her initial definition of firm sustainability (i.e., survivability) seems to have been coloured by the

major franchisee recruitment and selection problems in the latter half of the 1990s. It also helps explain her use of language in this context; "a lot of blood, sweat and tears and stress" (Elizabeth, Executive Chairman, Interview).

So, what role did Elizabeth play in the growth of the business in these formative years? The impression from talking with her is that she was very hands-on but, for Sylvia, Elizabeth was:

> … not a manager, not by any stretch and probably has lost a lot of valuable employees in the past at head office because of that. But much to her credit that is exactly what she has come to recognise over the years. (Sylvia, Franchisee, Interview)

By her own admission, Elizabeth was quick to make (uninformed) decisions and, perhaps, without consulting her business partner, Peter (Elizabeth, Executive Chairman, Interview). The co-founders' lack of management experience was evident, particularly in the formative years of the franchising business, and the lack of role clarity between the co-founders themselves was also symptomatic of the role issues experienced among other managers and employees.

Johnson and Bishop (2002) point to the role demands placed on founders of fast-growth firms and how founders may or may not choose to respond to these demands. For the founders of Healthy Franchise, their choice was to respond to their own managerial limitations by seeking external assistance once they could afford to do so. Having recognised their own limitations, the founders engaged external advisors to assist with corporatising and franchising issues during their period of rapid-growth in 2003 (Clive, CFO, Interview; Peter, Director, Interview). This was also the time when they hired a General Manager (GM) to take the load off Elizabeth (Executive Chairman, Interview). However, the relationship between the GM and the co-founders became untenable within a short period of time and the new GM left after twelve months in the role (Clive, CFO, Interview; Peter, Director, Interview). The exact circumstances surrounding the GM's departure were not provided but it was clear that their hiring process for the role was inadequate (Elizabeth, Executive Chairman, Interview; Peter, Director, Interview). The

advisor who was hired to assist with business development had recommended the person they hired as the GM even though the advisor and the GM were in a personal relationship (known to the founders of Healthy Franchise at the time) and no formal recruitment process was undertaken.

The founders recognised and acknowledged that their own shortcomings and lack of managerial skills were a constraining factor in growing and sustaining a large business. Peter, for example, made the following observation:

> We tried several times to move up to the next level and bring someone in at that level and who would basically take charge of running the system and make it grow quicker. We tried the lady before [the current CEO] and that didn't work out. (Peter, Director, Interview)

After the GM's departure, Elizabeth took control again and continued to perform her MD role in a full-time capacity until 2005 when a serious health issue caused her to reappraise her role. A new CEO was hired after, unlike the first time, a thorough hiring process, as Elizabeth explained:

> The guy who's now the CEO, he had to go through hoops of burning fire and leap off cliffs, do projects and interviews the poor man. I was not going to make the mistake again but yeah I did two psych tests, I was very thorough, I couldn't afford to make another mistake and get the wrong, see I'd stepped out of this business two years ago or more, and then had to step back in again because it was a disaster. (Elizabeth, Executive Chairman, Interview)

He was well received and accepted within the business (Clive, CFO, Interview; Deidre, HR Manager, Interview; Elizabeth, Executive Chairman, Interview; Sylvia, Franchisee, Interview), particularly for holding people accountable and implementing systematic ways of operating:

> He's [the CEO] had an impact on the culture again. It's more about accountability and measurement and meritocracy and a definition of what we do to make things a little bit more consistent. In the past we might have been introducing a new idea and

> all run to that idea and then another idea bobs up so we all run to that idea and now we have a little bit more focus and streamlined and it's starting to permeate its way down through the organisation. I think people realise that people are going to be held accountable for their results. (Clive, CFO, Interview)

Also, Elizabeth seemed to have accepted, perhaps reluctantly, her new role, describing it in the following terms:

> I've created a new role for me [in July 2005] which is really good, it's a great role, but it's very time consuming because I'm still very much involved in, not any decision making but in an advisory capacity within the business, and certainly decision making because I'm a shareholder. I don't get involved in day-to-day operation of things, but I'm often invited to and you know, and I don't mind that, but my role's now visionary and strategic and public relations and getting our brand out there, protecting our values or making sure that everyone within the company reminds themselves of our values. So that's the sustainability I think from my point of view of being able to have a company that can operate without, it's good while I'm here, but if I'm not here then it's not going to collapse. It'll still function quite well, it just won't have someone like me just doing all that driving, but it's still very sustainable. (Elizabeth, Executive Chairman, Interview)

Elizabeth spoke at a conference in 2006 (Elizabeth, Executive Chairman, Conference Address) relating her role in very similar terms to the above statement while using a sporting analogy. In her address, she described herself as being on the sidelines but where she really wanted to be was in the middle of the playing field. That is why it is difficult to believe that she had no problems in 'letting go' as she stated in her interview with the author (Elizabeth, Executive Chairman, Interview). Role changes, particularly those involving significant variations in the lead roles of foundational members of an organisation, can be very difficult and, possibly, traumatic to implement and accept. As Ashforth (2001, 290) has pointed out "[r]ole transitions are about how one disengages from one role (role exit) and engages in another (role entry)", and involve changes in role identity which he defines as "a set of goals, values, beliefs, norms, interaction styles, and

time horizons". Therefore, for Ashforth (2001, 290), "[t]o switch roles, then, is to switch personas". In Elizabeth's case, switching personas was difficult.

In summary, Healthy Franchise's founders changed roles as the business grew into a national franchise chain. Both founders were initially hands-on operators content to be doing what they were doing, albeit without any defined boundaries. Once they decided to grow the business using a franchising model, they were both put under considerable stress to learn and do new things. Peter was thrust into the role of locating new premises and negotiating with landlords, and acquired the role of the contracts administrator, responsible for reading and understanding the fine print in legal documents. Elizabeth, on the other hand, took on the role of running the overall franchise operations as well as sales and marketing.

However, from the time the firm became a franchise, each founder played a distinctive role. Peter's role appears to have diminished in size and importance as specialist managers were hired (such as, an in-house lawyer). Elizabeth, however, found it difficult to hand over control to an externally hired GM, a process that was aborted after about a year. However, the second replacement turned out to be successful and Elizabeth's role as Executive Chairman is to oversee the business from a distance and focus her efforts on marketing and branding (Elizabeth, Executive Chairman, Interview & Conference Address).

The next section will consider Healthy Franchise's resources and capabilities, including HRM practices.

5.5 Organisational Resources and Capabilities

As discussed in Section 3.3, RBV provides the theoretical grounding for analysing organisational resources and capabilities, including HRM practices. In addition to HRM, specific resource and capability areas identified from the literature were the management team, organisational, systems and processes, and finances (see Section 4.4.3, Table 4.6). This section will consider these areas as well as compliance issues that are critical within a franchising environment.

5.5.1 HRM and Recruitment

As Boxall and Purcell (2003) have pointed out, for a business to be viable it must have capable people. For small emerging firms without an existing and sizable pool of resources to draw on, the task is particularly daunting for their founders. Therefore, the founders of these firms must seek external recruits in order to grow but they are often confronted with legitimacy problems (associated with the liability of newness). According to Williamson (2000, 29), there are two attributes that prospective employees look for whenever assessing a firm's legitimacy and these are "a firm's recruitment procedures and the HR policies adopted and promoted by an organization". The founders of Healthy Franchise had not addressed either of these two areas until just prior to hiring the inaugural CEO as Elizabeth's second replacement in 2005. The first aborted effort proved to be a costly and painful lesson for the founders.

Selection and recruitment represented a major problem for the co-founders of Healthy Franchise. Selecting and recruiting people into a firm is the first step in developing organisational capabilities because resources are the inputs from which capabilities are built (Helfat & Peteraf, 2003). Poor selection of employees as well as franchisees was a significant issue for the business and, as Clive indicated, the lack of continuity in team membership, apart from the founders, was a problem.

> The only two consistencies have been [Elizabeth] and [Peter] throughout the process … pretty much all the way through the longest serving would be a four year employee within the executive team. So it's hard to get that consistency and that momentum to grow at the rate we want to grow. (Clive, CFO, Interview)

Sylvia (Franchisee, Interview) admitted that "there was a lot of crap" among the people who were hired but "there were some good eggs amongst them". From Sylvia's perspective, an important issue was that people were not properly managed as well as the firm being under-resourced at head office, a point corroborated by Peter (Director, Interview).

In retrospect, Peter (Director, Interview) maintained that, "you would be better to grow a little bit slower but get the right people". However, both Elizabeth (Executive Chairman, Interview) and Peter (Director, Interview) did not allude to their inability to delegate and manage new recruits but rather explained the staffing problems as one of not being able to afford to pay for the right people at the time.

> I wouldn't employ the people now that I had employed back then. Having said that, they were very loyal and hardworking people, but the company outgrew them. … Having said that, I would not be able to attract these people that work here now, they wouldn't have looked at me with a forty-foot pole. Now people come knocking on the door, 'I want to work for you' and we get the cream of the cream because, especially in today's market, it's not easy to find people but we don't have to look. I've got people knocking on our door all the time and they're good people. (Elizabeth, Executive Chairman, Interview)

As with the hiring of employees, the founders also struggled with the selection of franchisees which led to protracted disputes and, eventually, legal action. In the latter part of the 1990s, for example, the business became entangled in major litigation with a franchisee with multiple franchise licences who had allowed his franchises to run-down and under-perform (Peter, 2005; Sylvia, 2005).

> We just acquired five franchise clubs forcibly [as a result of the dispute] ... at the time that I came on board which ties up a lot of your resources which doesn't give you a lot of time for extended growth. And even in my time the growth rate has been less than desired. (Clive, CFO, Interview)

This was another major problem for the business and it was not restricted to just one franchisee with multiple clubs (Sylvia, Franchisee, Interview). As Sylvia (Franchisee, Interview) pointed out, over a period of four years, poor franchise selection decisions sapped a great deal of time and energy from the group: "Too much energy, too much money, too much bitching, whinging". This became a major distraction and delayed the business becoming profitable and held it back from further growth.

The founders' recruitment problems up to the early 2000s seemed to be symptomatic of a broader HRM problem in that they did not seem to have had adequate HRM practices to address their requirements to, first, help ensure that they made the right decisions (such as hiring, inducting and managing people) and, second, to help them market their business to prospective new recruits. Even when they had hired employees, they did not follow through with documented letters of appointment or basic HRM policies (Sylvia, Franchisee, Interview).

5.5.2 Managerial and Organisational Capabilities

In addition to the recruitment problems, there appeared to be an absence of learning from experience. For instance, Sylvia (Franchisee, Interview) stated that "mistakes kept on repeating themselves … and it probably ran for about five years". When asked about decision-making, Elizabeth (Executive Chairman, Interview) responded in a tongue-in-cheek manner by saying that she was "too good at making decisions" – implying that she was quick at making decisions without necessarily considering the implications. She went on to say that "I never ever see the 'what if', I never ever consider that something won't work" (Elizabeth, Executive Chairman, Interview). By saying that she did not see the 'what if' scenarios, Elizabeth (Executive Chairman, Interview) suggested there was a lack of planning and learning from miscalculations which is consistent with Sylvia's (Franchisee, Interview) comments that "mistakes kept on repeating themselves".

This attitude can be a strength as well as a weakness. Elizabeth was hard working and dogmatic about making the business a success and she kept it alive through the tough times. However, as Sylvia (Franchisee, Interview) stated, she also pushed people too far with this approach and, consequently, led them to burn-out early. Sylvia (Franchisee, Interview), who had intimate knowledge of the firm, referred to Elizabeth's poor management style and how she was prone to "burning" people in the following way:

> I think they were burnt … it probably gets back to [Elizabeth] being entrepreneurial and not a good manager. Therefore, there were a lot of expectations … a lot of the guys … [who were] not clear on their boundaries, there was no letter of appointment, there was no job description, there was no 'here are your objectives', 'this is what you

> need to achieve', there was none of that. … You had no idea what you were supposed to be doing, you were just trying to do what you were told to do, but then you were told something new every day. I'm amazed that it actually kept on going the way it did. … The management team of the day was given no direction and if a management team doesn't work you can only blame yourself. (Sylvia, Franchisee, Interview)

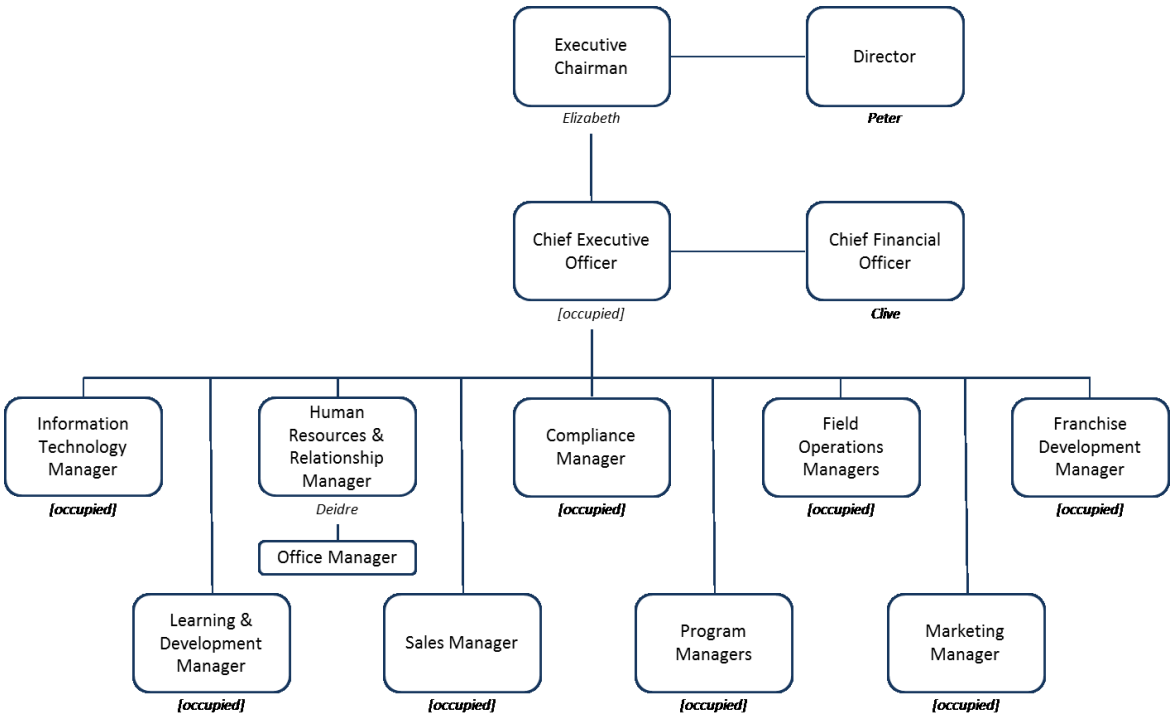
As Sylvia (Franchisee, Interview) pointed out, Elizabeth lacked managerial skills and was unable to delegate tasks and activities adequately nor provide employees with a sense of direction. Given this setting, the founders encountered significant problems with their franchisees because staff at head office were not able to adequately monitor and control compliance standards throughout the franchise network.

Role ambiguity and overload is not unfamiliar territory when it comes to emerging fast-growth firms with constrained resources and entrepreneurial founders with little or no management training (Flamholtz, & Randle, 2007; Hambrick & Crozier, 1985; Kotter & Sathe, 1978). The important question is how quickly the founders are able to recognise and do something about the situation they find themselves in that may become untenable beyond the short-term.

There is no question that the founders of Healthy Franchise recognised their own limitations but it was not until they appointed a CEO in early 2005 that the proper foundations of a management team were established. As discussed earlier, they had recognised this need at least two years earlier when they unsuccessfully hired a GM. In November 2004, the founders appointed a HR Manager, Deidre, to address deficiencies in their HR practices. By this stage, they already had developed a HR manual with detailed policies and practices (Deidre, HR Manager, Interview). The new HR Manager had been in various HR roles in large organisations in Australia and, therefore, brought a corporate HR perspective which emphasised core values, HR manuals, performance management systems and managerial capabilities. By 2005, the firm had grown into a reasonably large organisation with approximately 950 employees across the network and a corporate approach did not seem out of place.

Figure 5.3 displays Healthy Franchise's organisational chart suggesting the firm had matured in terms of role formation and specialisation by August 2005. For example, prior to Clive being appointed originally as Financial Controller in 2003, the finance and HRM roles were combined (Clive, CFO, Interview) indicating that the firm was not at a level of professional specialisation that one would expect of a medium-sized franchising firm with significant regulatory and compliance obligations.

Figure 5.3: Healthy Franchise's Organisational Chart (August 2005)



According to Sylvia (Franchisee, Interview) the founders' journey could have been easier had they hired a professional accountant and conducted sound business planning five years earlier. She stressed that decisions consistent with the business plan and financial advice would also have been required. With the benefit of hindsight, these initiatives may seem self-evident. However, founders in fast-paced environments often do not necessarily have the luxury of doing this type of analysis as they are embedded in the day-to-day minutiae.

It is important also to bear in mind that the founders of Healthy Franchise created a sustainable and nationally based franchise. The changes they eventually implemented

with the appointment of the new CEO had a positive impact on the way the business continued to operate. Clive expressed this point when he said:

> He's had an impact on the culture. It's more about accountability and measurement and meritocracy and a definition of what we do. It makes things a little bit more consistent. In the past we might have been introducing a new idea and all run to that idea and then another idea bobs up, so we all run to that idea. Now we have a little bit more focus and are streamlined and it's starting to permeate its way down through the organisation. I think people realise that people are going to be held accountable for their results. (Clive, CFO, Interview)

The changes in accountability and the way the firm operated, that the CEO was implementing, were changes that had not been undertaken by the founders. Arguably, the founders were not capable of implementing this type of reform and this was a case where professional managers needed to be hired and given the appropriate authority to carry out the necessary changes for firm sustainability.

5.5.3 Finances, Systems and Compliance

Typically, emerging fast-growth firms have limited finances, and they struggle to keep up with the growing demands on their other resources, including people and systems (Flamholtz, & Randle, 2007; Hambrick & Crozier, 1985; Kotter & Sathe, 1978; Nicholls-Nixon, 2005). Healthy Franchise was no different and, substantial changes were not implemented until the founders had sufficient surplus funds to begin building broader capabilities. However, as noted earlier, barriers to capability development were not just related to lack of finances, but also to the lack of managerial endowments on the part of the founders (see Section 5.5.2). In putting the firm's story into perspective, Clive (CFO, Interview) suggested that the founders had been "doing something right to get to where [the firm] was" but he thought that opportunities "might have been missed or corners might have been cut not thinking through the parameters required."

In order to be successful, standard operating systems and compliance for a franchising business are top priorities and this is precisely the area that initially was not well implemented (Sylvia, Franchisee, Interview). Compliance issues were raised by all

interviewees and, particularly, Sylvia (Franchisee, Interview) as important for Healthy Franchise's success (see Section 5.3) but it was not until the CEO was appointed that compliance issues began to be systematically addressed (Sylvia, Franchisee, Interview). The extent of the problem was summarised by Clive as follows:

> There are slightly different rules for each franchisee club and then even out there compliance has been a big bugbear for us of late in the last 12 months. That's a word we've been bandying about a lot and hopefully we're following through with some action and in the past they weren't being monitored, they weren't being checked. And they were allowed to go and invent their rules and hopefully as we bring on a higher calibre of franchisee and they see the value of what we're offering in our systems and our training that they'll turn to us more. In the past they used to turn to each other and learn each others' bad habits. Then, the system would breakdown. I see this as very important. (Clive, CFO, Interview)

So where the franchisor was failing to implement systems and processes, the franchisees were themselves filling the gaps with their own so-called "bad habits", a situation that was likely to lead to inefficiencies and eventual conflict (Sylvia, Franchisee, Interview).

However, improvements were continuing to be made as acknowledged by Clive:

> Since I've been here for the last few years the feedback obviously is that we've improved in terms of our professionalism and the way in which we operate which is in line with the top line, top tier organisations. (Clive, CFO, Interview)

Often, Clive used the terms 'professionalism' and 'corporatisation' to describe what they, as the top management team, were trying to achieve. By late 2005, Healthy Franchise had a sizable financial team of six headed by a CFO with two financial accountants (Clive, CFO, Interview). By this stage, the firm had resources and capabilities for internal financial processing, analysis and reporting using MYOB, a financial software package. The only exception being its end of the year audit and lodgement of statutory returns (Clive, CFO, Interview). The MYOB application was surprising given the firm's size and complexity (as a franchise) because the application is generally used by small organisations (from the author's experience). This was supported by comments from Deidre (HR Manager,

Interview) who was critical of the inadequacy of MYOB for extracting data for her purposes and Clive (CFO, Interview) who indicated that there were initiatives in place to replace and upgrade the finance application.

The IT team was actively involved in application development as a way of addressing the firm's systems gaps, including customer relationship management, supplier procurement, rostering and payroll systems (Clive, CFO, Interview; Deidre, HR Manager, Interview). Clive summarised the state of the firm's system in the following terms:

> We have an internal system that we've designed and developed for our membership - our database or CRM. So that's constantly evolving as a result of our IT team. … We have set up an ordering mechanism … [and] …. we developed a bit of a payroll module for our company clubs and franchise clubs to use in terms of establishing a consistent roster and measuring that and measuring variations to those rosters and based on staff swiping in and out of the system and point of sale has been evolving over time. (Clive, CFO, Interview)

Therefore, while initiatives were being taking in 2005 to address Healthy Franchise's systems deficiencies, it appears that these measures were reactive and that the situation had deteriorated to an extent that franchisees had developed their own ad hoc systems and processes, and where centralised HR and financial data were badly needed to operate the firm effectively and efficiently. Again, Clive's assessment is informative:

> The data we're being supplied by franchise clubs is questionable. So we're looking at a hosted environment where we will host the accounting solution. They will operate on our hosted server as an independent department and at any time we can have a line of sight straight across to their environment (balance sheets, etc) so we'll know how they're performing. (Clive, CFO, Interview)

Sound financial and operating systems are critical for any firm but more so when the firm is growing rapidly within a complex franchising network setting. While Healthy Franchise's IT infrastructure appears to have been inadequate in 2005, attempts to redress this situation had already been put in place by professional managers.

5.6 Chapter Summary

Firm sustainability is important for young businesses because in the early years they are particularly vulnerable as demonstrated by this case study. The co-founders of Healthy Franchise exposed themselves to significant financial risk especially after implementing their franchising model. Bringing their business back to a profitable situation took a significant amount of time and resources as well as immense stress ("a lot of blood, sweat and tears" (Elizabeth, Executive Chairman, Interview)). According to Sylvia (Franchisee, Interview), Elizabeth was unwilling to succumb to failure and used her "bull doggedness and entrepreneurialism" to make the franchise a success.

The founders of Healthy Franchise encountered hurdles related to their firm's fast growth. Like other rapidly growing firms, the founders made recruiting mistakes and had difficulties managing their firm's fast-growth. Delegation and planning were lacking and financial management was less than satisfactory. They were also unable to adequately manage and control their franchisees' behaviours through properly developed and implemented compliance mechanisms.

In order to make their business sustainable, Healthy Franchise's founders needed to address three fundamental issues: first, their own changing roles and, ultimately, their own succession, second, the interrelated issues of recruitment and management of the organisation's HR (for employees as well as franchisees) and, third, the implementation of organisational systems and compliance protocols. These issues have been addressed in this chapter.

This case study demonstrates that there is a link between the changing roles of the two entrepreneurial founders and firm sustainability. In order for the business to become sustainable, the founders had to address and resolve the changes required to their respective roles in the business. These changes, however, were not only linked to their ability and willingness to make these role changes (to 'let go') but also to their ability and willingness to recruit the right managers, particularly the CEO and develop key organisational capabilities.

The next chapter will consider the second case study in the research program, the Recreation Group, founded in 1989, the same year Healthy Franchise was established.

6 Case Study 2: Recreation Group

6.1 Chapter Objective

As in the previous chapter, the changing role of the entrepreneurial founder and the development of organisational resources and capabilities are explored but, in this instance, for the Recreation Group. The chapter commences with an overview of the Recreation Group.

6.2 Overview of the Recreation Group

The Recreation Group provides packaged recreational and tourism services world-wide and is managed by its original founders, John (CEO) and Eric (GM Finance & IT)). Both founders have equal shares in the firm (Eric, GM Finance & IT, Questionnaire Response; John, CEO, Questionnaire Response; Recreation Group, Article 2). John and Eric were friends from their university days and they decided to start the business in 1989 after developing the idea while travelling overseas together (John, CEO, Interview & Online Interview 1). At that stage, neither of them knew whether their business idea would be successful and they felt they had nothing to lose (John, CEO, Interview; Recreation Group, Article 3). However, within a short period of time the founders saw some encouraging signs (John, CEO, Interview). As Eric indicated, they knew they had a business with potential fairly soon after beginning operations:

> Within 12 months I felt like we knew it had possibilities as a business. It wasn't as though we thought 'oh no, it's useless'. There were signs that there was a market there for what we were wanting to do. And so I guess that gave us the thinking 'oh, this is permanent' sort of thing rather than just trying something out. (Eric, GM Finance & IT, Interview)

Yet, John (CEO, Magazine Interview) is quoted elsewhere as saying that it took them about four year before the founders realised they had a "viable" business.

The Recreation Group was started with an initial investment of around $25,000 (AUD) and, as with many self-funded start-ups, the founders soon realised this was not enough to

keep the firm viable through the start-up phase (John, CEO, Interview; Recreation Group, Article 3). Under-capitalisation of the firm is a theme that John emphasised on more than one occasion during the interview with the author. For example:

> I should say that we were dramatically under-capitalised at the start. Like a lot of small businesses, you think you know what you need to start the business but the reality is that you need two or three times more than you really start with. (John, CEO, Interview)

Therefore, like many other self-funded founders of newly formed businesses (Bhidé, 2000), John and Eric experienced significant financial pressures. These founders often do not make sufficient allowances for on-going working capital requirements, in addition to funds required to start the business, let alone extra capital requirements for firm growth (Churchill & Mullins, 2001).

As a consequence, John and Eric were under significant personal financial pressures that lasted for approximately two years and this meant they had to make financial sacrifices in order to survive. For example, neither of them drew a salary from the firm during this two year period (John, CEO, Interview, Magazine Interview & Online Interview2):

> Two years later we still had absolutely no money and hadn't drawn a salary. We held on for a bit longer through sheer stubbornness. (John, CEO, Magazine Interview)

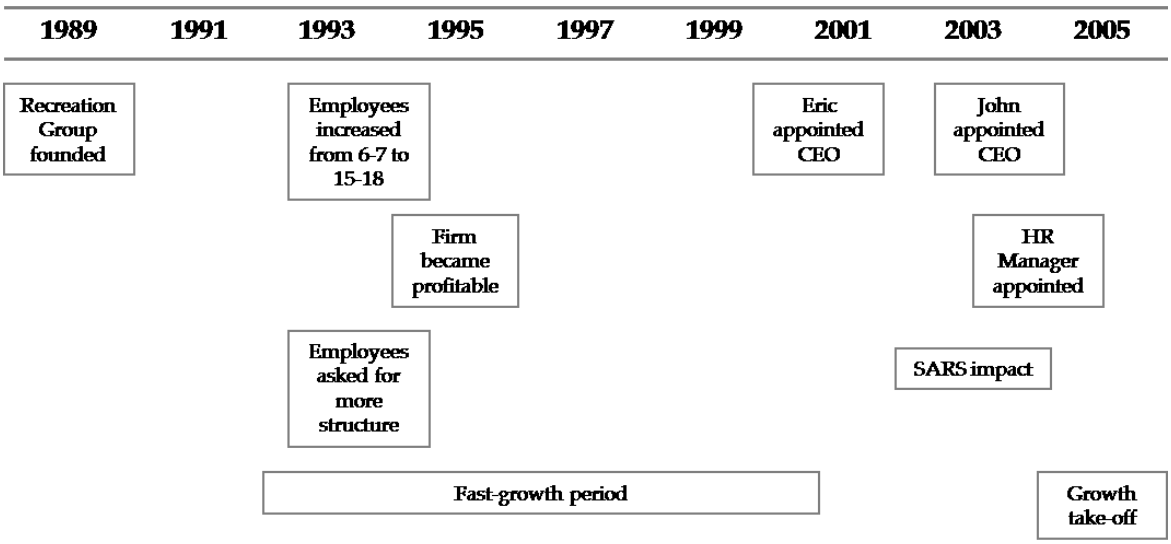
Financial constraints, according to John (CEO, Interview), also stunted the firm's growth in the first couple of years of its existence.

In order to gain an overall picture of the history and trajectory of the Recreation Group, Figure 6.1 shows a timeline of the firm's key events and phases from its inception in 1989 to 2005.[20] The firm's rapid growth stalled in 2002/03 for two years as a result of the severe acute respiratory syndrome (SARS) epidemic which had adverse consequences for a major

[20] As discussed in Section 4.5, most of the data was collected up to the time of the final interview in 2005.

part of the industry in which the Recreation Group operates (John, CEO, Interview & Online Interview 1).

Figure 6.1: Recreation Group's Timeline (1989 to 2005)

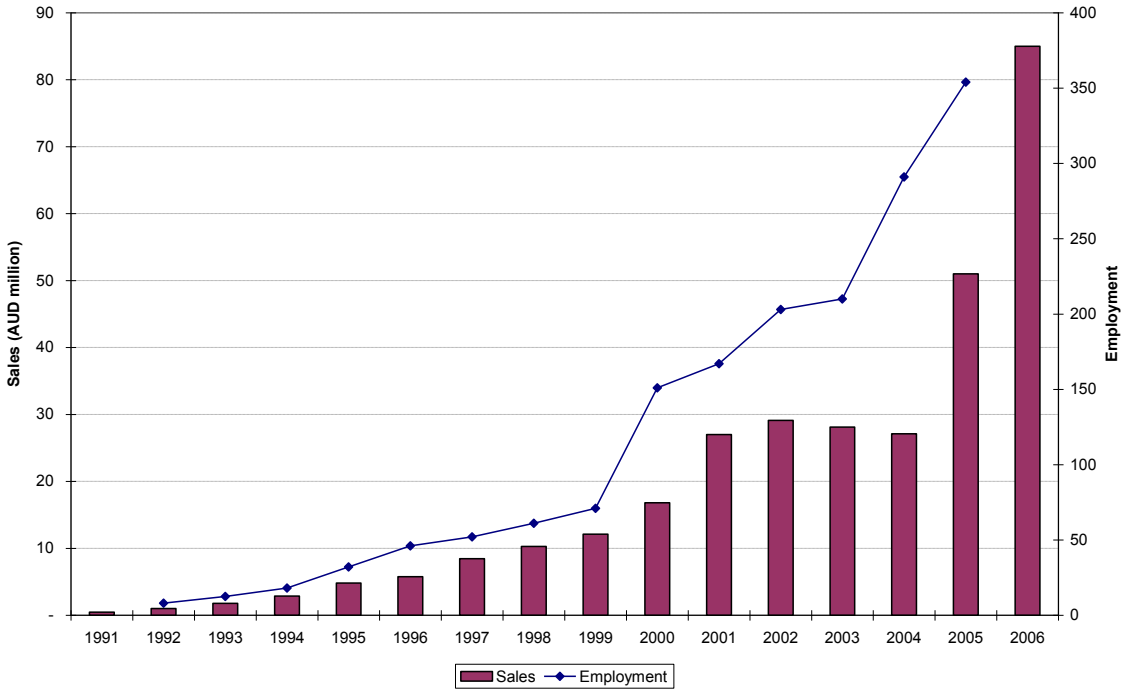


Source: Eric, GM Finance & IT, Interview & Questionnaire Response; Georgia, HR Manager, Interview; John, CEO, Interview & Questionnaire Response; Recreation Group, Website; Tim, GM Business Operations, Interview.

In order to complete the picture of this dynamic and fast growing firm, Figure 6.2 displays annual revenue for the period 1991 to 2006 and employment numbers (full-time equivalents) for the period 1992 to 2005. In 2009 and 2010, revenue had reached well over $100 million (AUD) and employment numbers were around 1,000.

Table 6.1 summarises the Recreation Group's revenue and employment growth from 1992 until 2006. A reading of the table shows that the 1990s was a period of substantial growth for the Recreation Group and, while revenue growth in the second half of that period was slower than the first half, the growth rate continued to be impressive until the early 2000s. During this time, the Recreation Group's revenue growth stood at an annualised average of 53.5 percent for the 11 year period 1990/91 to 2000/01.

Figure 6.2: Recreation Group's Annual Revenue & Employment Numbers (1991 to 2006)



Source: BRW (1998, 1999 & 2001); John, CEO, Questionnaire Response; Georgia, HR Manager, Employment Figures Update.

During 2003/04 and 2004/05, the firm was severely affected by the SARS epidemic that resulted in negative growth. Despite this setback, the Recreation Group survived and profits remained positive over the seven year period to 2005, averaging $2.7 million (AUD) (John, CEO, Questionnaire Response).

Typical of many self-funded start-ups, the Recreation Group had few resources initially, and the founders had little choice but to be very hands-on and to play a range of roles in order to operate their business. However, over time, this changed as the two founders developed a workable structure and some role definitions to streamline their firm's activities.

By 2008, the Recreation Group was a complex global business with 23 companies operating under the auspices of the parent company with five joint ventures that extended into 96 countries (Recreation Group, Article 2). In 2011 it announced a strategic venture with a major international group (Recreation Group, Press Release & Website) and, by this stage, the firm and its founders had won numerous environmental, tourism and

entrepreneurship awards, including one overseas award in 2009 for 'Best Places to Work' (Recreation Group, Website).

Table 6.1: Recreation Group's Annual Revenue & Employment Growth (1992 to 2006)

Year	Revenue	Employment
1992	120.0 %	n/a
1993	80.9 %	56.3 %
1994	59.9 %	44.0 %
1995	68.4 %	77.8 %
1996	19.3 %	43.8 %
1997	47.2 %	13.0 %
1998	21.6 %	17.3 %
1999	17.7 %	16.4 %
2000	38.8 %	112.7 %
2001	60.7 %	10.6 %
2002	7.8 %	21.6 %
2003	-3.4 %	3.4 %
2004	-3.6 %	38.6 %
2005	88.2 %	21.6 %
2006	66.7 %	n/a

Source: BRW (1998, 1999 & 2001); John, CEO, Questionnaire Response; Georgia, HR Manager, Employment Figures Update.

With annual revenues of over $100 million (AUD) in 2010 and 2011 (BRW, 2009 & 2010), the firm was no longer the fragile and financially troubled entity it had been and, importantly, it was no longer dependent on the on-going daily management of its founders. Organisational members' roles were now more clearly defined and many operating systems were in place to help ensure the business was not overly reliant on a few key individuals.

The next section explores the concept of firm sustainability from the view point of this case study's participants.

6.3 Firm Sustainability and Managerial Capabilities

Interviewees of the Recreation Group[21] were asked for their views on what they considered to be a sustainable firm. Like the interviewees of Healthy Franchise, the term 'firm sustainability' was not defined and the Recreation Group interviewees were prompted to focus on internal organisational factors. For Eric, business survival and the ability of the business to continue to pay its people were foremost on his mind when he thought of sustainability:

> I guess for me sustainability is just the ability of the company to continue to exist and that's of prime importance. This is of utmost importance really. And I guess we've always run – even though we grew fairly quickly – the company fairly conservatively in financial terms because we see that we have a very big responsibility to the people that we're employing. (Eric, GM Finance & IT, Interview)

Financial prudence was a theme touched upon by all interviewees and this was seen as a critical element of the firm surviving the SARS epidemic (John, CEO, Interview & Online Interview 1; Tim, GM Business Operations, Interview). Because the founders had built up their cash reserves and not squandered their profits, they were able to withstand the downturn caused by this epidemic without retrenching employees, and their management of this defining event contributed to increased levels of employee loyalty (Tim, GM Business Operations, Interview).

Both founders saw their employees as collaborators in the business and made considerable efforts to ensure that employees were treated with respect. For instance, during the SARS epidemic, the founders closely monitored business activities and the firm's financial outlook almost on a daily basis and, throughout the crisis, staff were kept fully informed, through regular meetings, about where the business stood and the implications for their jobs (John, CEO, Interview). It was, therefore, not surprising that Eric (GM Finance & IT,

[21] In addition to the two founders, Tim, GM Business Operations, and Georgia, HR Manager, were interviewed. Tim commenced with the Recreation Group in 1993 and Georgia in 2002.

Interview) expressed a responsibility towards his employees as an important component of firm sustainability.

Eric was also asked whether growth was important for firm sustainability and, in his view, he believed that it had helped his business in attracting and retaining employees:

> I don't think it [firm sustainability] does mean the business has to [grow], but I think it's developed as part of the ethos of the company that we do that. And that attracts people, helps you to retain people because they are excited that you are doing new things and you're not stagnant as a company. But also it gives them a lot of opportunity. And we've always seen that as very important. (Eric, GM Finance & IT, Interview)

Conversely, Eric (GM Finance & IT, Interview) pointed out that in the years that the business did not grow (i.e., 2003 to 2004) he "found it really frustrating because people were still putting in a lot of effort, but nothing's happening for it". Consequently, for Eric, while growth was not essential for sustainability, it made it easier to attract and retain employees because of the increasing opportunities that it provided for them.

Another aspect of firm sustainability that interviewees raised concerned the founders' ability and inclination to delegate responsibilities. A keystone of both founders' management philosophy was based on the importance of delegation. John expressed it in terms of taking some considerable time away from the business each year:

> Fortunately, both of us, but me in particular, have always been a huge rap on delegation and I'm not one who particularly enjoys working hard. I probably work 35 to 40 hours a week max and I take 12 weeks holiday a year. I just don't get my joys out of working. (John, CEO, Interview; also John, CEO, Online Interview 1)

However, this statement disguises the way delegation was actually practiced in the organisation; that is, as an embedded practice which is not dependent on whether the founders are present or not. John (CEO, Interview) explained that both founders had set-up a devolved structure with clear delegations so that the business could operate as

normal in their absence and, at times, both founders had been away at the same time. Eric corroborated this point:

> We can both be away and everything happens. And yes, it's sustainable that way. We've probably been that way for a few years now. (Eric, GM Finance & IT, Interview)

Tim, GM Business Operations, also emphasised the founders' abilities to devolve responsibilities and recognise managers' contributions. In particular, he praised John's talent for balancing the need for making tough decisions while respecting the roles and contributions of his managers.

> We have a management group now and [John] is excellent in getting input from the management group. Still good at making decisions and the hard ones himself when he needs to but I think that ... it comes out in a couple of ways, one is letting people have responsibility for what they are doing but also getting input from other people and recognising your role. (Tim, GM Business Operations, Interview)

However, for Tim, delegation was one of three important factors contributing to the Recreation Group's sustainability. The other two concerned the founders' complementary roles and skills, and what he referred to as the adherence by the founders to an "anti-greed culture" (Tim, GM Business Operations, Interview). With regards to the second factor, Tim (GM Business Operations, Interview) emphasised that the two founders had "vastly different skills"; John is the classic entrepreneurial, ideas man and Eric is the implementer, although much of the implementation was recently being done by other managers. Nevertheless, Eric continued to be the "moderating force" within the partnership and he would ask questions such as "can we afford it" (Tim, GM Business Operations, Interview). According to Tim (GM Business Operations, Interview), "they've got a real balance there, there's a balancing factor rather than the entrepreneur firing off and going off in all different directions". He, therefore, argued that the founders' complementary roles were a real strength for the firm; a point also substantiated by John (CEO, Interview) and Eric (GM Finance & IT, Interview).

With regard to the third factor that he considered important for the Recreation Group's sustainability, Tim had the following to say:

> There is an anti-greed culture and you really get the impression from the start that the Directors aren't in it for the money. We definitely want to be profitable. We want to get fair salaries but, ever since I was here, there has never been a driver 'this is to make bucks', take money out of the business as quickly as possible and make as much as we can. (Tim, GM Business Operations, Interview)

The prime example given of this 'anti-greed' factor was the founders' decision to tough out the SARS crisis and not to retrench any employees. During this time, they did everything possible to avoid lay-offs even though the SARS epidemic hit the business' financial perform very hard in 2003 and 2004 (John, CEO, Interview & Online Interview 1). During the crisis, the founders also redeployed, rather than retrenched, Australian staff located in Asia to research prospective business in Europe (Recreation Group, Article 3).

Another factor identified as important was the ability of founders to develop and learn as their firm grew. John clearly pointed out that they made many mistakes in the first few years of their fledgling firm but he also emphasised the positive learning outcomes of this period that he associated with later firm success:

> I think in many respects we probably started our business badly in some ways. We kinda thought we knew a little bit, not that either of us was from the industry, but we had a few ideas of what might work. I think nine out of ten of those ideas probably didn't work but having said that you learn a lot in the first year or so, and a lot of what you learn in that first year or so really does put you in good stead for the future and it's those mistakes that we made very early on that did set us up for our growth which has been pretty continual ever since. (John, CEO, Interview)

Experiential learning is an important way in which entrepreneurs learn (Coetzer, Battisti, Jurado & Massey, 2011; Cooper, Gimeno-Gascon & Woo, 1994: Macpherson & Holt, 2007; Penrose, 2009) and getting a business to a sustainable state requires a significant amount of learning at both the individual and organisational levels as new and more complex

challenges are encountered (see Andrén, Magnusson & Sjölander, 2003; Churchill & Lewis, 1983; Greiner, 1972; Scott & Bruce; Rae, 2005; Wright, Dunford & Snell, 2001).

Before closing this discussion on firm sustainability, it is worth returning to the timeline (see Figure 6.1) and to see when the firm became financially viable. There was a turning point when the business began making a positive financial return and, according to John, this happened after 1994:

> I remember having a discussion with my [business] partner. We were in the fifth year of the business and we were having a conversation about whether it had been worthwhile actually starting the business. I was still in two minds as to whether it was or it wasn't. But it was probably a very quick time after that we actually got that economy of scale that we were running reasonably efficiently and we were starting to get some profitability out of the business. It certainly took a long time. (John, CEO, Interview)

Starting a new business is not for the faint hearted as demonstrated in this case study. Five years before profitability was realised and after experiencing prolonged periods without drawing a salary was particularly challenging for both business founders. It, therefore, takes a great deal of perseverance and foresight to remain committed to a business idea that may or may not work and, as suggested in this thesis, attaining short-term profitability is not an adequate goal for entrepreneurial founders who want to establish organisational longevity.

As shown above, 'firm sustainability' can have different meanings for different organisational players but there are certain aspects of the concept that appear to have a common thread. First and foremost, firm sustainability is about organisational survival. Second, start-up businesses are not guaranteed sustainability and it takes time for a business to develop into a sustainable entity. Third, when considering internal factors, entrepreneurial founders are focused on attracting, retaining and managing employees. Fourth, founders' own roles are intricately and dynamically related to the development of organisational resources and capabilities, including HRM practices.

Two of the principal factors to emerge from the Recreation Group case study as important for firm sustainability (i.e., the changing roles of the entrepreneurial founders and the development of organisational resources and capabilities) will be examined in the remainder of this chapter.

6.4 Entrepreneurial Founders

As discussed earlier (see Sections 3.2 and 5.4), the role of the entrepreneurial founder in an emerging firm is pivotal (Baum, Locke & Smith, 2001; Brüderl, Preisendorfer & Ziegler, 1992; Brush, Greene & Hart, 2001; St-Jean, Julien & Audet, 2008). The evolving role involves a great deal of learning and development on the job (Coetzer, Battisti, Jurado & Massey, 2011; Cooper, et al., 1994; Macpherson & Holt, 2007). Therefore, the founder's initial contribution in the form of human capital and the founder's role changes are important for understanding firm sustainability. These issues are considered in the next two sections within the context of the Recreation Group.

6.4.1 Human Capital

The human capital of entrepreneurial founders (such as educational background and prior start-up, industry related and managerial experience) has been found to provide strong support for direct links to firm growth (Gilbert, McDougall & Audretsch, 2006) and is of interest in this thesis.

Before starting the business, neither founder had any business start-up or relevant industry experience, but one of the founders had some limited exposure to managerial work (Eric, GM Finance & IT, Questionnaire Response; John, CEO, Questionnaire Response). However, both founders have commerce degrees indicating some level of formal knowledge about business and management (Eric, GM Finance & IT, Questionnaire Response; John, CEO, Questionnaire Response).

As with the founders of Healthy Franchise, John and Eric lacked much of the human capital relevant to starting a business in the recreational and tourism services sector. However, their tertiary education was an asset in that they had acquired tools, presumably, for learning and analysing issues in a systematic manner. Nevertheless, they

did not have any industry, start-up or significant managerial experience to fall back on and they confronted the immense task in front of them when they started the firm using a trial and error approach (John, CEO, Interview; Recreation Group, Article 2).

6.4.2 Role Complementary and Leading

Who takes the lead role can be a very contentious issue in an emerging firm where both founders are active on a day-to-day basis. It is possible to run a firm where the lead role is shared but as the organisation grows in size and complexity, the more pressing is the need for a formalised structure under a single lead individual (Cooney, 2005; Ensley, Carland & Carland, 2000). In the case of the Recreation Group, the question of whether one of the co-founders ought to take the lead role was not seriously addressed until ten years after the firm's initial establishment (Eric, GM Finance & IT, Interview; John, CEO, Interview). Up until that time, both founders jointly managed the business and the issue of whether one or the other founder should run the firm was not seriously considered (Eric, GM Finance & IT, Interview; John, CEO, Interview).

It was only after a lengthy period of time that the co-founders realised that their roles needed changing but for differing reasons. For Eric, it was because some activities were not being undertaken:

> Another significant transition must have been at the point where [John] and I decided that one of us needed to be CEO. Because we were finding there were things that weren't getting done because no-one was responsible for them. (Eric, GM Finance & IT, Interview)

In contrast, for John, the key issue prompting the consolidation of the CEO role was their duplication of effort on various fronts. In particular, John pointed to their joint attendance at many meetings where the outcome would have been the same whether one or both of them attended:

> For about ten years we were both joint directors, we didn't have a CEO or anything, and then about five years ago I noticed that we were both going to quite a few meetings, because you're both directors. If there was a sales thing I'd go without

> [Eric], but because it was something else we'd often both go. And I kind of noticed that you know we're kind of saying the same things and I just kind of thought oh, we're not actually adding value by the two of us being here, so one of us should take the mantle as CEO, make those big decisions if the other one can live with them. (John, CEO, Interview)

It is apparent from these two accounts that both founders reacted to their unique circumstances rather than following a pre-set plan developed years earlier. From these accounts it is also unclear how long the CEO role issue had existed as an on-going concern but it took ten years for the founders to make the definitive decision. Whether this was because of their casual attitude towards organisational structure and leadership issues or because the issue was too sensitive for them to confront and resolve remains unclear. Alternatively, it may have taken this long for the problems to have surfaced. In any case, they both eventually agreed that one of them needed to take the reign and it was resolved in the first instance by instituting a rotational arrangement; implying that there was no initial agreement on who should take the lead role for the longer term and, therefore, suggesting a potential element of contention between the two founders. It was summarised by John in the following way:

> We had a chat about it and I thought he could be better as CEO than I because his execution was overall better than mine. Also I thought we've got a higher growth agenda going on so I'd like to actually concentrate on the sales and marketing function to put that into place. So he was the CEO for two and a half years. (John, CEO, Interview)

However, the rotational arrangements ceased after John had his stint in the role. John went on to explain that he enjoyed his role as CEO and wanted to continue doing it:

> Rotating and then after we each have a couple of years, work out what we wanted to do. So he had – well it was actually two and half years – and I had two years as CEO. I talked to him about 12 months ago and I said, what do you want to do, and he said I don't really want to do it again, and I said well I'm kind of enjoying it still so I'll do it until I don't enjoy it and then we'll get an external CEO. Sorry, either external or someone else. (John, CEO, Interview)

John mentioned that he had asked Eric what he wanted to do about the role of CEO, whereas Eric suggested that John had been more direct and stated that John had wanted to continue in the role. In Eric's (GM Finance & IT, Interview) words: "he [John] wants to keep doing it and I'm quite happy for him to keep doing it". The undertone of these differing accounts suggests that this was an issue of some importance for them and one which was resolved only after a lengthy trial process.

There are three possible scenarios that may explain the co-founders respective perspectives regarding the CEO role. First, their casual approach to the leadership issue during the firm's first ten years was a workable one which did not need resolving. This approach may have carried through into the rotational arrangement and was not an issue of any consequence for either of them. Second, Eric may have gone along with John remaining in the CEO role, despite their earlier agreement, in order to keep the relationship in harmony. Third, Eric may not have truly sought the CEO role on the second occasion because he did not enjoy it as John stated. While there is insufficient data to conclude one way or the other, what is evident is that the respective roles of the co-founders were eventually, after ten years, clarified with respect to who would lead the firm. This was against a backdrop of various staff members coming to them a few years earlier and asking them to implement more structure and a management team (Eric, GM Finance & IT, Interview; Tim, GM Business Operations). However, while some preliminary structural considerations were dealt with at the time, the lead role issue was not.

Nevertheless, both founders were very clear and adamant about the soundness of their relationship and business partnership (Eric, GM Finance & IT, Interview; John, CEO, Interview). John, in particular, stressed how solid the relationship was between the two of them:

> Between the two of us, oh it couldn't be better yeah, no. You know 15 years and we've never had an argument which is amazing. (John, CEO, Interview)

Perhaps, the solid foundation of the relationship, together with the success of their business, explains why the CEO role issue was resolved without any noticeable animosity despite the length of time it took to resolve.

In addition, Georgia, the HR Manager, pointed out that both founders shared a common characteristic in that they were both risk takers:

> One of the wonderful things is that both [John] and [Eric] are certainly risk takers, I suppose that's become part of being an entrepreneur, so certainly at the management level you know, we're going to take risks, we're going to try things. (Georgia, HR Manager, Interview)

However, the risks they took seemed to be tempered by they complementary skills that also seemed to have been a factor in helping to differentiate roles between the two of them and in helping to establish the firm on a sustainable footing (Eric, GM Finance & IT, Interview; Tim, GM Business Operations, Interview). The co-founders of the Recreation Group had known each other since their university days and, while their academic training was similar, their predispositions were different but complementary. As noted, John was more predisposed to sales activities and to developing new ideas, while Eric was more inclined to implementing systems and processes. Eric summed their respective positions in the following way:

> Well, I guess [John's] much more the one who's there thinking of new things and getting bored really quickly and wanting new things to keep himself occupied whereas I'm much more – the things we do now I want to do them properly, and that's been a really good balance because I'll be there and people saying – I guess putting systems in place and ensuring that what we're doing now is a good basis for having growth in the future and being able to handle that growth. (Eric, GM Finance & IT, Interview)

According to Eric (GM Finance & IT, Interview), he is "a fairly thorough person" who is more process driven, whereas John will look at the bigger picture and is prepared to take more risks. John confirmed how his role had evolved over time from being completely

hands-on to being able to practice, what is for him, a more natural and devolved management style:

> I hugely love having a company and I hugely love you know getting involved in new projects and thinking up stuff and all that kind of thing, but I see my role as more the creative and forward thinking job, that's my role. And others in the management and below as to actually do the execution of particular projects or work or whatever it is. To get the rubber on the road. So yeah, my role I guess has changed from totally doing everything in the office to, over time, getting people in who could do it probably better than me and then working out where we want to go as a company, be that in new markets or new products or whatever it is. (John, CEO, Interview)

These two sets of complementary skills make for a powerful combination and are important for any fledging firm. Bhidé (2000: 303), for instance, has argued that an advantage of partnerships is "in the joining of a detail-oriented founder who can take care of operations with a founder who provides the strategic vision". On the one hand, the ability to be creative and sell new ideas within the marketplace is critical to revenue generation. On the other, the ability to impose structure and consistency is also important for delivery of products and services to customers. The Recreation Group, therefore, had a strong mix of these critical sets of skills within the co-founder partnership.

The founders' predispositions have been reflected in the roles they have played in the business and how these have developed over time. In this regard, Georgia made some important observations about John's development within the CEO role, particularly from her perspective as the inaugural HR Manager:

> [John] had only started as CEO a few months before I was appointed. And probably the first year he and I didn't work together much at all, which was really bizarre because he had said from the time of my appointment that he envisaged working very closely with me and I had always in the past worked very closely with managing directors, so I did find that weird. But he just let me go developing the various systems that I put in place, things like that. But then I've seen him grow so much as CEO that it's terrific. (Georgia, HR Manager, Interview)

As she stated, John was comfortable performing sales and marketing activities and it was only after she had been in the organisation for 18 months that she began seeing a broadening of his role. Prior to that time she had seen him as "still very heavily focused on marketing and certainly less interested in other aspects of the business, like I suppose the service areas like HR, Finance and IT" (Georgia, HR Manager). However, after being in the organisation for 18 months, she found that John had begun to take a much broader view of his role:

> What I've seen is him taking a much more helicopter view of the whole business. Recognising not only the value but the needs that the business has of all the different areas in the business. We now – I feel we work very closely together, particularly on the longer term planning of, be it setting up new ventures or be it with growth we need to amend our organisational structures and stuff like that. (Georgia, HR Manager, Interview)

In taking this broader approach, John was not only taking an interest in other areas of the firm that he once neglected but, as Georgia (HR Manager, Interview) acknowledged, he was undertaking longer term planning and addressing new market requirements (such as, establishing new ventures) as well as internal structural needs.

With regard to Eric's role, Georgia observed that his role was less clear and she took active steps to create roles for him so that he had meaningful parts to play in the organisation:

> I probably didn't have much of a sense of what [Eric] did until I started creating roles for him. .... In the last 12 months, we created the current positions, General Manager IT and Finance, so I now have a better handle on what he does. (Georgia, HR Manager, Interview)

In 2005, the Recreation Group hired a CFO in response to the ever growing complexity of its financial structures spanning many different companies across a multitude of national boundaries. Eric's role also continued to evolve as he became more involved in sponsoring management training programs (Georgia, HR Manager, Interview) and special projects and financial planning (Tim, GM Business Operations, Interview). However, with the need to introduce new and more specialised skills and experience (such as, that pertaining to

the CFO role), there is always a danger that the non-lead founder's role could become more problematic, particularly if he or she is perceived by other organisational members as drifting and not fully participating within the organisation. Nevertheless, Eric's role does not seem to be trivial and there appears to be a substantive element. In 2008, John referred to Eric's role as one of a "floating director" who would look at "areas in real depth and put more structure in and [then] move on" (John, CEO quoted in Recreation Group, Article 2). Given the continuing rapid expansion and added complexity within the firm, Eric's floating role can be viewed as a capability, as well as a resource, used to build other organisational capabilities.

Thus, a key consideration in attaining firm sustainability concerns the evolutionary path and the resulting role requirements of both entrepreneurial founders. Without an appropriate and accommodating resolution, this issue has the potential to become disruptive and could derail the firm's success. Therefore, the relationship between the founders is of critical importance for firm sustainability and it must be treated with care and sensitivity. Ultimately, one founder is likely to take and retain the lead role but, if it is not handled properly, the organisation could suffer dramatic and adverse consequences (Thurston, 1986). In the case of the Recreation Group, the founders worked through this delicate terrain sensibly and to the firm's benefit, albeit over a ten year period. An important factor was the founders' complementary predispositions and skills that were channelled into distinctive and supportive organisational roles. Of critical importance was also their openness to delegating key functional areas, but delegating presupposes having an adequate pool of employees and appropriate HRM practices, an area that will be considered next.

6.5 Organisational Resources and Capabilities

HRM has risen to prominence within RBV because of its potential contribution to superior firm performance (see Section 3.3). This section commences with a discussion of HRM practices at the Recreation Group and will be followed by consideration of the firm's other resources and capabilities where, as listed in Section 4.4.3 (Table 4.6), specific areas to be

considered are the management team, organisational, systems and processes, and financial.

6.5.1 HRM Practices

A major issue for many founders of emerging fast-growth firms is attracting the right sort of employees (Leung, 2003; Williamson, 2000). They often have an insatiable appetite for hiring people to fuel their firm's growth (Cardon & Tolchinsky, 2006; Kotter & Sathe, 1978). However, while employment growth has been significant for the Recreation Group's founders (see Figure 6.2 and Table 6.1), attracting people was not identified by them as a significant problem. That is not to say that it was not an issue, just that it was not highlighted as a significant concern.

A possible explanation is that the industry in which they operate is attractive to young people – their primary hiring constituency – who are amenable to travelling overseas. There are also other attractions, such as a strong and vibrant culture that is apparent when one enters the organisation's premises. In response to a question regarding the unusually low staff turnover at the Recreation Group, John made the following observation:

> We're passionate about what we do and I think that helps. And we have a set of values that we are very open and upfront about. They won't fit everyone and so I think we don't attract people to [the Recreation Group] in the first place that shouldn't be there. (John, CEO, Online Interview 3)

The people are friendly, helpful and appear enthusiastic, and there is a 'buzz in the air'. These are factors that resonate particularly well with young employees.

Tim (GM Business Operations, Interview) confirmed that there was a young and lively culture that drives people within the organisation, not for all, but for many. According to him, employees generally were not attracted nor remained with the organisation because of money. For him, "the only downside working here is that, compared to other companies, you don't get paid as much"; emphasising that this was an issue across the organisation (Tim, GM Business Operations, Interview). Yet, Tim was quick to point out many positive aspects of working at the Recreation Group which made him and others

remain. These included the alignment of organisational and personal core values, the flexible work arrangements and the opportunities to develop and move into new roles, and acquire new skills and experiences (Tim, GM Business Operations, Interview), the latter being possible because of the firm's success in growing rapidly.

The literature demonstrates that founders of emerging fast-growth firms typically confront 'growing pains' associated with managing rapid employment growth and increasing organisational complexity (Flamholtz & Randle, 2007). These growing pains appear in many different forms. For John and Eric, one such issue was that of the firm's organisational structure and it was first raised in the mid-1990s by staff when the firm expanded to occupy two floors and communication became a little more difficult. By this stage, their employment numbers more than doubled from approximately 7 to about 15 or 18 (Eric, GM Finance & IT, Interview). Eric recalls the moment when he admitted that HRM was rather foreign to both founders and that employees were prompting them to make decisions about how they were being organised:

> It wasn't probably until the company was about five years old that our staff started telling us: "Hey, you're got to manage us, and we've got to have a structure in this company" and that sort of stuff. Because we had so few people up until then that you were all working very close to each other and those sort of things were just – all the information gets relayed. … We had two floors in a building and I guess we got separated, so everyone didn't hear what was going on, so you need more communication. (Eric, GM Finance & IT, Interview)

This is when they first started implementing a management structure to manage their growing firm. The mid-1990s was a particularly chaotic and stressful time in the head office (Tim, GM Business Operations, Interview). While the founders were being reactive, what is instructive about this example, is that they were prepared to listen to what their employees had to say.

Nevertheless, even with its sizable workforce of 354 in 2005, the Recreation Group still had deficiencies in its HR systems and processes as Georgia observed:

> For sustainability, certainly one of our existing issues in regards to systems that we don't have is appropriate database and information management for our workforce. (Georgia, HR Manager, Interview)

She was alluding here to the lack of systems regarding workforce planning, skills development and performance management (Georgia, HR Manager, Interview). With regards to the latter, Georgia stated that it had been an "erratic" process.

> That there were some done [performance management reviews] and the quality of them were very questionable. … from when I initially came in I was quite surprised and taken aback at the lack of sophistication, in lack of ability to manage people. People knew they should do performance reviews but – they might have done them once a year perhaps – the quality of that discussion and the giving of feedback wasn't really looking at people's capacity and where they could grow to and that sort of thing wasn't there. (Georgia, HR Manager, Interview)

Tim (GM Business Operations, Interview) corroborated the inconsistency of the performance management system where the more established positions had detailed specifications, whereas newer positions were "a bit more rubbery". Georgia pointed to managers not being provided with proper training and skills development, a factor arising, in part, from a lack of training needs analysis (Georgia, HR Manager, Interview). So while the firm had well developed business systems in some areas, its HRM systems lagged behind and needed to be realigned with the overall size and complexity of the business. The HRM systems issues began to be addressed in 2005 as the HR Manager's role began to be taken more seriously by the CEO (Georgia, HR Manager, Interview).

In summary, recruitment problems did not seem to plague the founders of the Recreation Group as much as is typically the case with emerging fast-growth firms. These firms often have insatiable appetites for more and more people due to their rapid growth. Nevertheless, John and Eric did experience a number of 'growing pains' as evidenced by staff telling the founders that they needed to introduce an organisational structure in the mid-1990s. As with many fast-growth firms, people were subjected to working long hours and feeling stressed for considerable stretches of time (Georgia, HR Manager, Interview;

Tim, GM Business Operations, Interview) and HR systems and processes (arguably) lagged behind what was required given the size and complexity of the firm (Georgia, HR Manager, Interview).

6.5.2 The Management Team and Business Systems

Internal strains are a constant issue for rapidly growing firms (Flamholtz & Randle, 2007; Hambrick & Crozier, 1985; Kotter & Sathe, 1978). Even with business planning, predicting and managing growth is problematic, as John affirms:

> Managing growth is always hard, you predict where you think you're going to be and set down some objectives and some plans and invariably you get it wrong. I suppose our history is that we've tended to come in ahead of budget so as a result, your back office infrastructure and systems and processes are always found wanting. We often find ourselves scrambling to keep up with growth. (John, CEO, Online Interview 1)

Invariably, the firm's infrastructure will lag behind as will the number of people required to carry out operational activities (Nicholls-Nixon, 2005). Referring to 2004/05, Georgia summed up the pressures from too much work within the firm in the following way:

> We had a year of enormous stress, people working ridiculous hours for long periods of time. Too many new projects on the boil which everybody gets excited about because we love to do, but trying to run the rest of the business at the same time really without any additional resources. (Georgia, HR Manager, Interview)

However, John was very upbeat in discussing the significant number of projects (i.e., 89) the firm was planning to undertake in 2005/06 (John, CEO, Interview; Recreation Group, Projects List). These included investigating joint ventures in a large Asian country, feasibility studies regarding European operations, and developing retail systems and options. Internally, the pressures on managers was equally demanding with substantial projects including eight in HR (e.g., resource planning for growth, building management capability, and HR software selection and implementation), eight in finance (e.g., delivering timely and accurate financial reports, roll-out of finance systems for overseas

retail stores, and implementing a cost control system), and eight in IT (e.g., stabilising IT systems, increasing functionality of website, and implementing integrated business management system). Tim (GM Business Operations, Interview) pointed out that management had got a lot better at project planning during the preceding 12 to 18 months and that there was a better recognition within the firm that new projects required additional people or people to be redeployed from other areas.

Thus, building and implementing management and operational systems within a fast-growth environment requires a capable management team (Flamholtz & Randle, 2007; Macpherson & Holt, 2007). The founders of the Recreation Group placed a great deal of emphasis on ensuring they had the right team with the right capabilities, and effective delegation was a key component of their successful formula (Eric, GM Finance & IT, Interview; John, CEO, Interview). Figure 6.3 shows the management structure in September 2005.

Tim (GM Business Operations, Interview) attributed success to a strong learning culture that was reinforced by the founders' desire to delegate and allow managers to manage, and this learning culture, perhaps, is a way of helping people cope with the stresses and strains of work overload because it gives them a greater sense of control.

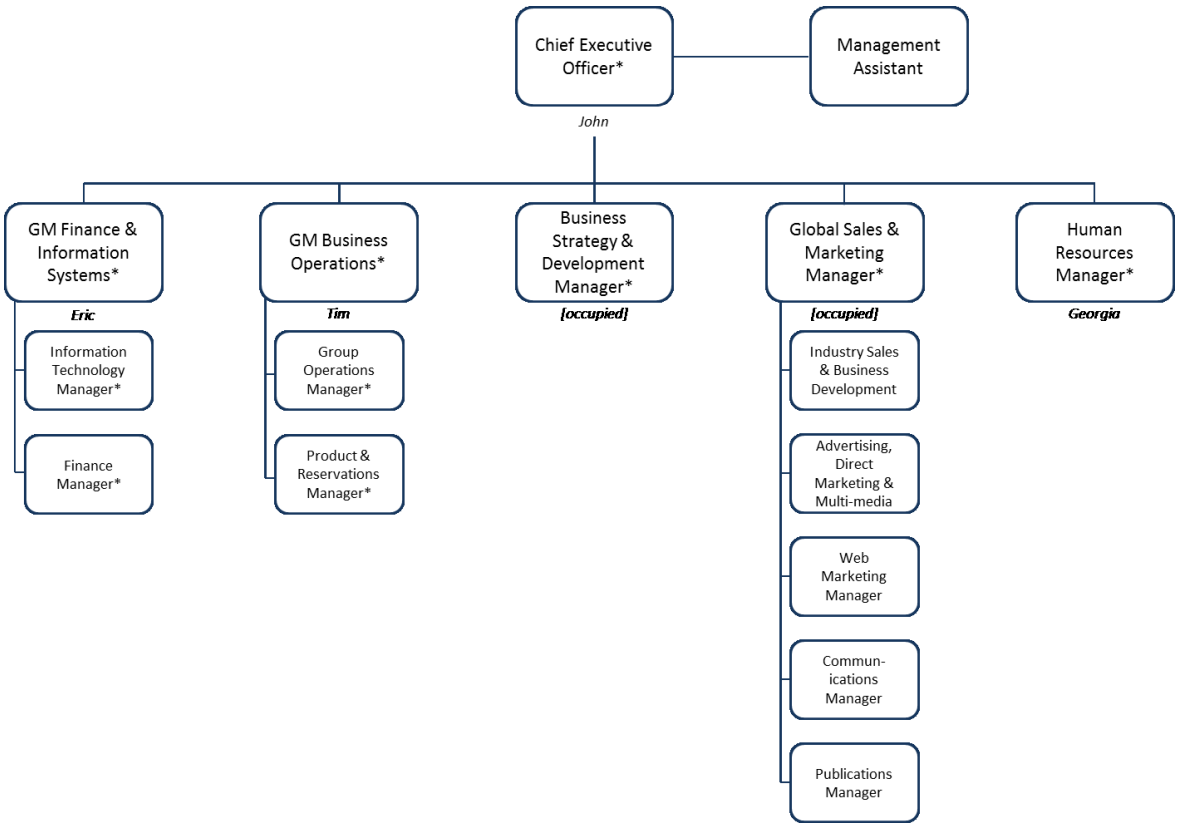
Thus, according to Tim (GM Business Operations, Interview), John and Eric were "exceptionally good at delegating" and mistakes were tolerated even if they were associated with large costs:

> It's a learning environment ... can you make mistakes? I've had some fantastic tangible examples of where I've messed up big time to the tune of tens of thousands of dollars and the attitude of the Directors is fantastic. ... I've heard someone say: "Hey, you can mess up, don't worry. If you're not messing up, you are not trying." ... once or twice that's OK. (Tim, GM Business Operations, Interview)

It is important for founders to create the context in which learning and knowledge creation takes place (Coetzer, Battisti, Jurado & Massey, 2011; Macpherson & Holt, 2007). Studies show that it is counter-productive for business owners to speak about the positive aspects

of delegation while at the same time not allowing their managers and employees to make mistakes (Flamholtz & Randle, 2007). Too many mistakes or mistakes with significant organisation-wide impacts can be very detrimental to the business performance. However, manageable mistakes within role boundaries are part of delegatory responsibilities and a learning environment.

Figure 6.3: Recreation Group's Organisational Chart (September 2005)



Entrepreneurial founders who do not tolerate some level of mistakes will soon find that their managers and employees will be reluctant to make even trivial decisions and, as a consequence, delegation will break-down. In this respect, the evidence suggests that the founders of the Recreation Group delegated responsibilities and fostered an environment where learning was encouraged and mistakes, up to a point, were tolerated.

John was able to elaborate on the importance of the wealth of organisational knowledge and experience that was built up over the years:

> Every single year we seem to have different problems to deal with. Over the years you build enormous operational experience. When you have operational problems, there's depth of experience within the organisation that knows how to deal with that. (John, CEO, Online Interview 2)

While this tacit knowledge and experience is important, its usefulness is derived from the calibre of the people and, in particular, the managers within the organisation who are able to remember and apply past experiences to new situations and circumstances (Macpherson & Holt, 2007). Importantly, they need to be able to adapt to their changing circumstances as the business grows.

However, not all long-term employees can and do develop as the organisation grows in size and sophistication and John (CEO, Interview) was able to provide an example of one key employee who had struggled to come to terms with her changing role demands as the business grew. She had been with the business almost since the beginning and had occupied a senior role but was unable to delegate a lot of her day-to-day responsibilities, resulting in her being too hands-on. John described the ensuing dilemma and its resolution in the following way:

> Now ultimately that's causing a little bit of conflict between her and me because I'm saying to her that I think she should be doing things in a little different way because it, there's only so many hours in a day … The business is bigger and she just can't keep this going on any more. And she says: "Yes, I recognise that, but I like it, I'm fast at it and I'm good at it." True, but if you were to keep being fast and good and all the rest of it, you can't necessarily grow up with the company and that's been a conversation over 18 months and it's not hostile but it is. She feels a bit stressed as to whether she should be trying to go up or staying where she enjoys it. And she's actually now made the decision that she wants to actually stay at this level, not pretend that she wants to go up, and has suggested that we get another person to be her manager which is a really interesting outcome. (John, CEO, Interview)

Similarly, Georgia gave the example of the Financial Controller who had not been able to keep up with the growth and complexity of the business:

> We have a financial controller who has been here for five years but the business has become too complex for her, with so many overseas companies, international tax laws, corporate reporting, all that sort of thing. She hasn't been able to keep abreast of it. We recognise this, that that's as far as she can go. (Georgia, HR Manager, Interview)

These issues are real and require sensitive management of long-standing employees with valuable business knowledge and experience. In this case, John seemed to have managed the situation adroitly but other founders may not be as successful. Nevertheless, to have pursued this conversation over an 18 month period seems quite lengthy but reflects the potential detrimental organisational impacts that such individuals may have were they to leave the organisation. Founders may also feel a sense of loyalty towards these long-standing employees and may be prepared to invest extra time to accommodate them in the larger organisation.

Developing and maintaining sound disciplines and systems for firm sustainability is another important role played by senior organisational members. Robust systems cannot be successfully developed and implemented without the strong will and commitment of the management team. Georgia emphasised this point when she said:

> … that the company has the robust disciplines in place to ensure that with growth the core business is supported and consolidated and that it's not going to fall over with bringing on new ventures or new products or whatever it might be. Part of that I think is in establishing good solid systems and having continuous practice re-engineering and business improvement practices in place. I think fundamentally it requires having sound, not only financial reporting, but financial management by all senior managers to ensure that the business is solid. (Georgia, HR Manager, Interview)

At the Recreation Group, these business systems were developed over the years because the founders and, in particular, Eric (GM Finance & IT, Interview) considered these sufficiently important to allocate scarce resources. However, allocating enough resources is a necessary, but not sufficient condition, for the realisation of adequate operating

systems. Managers are a critical element in developing and implementing such systems. Furthermore, not all required systems will be developed at the same time or with the same priority. As discussed in the previous section, some HRM systems and processes were still lacking in 2005.

6.6 Chapter Summary

The founders of the Recreation Group experienced considerable financial pressures during the first few years of their firm's existence but, nevertheless, decided to persevere. They had implemented an innovative and scalable business model and they could see significant potential for future growth.

Key ingredients in developing a sustainable business were the founders' predisposition to delegate responsibilities and ultimately develop a business that did not require either of them to be involved in day-to-day operations. While some matters lagged behind organisational needs (such as, organisational structure, CEO role and HR systems), they were open-minded and were prepared to implement changes over time by allowing their managers to manage.

While their respective roles were not formally defined for a long time, the founders' complementary skills and capabilities, and the common views about the business they shared made their working relationship very effective. However, the need to define their roles and clarify who was going to be at the helm of the business was something they both concluded was required for the business to continue to grow and prosper. Resolving the lead role issue was delayed for some time and once the founders agreed to address it, only an interim arrangement was implemented until eventually a more permanent outcome was reached.

The final of the three case studies is discussed in the next chapter.

7 Case Study 3: Talent Innovators

7.1 Chapter Objective

The objective of this chapter is to present the final of the three case studies and to lay the foundations for an enhanced theoretically informed conceptual model developed in Chapter 3, *Conceptual Model Development*, by focusing in more detail on the changing role of the entrepreneurial founder and development of organisational resources and capabilities, particularly HRM.

The chapter will unfold with a brief introduction to Talent Innovators and its business context. Unlike the first two case studies, greater interview access to the founders was granted in this case. The CEO, Julia, was interviewed on three separate occasions and the Chief Technology Officer (CTO), Gordon, on two other occasions. As a result of the extra material, this chapter is longer than the previous two case study chapters. In addition, interviews were conducted with four other senior members of Talent Innovator's management team.[22]

7.2 Overview of Talent Innovators

Talent Innovators started its life in the back office of a legal practice owned by the father of one of the founders. It was established to enable the founders to build custom software for clients. Typical of firms started by enterprising individuals with a broad business idea and not much capital (Bhidé, 2000), the founders were reluctant to work in a corporate environment (Gordon, CTO, 1st Interview; Julia, CEO, 1st Interview). In 1997, when they founded Talent Innovators, this young married couple had no prior business or managerial experience (Gordon, CTO, 1st Interview & Questionnaire Response; Julia, CEO, 1st Interview & Questionnaire Response), although lacking such experience is not unusual

[22] In addition to the founders, Dianne (GM Client Services, GM Client Portfolio Management & GM Shared Services), Mark (BDM), Patricia (GM Sales & Marketing) and Richard (Product Architect) were interviewed. Dianne commenced with Talent Innovators in 2003, Mark in 1999, Patricia in 2006 and Richard in 2000.

among founders of successful firms (Bhidé, 2000). Julia, while tertiary qualified in a science discipline, had neither business nor software related qualifications (Julia, CEO, 1st Interview & Questionnaire Response; Talent Innovators, Article 3). However, she did have one year in a corporate role as a graduate trainee before establishing the firm (Julia, CEO, 1st Interview). Her husband, Gordon, has tertiary qualifications in software development and, when he was completing his tertiary studies, he did part-time contracting work writing software for business clients (Gordon, CTO, 1st Interview & Questionnaire Response). This had gone on from 1994 until Talent Innovators was formally established.

From the time of start-up, the two founders had different but not clearly defined roles: Julia "ran the business" and Gordon focused on technical activities, including software design and development (Gordon, CTO, 1st Interview). However, their respective titles did not reflect this arrangement at start-up – Gordon was initially the MD, while Julia was the Business Manager – and the roles were not formally defined or understood by either of them (Julia, CEO, 1st Interview).

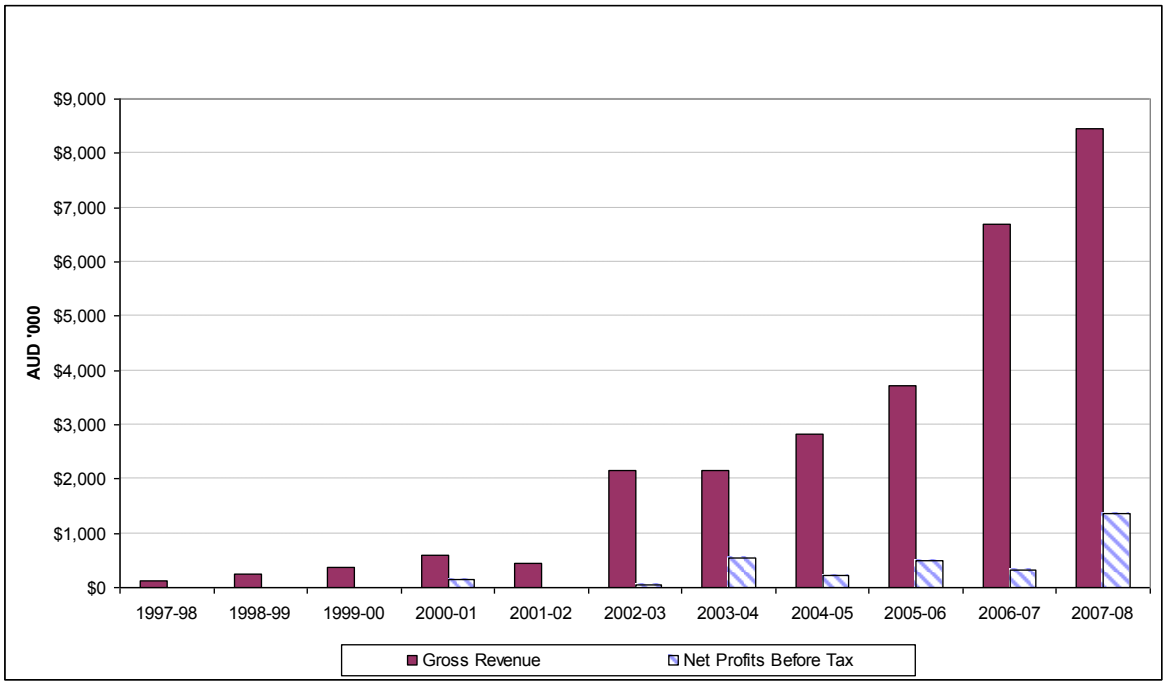
Within the firm's first two years, the founders had repositioned the firm from a developer of custom software to a provider of a core HR software product to large corporate clients (Julia, CEO, 1st Interview; Talent Innovators, Article 3). By 1999, the founders had also fully transitioned the firm to web-based applications and by the following year they were offering hosting facilities – using an Application Service Provider (ASP) model.[23] By 2007, the founders were offering a broader suite of software products based around its core HR product to clients in Australia and overseas (Julia, CEO, 1st Interview). At this stage, they had established a strong and unique presence in the Australian corporate market and, while competition at home was not particularly strong (Talent Innovators, Article 2), competition in overseas markets proved to be much more challenging (Mark, Business Development Manager (BDM), Interview). In 2009, Talent Innovators had a presence in

[23] An ASP model is where a third party (in this case, Talent Innovators) provides applications that are run on its own computer servers located on its own premises. Clients are able to log in and access their data remotely using secure networks.

three overseas countries and two Australian capital cities; its head office being located in one of those Australian capital cities (Julia, CEO, 3rd Interview; Mark, BDM, Interview).

In order to gain a good understanding of the firm's growth, analysis of the firm's employment, revenue and profitability, and net assets and liabilities is provided. By June 2008, Talent Innovators employed 53 people with revenue of $8.5 million (AUD). Figure 7.1 shows the significant revenue growth achieved by the firm from its inception.

Figure 7.1: Talent Innovators' Annual Revenue & Profit (1997/98 to 2007/08)



Source: BRW (2004, 2005 & 2006); Julia, CEO, Questionnaire Response.

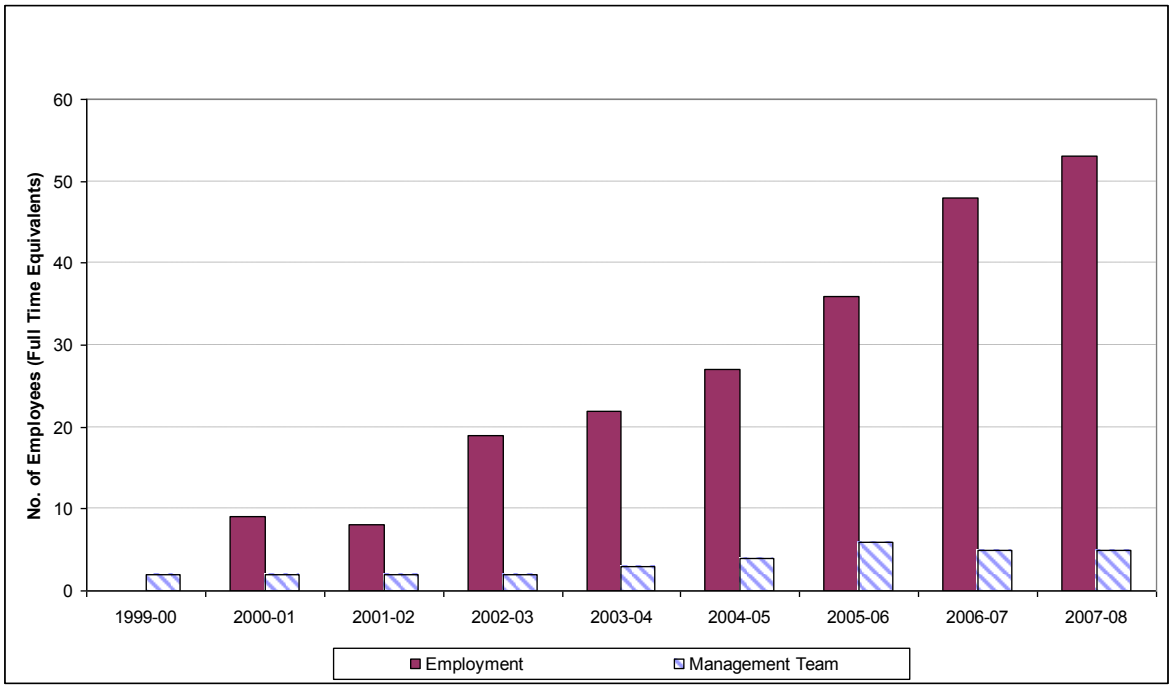
During the three-year period to 2007/08, Talent Innovators' revenue growth averaged 46 percent per year, consistent with the definition of fast-growth used in this thesis. Of particular interest is that this revenue growth is underpinned by a substantial recurring revenue base, as emphasised by the CEO:

> We still have a very solid business. ... If you turn off all new business within our organisation, we are still a $5 million dollar company. (Julia, CEO, 3rd Interview)

Coupled with this is the profitability of the firm and, as shown in Figure 7.1, it has been profitable since 2002/03.[24]

Also, associated with revenue and profitability growth is the steady increase in employment numbers since 2001/02 as shown in Figure 7.2. In the six year period to 2007/08 there was a significant total employment increase from 8 to 53 (representing an annual average increase of 94 percent) and, by early 2009, the firm had grown further to 75 employees (Julia, CEO, 3rd Interview).

Figure 7.2: Talent Innovators' Annual Employment & Management Team Size (1999/00 to 2007/08)



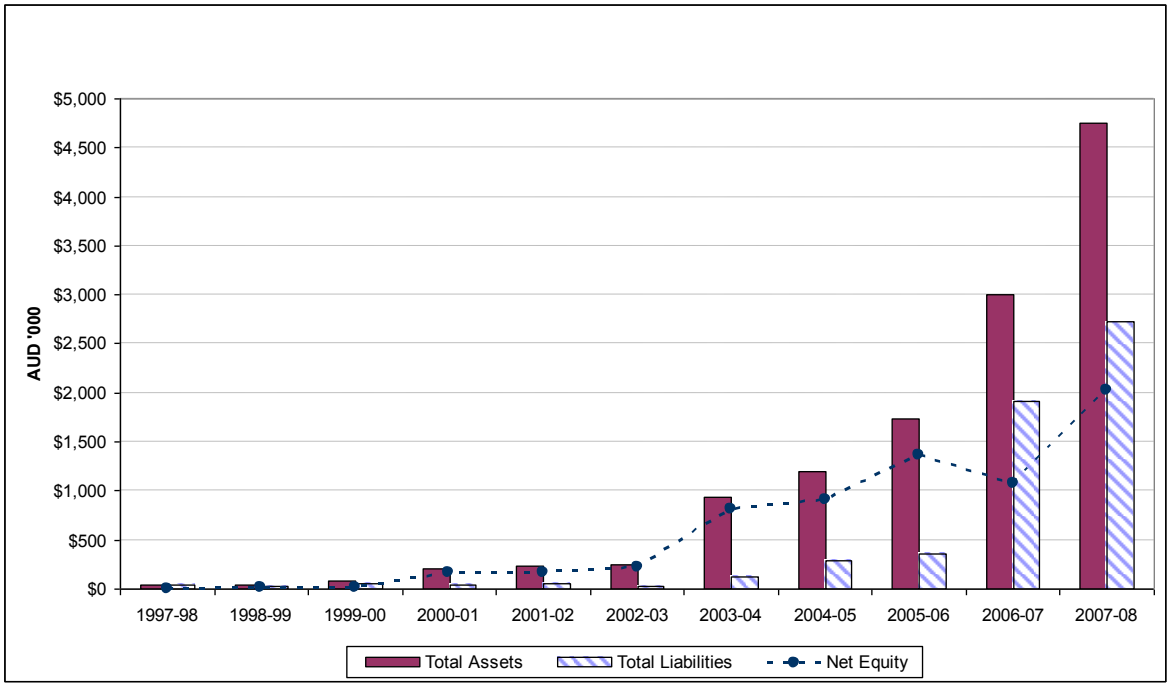
Source: BRW (2004, 2005 & 2006); Julia, CEO, Questionnaire Response.

The firm's total assets and liabilities together with its net equity position since its founding in 1997/98 until 2007/08 are shown in Figure 7.3. The diagram also shows that the firm steadily increased its net equity (and retained earnings) since 2002/03 with a dip in 2006/07

[24] As discussed in Section 4.5, most of the data was collected up to the time of the final interview; in this case, 2009.

as a consequence of its acquisition of a training and consulting business – Prism Consulting – in 2007.

Figure 7.3: Talent Innovators' Annual Assets, Liabilities & Equity (1997/98 to 2007/08)



Source: Julia, CEO, Questionnaire Response.

This strong net equity position underlined the confidence expressed by Julia in early 2009 about the firm's future outlook:

> So the interest levels in [particular products] have all of a sudden sky rocketed. So we have gone from being lucky to doing one demo a month to doing two or three demos on average a week since well certainly this calendar year and going back into last year. ... and we are starting to get traction. (Julia, CEO, 3rd Interview)

As shown above, the firm has performed extremely well in terms of profitability and growth in net equity from the time it won its first national accounts towards the end of 2002/03 until the present day. The achievement is augmented with Julia's bullish outlook for the firm despite widespread indicators of a severe global recession during early 2009 (Julia, CEO, 3rd Interview; Article 1, 2009). It is also noteworthy that the co-founders have developed a sizable firm without diluting their equity and to this day continue to be the only shareholders of the firm. In 2007, Julia reported: "we are profitable, even though we

put a lot of what would be our profit back into funding the growth strategies" (Talent Innovators, Article 1).

Entrepreneurial founders do not always make the right decisions and firms, such as Talent Innovators, do not become larger firms without facing numerous risks and overcoming significant challenges (Bhidé, 2000). The rosy picture painted above tends to obscure the considerable obstacles and severe pressures faced by the founders of Talent Innovators that will be considered below.

While this case study concerns a successful emerging firm, it is important to keep in mind that not all start-up firms are the same and, as Cardon and Stevens (2004: 297) point out, "[w]hile virtually all emerging firms are small at inception, not all small firms are emerging". Most firms are small and remain small (Davidsson, Achtenhagen & Naldi, 2006). Using this distinction, Talent Innovators was a small firm at start-up with potential for growth. From day one, the founders did not view the creation of their firm as a substitute for a job elsewhere (Gordon, CTO, 1st Interview; Julia, CEO, 1st Interview). They both admitted that they did not want to work in corporate jobs and the reason was that Gordon liked the freedom to create his own innovative software and Julia had a disposition to being a leader. Talent Innovators also fits Bhidé's (2000) 'promising' start-up archetype that is contrasted with 'corporate' start-ups, 'marginal' start-ups, 'venture capital backed' start-ups, and 'revolutionary' start-ups. According to Bhidé (2000: 29), promising start-ups "start without novel ideas or scarce assets" but find opportunities where there is market turbulence and where founders' efforts can make a difference. The founders of Talent Innovators eventually found a market niche that they could exploit and were able to adapt and combine their respective skills to build a sustainable firm. In the next section of this chapter, major challenges the founders of Talent Innovators confronted since start-up will be considered.

7.3 Talent Innovator's Challenges

After struggling to survive during its first five years, Talent Innovators grew rapidly and is today a sustainable firm. In this section, Talent Innovators' story will be considered from

three vantage points: first, the immediate aftermath since the firm's inception; second, key organisational transitions or events; and finally, its period of rapid growth (from around 2002 to 2007). This section, therefore, will set the scene for the more analytical discussion in Chapter 8, *Overall Findings and Analysis*, and Chapter 9, *Synthesis and Conclusions*.

7.3.1 Start-up Pressures

Start-up firms like Talent Innovators face considerable difficulties competing against established counterparts while they remain small (i.e., liability of smallness) and attempt to gain legitimacy within their market sector (i.e., liability of newness) (Aldrich & Auster, 1986; Cardon & Stevens, 2004; Stinchcombe, 1965). As a consequence, they have a higher risk of failure than older and more established firms. As new firms build capabilities and become accepted within their respective business communities, their failure rates tend to diminish (Freeman, Carroll & Hannan, 1983). Small firms also have a higher propensity to fail because they lack resources and are often at the mercy of business cycles, making them particularly vulnerable to economic downturns (see Section 2.2.2).

In the case of Talent Innovators, the firm was extremely vulnerable during its first four or five years and, in the absence of a track record, the founders were unable to obtain external funding, particularly from the banks (Julia, CEO, 1st Interview). Firms, such as Talent Innovators, face significant internal strains when they are not well funded (Harper, 1995).

At the beginning, the founders had a basic idea about writing custom software for hourly fees but beyond that they did not have a well thought out strategic plan (Gordon, CTO, 1st Interview). In Gordon's words, "there wasn't any specific goal to take over the world or anything, it just seemed like a good idea at the time" and it represented a more attractive alternative than working in a large corporation (Gordon, CTO, 1st Interview). The business strategy evolved over a period of one or two years and eventually became centred on capturing large corporate enterprises as clients (Julia, CEO, 1st Interview). In the early days, the focus was not on developing HR software.

Initially, Gordon's networks were used to obtain work, and these networks were established prior to and as the firm was forming (Gordon, CTO, 1st Interview; Talent

Innovators, Articles 1 & 4). This was an advantage that is not always available to entrepreneurs starting new firms (Bhidé, 2000). Nevertheless, the work did not lend itself to a steady flow of work activity but was fraught with peaks and troughs causing large swings in workloads that consequently added considerable pressures for the founders (Mark, BDM). One mechanism used to address heavy workloads was what the founders called "double shifts":

> We did a substantial amount of what we call double-shifts. So back over the preceding four years we'd had a number of staff come and go from the company. We hired them all back as – well they stayed in their original job but they came back and worked for us from 5 till midnight doing double work, and then we got double the time done. And they all knew our software, they had worked here before, so that worked quite successfully. (Gordon, CTO, 1st Interview)

However, when the workloads were high they were "under pressure to get things done and trying to balance up the quality and deliverables and the client expectations" (Gordon, CTO, 1st Interview). Heavy workload periods distracted the founders from focusing on sales activities that, in turn, led to sales downturns and insufficient work at other times until further sales were procured. This 'roller coaster' effect is typical of firms with very limited resources (see Section 2.2); where the 'production' personnel may need to double as 'sales' personnel at alternating times.

As Flamholtz and Randle (2007: 29) argue, there is an emphasis at this stage on the two critical tasks of "defining markets and developing products" (see also Churchill & Lewis, 1983; Greiner, 1972). Lack of resources and experience are key characteristics of start-up firms (Bhidé, 2000). In looking back at Talent Innovators' formative years, Gordon had the following general comments to make regarding the start-up pressures experienced within Talent Innovators:

> Lack of money, lack of resources in that regard. A lack of know-how, especially in regard to how to market and sell our product. A lack of experience in pricing and business strategy, so we almost embarked on death by discount in a way like we're not selling enough, it must be too expensive so we'll make it cheaper. And a lack of

> ability to price in the value that we gave. It's just we were selling hours at that stage so it wasn't very scalable or you'd go on holidays and then suddenly your income would go to zero. There were a lot of things we didn't have at the start. (Gordon, CTO, 1st Interview)

Therefore, being inexperienced and lacking resources and know-how was a significant constraint for these young founders. A key factor, very often lacking at the start-up phase, is a deficiency of capital and on-going cash flow, an issue which Julia touched upon:

> We were Uni students when we started. This made it easier and harder. Made it easier because we didn't know another life that we were letting go of financially, and we didn't have a mortgage or any children or all of those expenses things. And we hadn't learned to live in an expensive lifestyle. Made it harder because we literally didn't have any money. And we didn't have anything we could borrow against. And being young, in the IT sector, and with not very much experience, banks and the like wouldn't go anywhere near us. (Julia, CEO, 1st Interview)

Having been used to an inexpensive lifestyle, therefore, made their predicament somewhat palatable. Nevertheless, lack of money, emphasised over and over again by the founders, had very sobering and personal effect on both of them:

> Certainly financial pressures. A lot of financial pressures. We spent many months eating nothing more than rice. I worked out that I could get us by on $20 a week, the two of us. (Julia, CEO, 1st Interview)

Nevertheless, the founders persevered as best they could until their first breakthrough occurred with a significant sale to a major national client in late 2002. The next section will address the key problems Talent Innovators faced regarding its rapid growth.

7.3.2 Challenges of Fast-Growth

As in the case of Talent Innovators, growth can be non-linear with dramatic peaks and troughs from month-to-month (Garnsey & Heffernan, 2005; St-Jean, Julien & Audet, 2008). These swings in business activity can have serious impacts on a firm's cash flow and founders' stress levels (Flamholtz & Randle, 2007). Throughout Talent Innovators'

formative years (i.e., until 2003), a common dilemma was insufficient funds for the smooth operation of the firm. As a consequence, the founders had limited HR and work was undertaken out of normal business hours whenever workloads increased. The firm operated on a shoestring (Talent Innovators, Article 2) and it was not until 2003 that the founders began paying themselves on a regular basis. One manager recalls the personal financial difficulties and the high stress levels endured by the co-founders at the time:

> The stress levels were at an all-time high, like I know, and they could – I don't know to the extent that they were by far the lowest paid people. Just getting the wages out the door every week was just – they were scraping pennies from wherever they could and they were the people that were living off rice and two minute noodles because they had to get the wages paid. And somehow they managed to do it every time. I remember once, like we were all wondering if we were going to get paid that week, and we got paid that week, and to celebrate we all went out to dinner and invited [Gordon] and [Julia]. But they couldn't come. They couldn't afford it. I just felt terrible about that. I just remember that as a really awful time. (Richard, Product Manager, Interview)

The financial viability of the firm was in question during this period and employees seemed to be aware of the firm's and the founders' predicament (Richard, Product Manager, Interview). The financial drought lifted by in late 2002 when the firm signed on its first two large corporate clients.

A significant problem faced by small fast-growth firms is balancing available resources with work demands (Hambrick & Crozier, 1985; Kotter & Sathe, 1978). In late 2007, Julia is reported as saying that their "biggest challenge continues to remain managing the growth of the business" (Quoted in Talent Innovators, Article 1). Invariably resources are well short of the required needs. As a result of their fast-growth, these firms often have a large appetite for adding more people as their workloads increase. One manager at Talent Innovators made the following observation:

> Oh, yeah, pressures, lack of resources to be able to complete all of the development work. Lack of customer facing people, so we had a sudden influx of clients and

> requirements and not enough people to be able to sustain that, so we had to hire into the business. (Dianne, GM Client Services, Interview)

However, large recruitment needs pose a real danger if the new recruits are not put to productive use quickly or do not fit culturally with their peers. This was the case at Talent Innovators, as suggested by the same manager who argued that inappropriate hiring decisions were made coupled with a lack of proper induction:

> Obviously having that many new people coming in took additional load, put an additional load on our current resources. Induction may not have occurred as well as it could have. High pressure on those people that do come into the business to get up and running quickly. So as a consequence a number of those people are now no longer with our company. So I think in hindsight incorrect hiring decisions made. (Dianne, GM Client Services, Interview)

Inappropriate recruits can be particularly disruptive if they require counselling and performance management. At Talent Innovators, hiring mistakes were made, particularly in the formative years, but wrong decisions of this nature did not seem to be tolerated for too long (Dianne, GM Client Services; Gordon, CTO, 2nd Interview; Julia, CEO, 3rd Interview).

Emerging fast-growth firms with cohesive recruitment and selection practices (such as, clear selection criteria and job descriptions, articulated performance expectations, and induction programs) can possibly avoid or minimise the above type of disruption. Founders of emerging fast-growth firms can better prepare new recruits to commence working productively sooner and, generally, they can identify problem areas more quickly than in organisations without such internal practices. Identifying problems early is important for quick remedial action that may lead to terminating the employment of the individual concerned if there are no other effective solutions. However, emerging fast-growth firms are less likely than their more mature counterparts to have sophisticated and formalised HRM practices in place. It is often a case of there being a need for these practices to be developed and implemented, but not the resources to make it happen. Nevertheless, emerging fast-growth firms operate under conditions of uncertainty

(Garnsey, 1998; McMullen & Shepherd, 2006) and founders may not know and, therefore, may not be able to articulate clearly specific elements of their recruitment and selection needs (Tansky & Heneman, 2009).

Founders of fast-growth firms can also get caught up in a spiral of indecision where decision bottlenecks are created around themselves (Johnson & Bishop, 2002). Often, the environment is changing so rapidly that decision makers are unable to cope because of time pressures and a lack of resources (Flamholtz & Randle, 2007; Johnson & Bishop, 2002). Within Talent Innovators, there appears to have been a sense of urgency about achieving outcomes. Julia expressed, on more than one occasion, that she gets impatience when activities and decisions take too long (Julia, CEO, 1st Interview) and this was corroborated by other managers within the firm (e.g., Dianne, GM Client Services, Interview). For example, Gordon questioned whether further delegation was required in the sales process (Gordon, CTO, 1st Interview) and, in 2007, another manager gave an account of where improvements could be made in relation to streamlining client change requests:

> After we've implemented a new client setup, for example, they start using it, using it every day and they realise things aren't quite working for them, and they just want little tweaks, little adjustments, just little things to make it work really well for them. Seem to be so caught up with so many other projects and trying to get our processes right that by the time that request goes through all this spaghetti and comes out the other end, they get a quote for $100,000 for something that could probably be done in a couple of hours. You just seem to hear that a lot, is that, I think the communication channels within [Talent Innovators], the processes are not clear. (Richard, Product Manager, Interview)

Scenarios of this nature can be embarrassing if clients start questioning why seemingly simple requests are projected to be disproportionately costly and, over time, can contribute to the firm losing its competitive edge.

One manager who started with Talent Innovators in 2003 spoke about the "growing pains" and what it has meant for people who have not been able to keep up with the constant change:

> The environment is fast-paced and it is changing, and people who are unable to keep up with that change often fall by the wayside or struggle. I mean I guess just the evolution of where the company was when I first started when we had about eight people to now when we have 65 people. I guess throughout the last four and a half years I can probably pick out a thousand different things, but none that are really defining moments. (Dianne, GM Client Services, Interview)

While the type of pressures on Talent Innovators related to fast-growth have not been unusual compared to other similar firms undergoing rapid growth (Flamholtz & Randle, 2007), the founders were determined to actively address these pressures.

A common theme encountered in the case of Talent Innovators was the open-mindedness of the founders, particularly Julia, in their incessant questioning about how work was organised. The acquisition of Prism Consulting in 2007, for example, was used to examine their internal HR systems and processes, including the writing of job descriptions within a competency framework. The successful adoption of the 'agile' software development approach within the development team was innovatively adapted and introduced across the rest of the organisation where it would not normally apply (Julia, CEO, 3rd Interview). This methodology uses an iterative approach to the development of software where requirements and solutions are formed in a collaborative self-organising team environment (Fernandez & Fernandez, 2008; Sliger, 2007). In contrast, the previously used 'Waterfall' approach emphasised a more structured and analytical approach to software development and was not as effective as the 'agile' approach (Julia, CEO, Interview). Another example of the founders having an open mind and being prepared to try new initiatives was their use of an external professional business advisor who they hired to assist with obtaining an $80,000 (AUD) government grant in 2000 and help in growing their business networks (Julia, CEO, 2nd Interview). According to Julia (CEO, 1st Interview),

he was an invaluable asset and "he was very well networked and introduced us to a lot of different people at various times throughout the lifecycle of [Talent Innovators]".

By 2008, the founders had essentially overcome their firm's problems associated with being new and small and they had managed the firm's growth without any serious adverse consequences. Talent Innovators, it is suggested, had become a sustainable firm. By that stage, the firm had been in existence for more than 10 years and had gained acceptance among some of the largest Australian corporations. It had also grown in size to over 50 employees and had a much more robust financial position with net equity of $2 million (AUD) (see Figures 7.2 & 7.3). Furthermore, by this time, the founders had commenced implementing a strategy to reduce the risk of key personnel from leaving the firm. In the next section, key events or defining moments in Talent Innovator's development are considered.

7.3.3 Organisational Transitions and Firm Sustainability

All growing firms experience transitions irrespective of their growth rate, but fast-growth firms experience these transitions at a much faster pace than their slower cohorts and not necessarily in a linear manner (Johnson & Bishop, 2002). Talent Innovators began its existence under seemingly unremarkable circumstances. Starting off in a back room of Gordon's father's legal practice, the firm was subject to the vagaries of the software developers' market. Both founders were young and inexperienced in business affairs.

Table 7.1 outlines Talent Innovators' transitional events and key organisational developments. Within five years, the firm's business strategy had evolved to incorporate the following features: first, the targeting of large corporate clients, second, the shifting of its development platform from Microsoft Windows to a web-based platform with its own hosting infrastructure and, third, the move from customised software development to a product focused approach. These strategic initiatives took time to be cemented within the firm. For example, the move to a product focused approach took almost two years to be fully implemented and was suspended in 2001 when the firm was under severe financial stress as a consequence of cuts in expenditure by large corporations in the aftermath of the 'September 11' terrorist attacks on the United States of America. In response to this, the

founders adapted to the situation by returning, albeit temporarily, to developing custom software.

Table 7.1: Talent Innovators' Timeline (1999 to 2008)

Year	Description
1997	• Talent Innovators founded & formally incorporated (as a company)
1998	• Commenced targeting large corporations
1999	• Transitioned to web-based applications • Commercialisation of core on-line human resources application & first sale
2000	• Moved to larger premises & commenced paying rent for the first time • Established Application Service Provider hosting infrastructure • Won $80,000 government grant for market research, developing intellectual property and strategic planning
2001	• Founders formally adopted CEO and CTO roles • Revenue growth sharply reversed (following the 'September 11' terrorist attacks)
2002	• Revenue flattened & remained low for most of the year • Relocated to smaller premises & scaled back employment numbers • Won three key corporate accounts (towards the end of the year)
2003	• Further sales into the corporate market • Revenue growth takes off • First Operations Manager hired • Co-founders commenced paying themselves a regular salary (below market rates) • Key manager resigns due to work overload giving 3 months notice & later agrees to return after 6 months leave
2004	• Moved to larger corporate style premises • First General Manager hired • Co-founders went on a 4 ½ week working holiday & the firm continued to operate
2005	• Co-founders went on a 5 ½ week working holiday & the firm continued to operate; one significant problem reported & not adequately dealt with
2006	• Non-core products discontinued
2007	• Acquisition of Prism Consulting in July • Talent Innovators enters into partnership agreement with a firm in the Asian region & opens an office in Europe • Continues to expand its core web-based development tools & products • New human resources solutions suite launched • Introduction of operating budgets
2008	• Talent Innovators signs a global deal with another overseas firm

The founders' rationalisation for targeting large corporate clients was that it was easier to identify and work with them than small and medium-sized enterprises (Julia, CEO, 1st

Interview). For these larger clients, producing generic solutions with added customisation to suit individual requirements was considered to be both more manageable and more profitable than the alternative. Smaller enterprises were thought to be too difficult to identify and access, and less willing to pay for customisations. Therefore, in targeting larger enterprises, the founders' strategy took account of their ability to deliver "a greater value proposition" and make larger profit margins per client with lower payment default risks (Julia, CEO, 1st Interview).

The second strategic change involved modifications in the development platform and this had internal as well as external implications (Gordon, CTO, 1st Interview). Internally, it meant that Talent Innovators' programmers would need to develop a new set of competencies in writing web-based applications. These competencies were learnt through on-the-job training. Externally, it made the firm more competitive because it became an early adopter of a technological trend which exploited the increasing use of the internet. Competitors who did not make the switch struggled to remain competitive in later years (Gordon, CTO, 1st Interview). By being early adopters of web-based technology, the founders of Talent Innovators were able to capitalise on the benefits to this type of technology which included implementation of the product without necessarily involving a client's internal IT managers, thus eliminating potential barriers and additional costs.

The final strategic change concerned the shift to a HR product-based focus. This shift was prompted by the founders' desire to move away from selling customised software based on consulting (programming) hours to a 'value based approach' where earnings could be de-linked from input hours. A HR product was developed for commercial exploitation after Julia tried to solve an internal problem and then decided to market the solution to commercial clients (Julia, CEO, 1st Interview).

Following some initial successes and the launching of their ASP hosting services, the founders of Talent Innovators moved to larger premises and, for the first time, were responsible for paying rent to an external party on a regular basis (i.e., non-family

member).[25] However, following the 'September 11' terrorist attacks, revenue growth came to an abrupt halt and plateaued at a low level. Julia expressed it in the following words:

> 1999-2000 was when things really first started taking off … and we grew the business and got up to about 12 people. Then towards the end of 2001 when there was the September 11 tragedy all of the large corporates just put an employment freeze on. … So we went from something that was growing quite exponentially in revenue and had hired accordingly to it pretty much overnight our revenue stream in that space was stopped dead cold. (Julia, CEO, 1st Interview)

One of the managers added his perspective on the implications of the slowdown for the founders:

> The economy seemed to grind to a halt. People stopped – large companies stopped buying. You know, everything just seemed to shut down at that time, and [Talent Innovators] as a small business suffered from, you know, we lost employees and then we didn't refill those positions. We moved out of the office in ……. to a much smaller office in …….. And just – you could cut the air with a knife. It was a really tough time and really, yeah, hard on everyone; particularly, [Gordon] and [Julia]. They were at their wits end I think. But that was a tough. (Richard, Product Manager)

The emotive language is indicative of emotional swings that permeate these firms when not only careers but livelihoods are at stake.

Towards the end of 2002 came the big break-through when a number of major corporate accounts were won. Talent Innovators was able to offer a solution to a set of corporate problems that was not matched by its competitors at the time. In total, five nationally based accounts were gained within a short time frame and, as a consequence, revenue growth took-off. The problems almost immediately turned from how to find more work to how to cope with the accelerating growth and find more resources.

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[25] Previously, the commitment with Gordon's father was rather flexible.

By 2004, the first Operations Manager, on "a high salary package", was employed and the founders of the firm were able to go away on their first working holiday lasting four and a half weeks (Julia, CEO, 1st Interview). The firm continued to operate without any major problems. The following year, they took a more extended working holiday overseas lasting five and a half weeks and, once again, the firm managed to operate without them. However, a significant technical problem adversely affecting clients occurred soon after the founders left and was not resolved until they returned. (This issue will be dealt with further in Section 7.5.2.)

Non-core products were discontinued in 2006 and, in 2007, Talent Innovators acquired Prism Consulting,[26] a HR training and consulting business based in another Australian capital city. This acquisition not only gave them a physical presence in another capital city but also broadened their services beyond the software solutions scope for the first time. This was a major transition for the firm in that it deepened its capabilities within the broader HR arena, and moved the firm from an 'e-Solutions' to an integrated HR firm with consulting capabilities (Julia, CEO, 3rd Interview). Coupled with the discontinuation of other non-core software products, the firm's strategy was to provide clients with broadly based HR solutions and not just software; this was about "adding value" for clients and increasing the number of "touch points" in order to better cement client relationships (Julia, CEO, 2nd Interview). Consistent with this, was the addition of externally appointed senior managers beginning in 2003 with the appointment of the first Operations Manager and the first GM appointed in the following year (Julia, CEO, 3rd Interview).

The year 2007 was also significant because Talent Innovators entered into a partnership agreement with a firm in Asia and opened an office in Europe so that it could service the overseas branches of their Australian clients. It also gave them the opportunity to start marketing to other overseas companies and competing against other HR solutions providers. For once, the firm faced tougher competition overseas than it had at home

[26] A pseudonym is used in order to maintain confidentiality.

(Mark, BDM, Interview). Consideration will next be given to the entrepreneurial founders, including their changing roles and personal factors affecting their roles.

7.4 Entrepreneurial Founders

What entrepreneurial founders do during the start-up and early development phase of a firm is very important and can be critical to its future success or failure (Bhidé, 2000; Johnson & Bishop, 2002; St-Jean, Julien & Audet, 2008). Exploring what founders do and how their roles change, therefore, is important in understanding how firms can become sustainable.

Founders roles are affected by personal factors that include the human capital they bring to the emerging firm. For instance, their determination and work ethic is a necessary, but not sufficient condition for firm growth (St-Jean, Julien & Audet, 2008). Founders' human capital endowments will be considered next before discussing their changing roles.

7.4.1 Human Capital

As mentioned in the two earlier case studies, the human capital of entrepreneurial founders has been strongly associated with firm growth (Gilbert, McDougall & Audretsch, 2006). Founder's characteristics that have been found to contribute to successful firm growth include relevant industry experience, social and professional networks, higher education and prior entrepreneurial experience (Barringer, Jones & Neubaum, 2005; Sapienza & Grimm, 1997).

Neither of Talent Innovators' founders had prior business start-up or managerial experience (Gordon, CTO, 1st Interview & Questionnaire Response; Julia, CEO, 1st Interview & Questionnaire Response; Talent Innovators, Article 3). Julia had graduated with a science degree and, for a short period, worked in a graduate work experience role for a large corporation. Unlike Julia, Gordon had relevant but limited industry experience. He was tertiary qualified and an experienced software developer, having developed custom software for a few clients while undertaking undergraduate studies prior to starting Talent Innovators. Gordon also had developed a useful professional network

through an industry networking group (Gordon, CTO, 1st Interview; Talent Innovators, Articles 1 & 4).

7.4.2 Business Direction, Roles and Structure

Entrepreneurial founders are critical players in emerging firms (Klaas & Klimchak, 2006; Castaldi, 1986) and their roles need to change as these firms grow and place new demands on the founders (Johnson & Bishop, 2002; McCarthy, Kruger and Schoenecker, 1990). Founders can and do make the transition from hands-on entrepreneurs to executive managers – as is evident in the Talent Innovators case – but not all do (Rubenson & Gupta, 1992; Willard, Krueger & Feeser, 1992). Rapidly growing emerging firms are unlikely to become sustainable without significant role changes on the part of founders (see Bhidé, 1999; Roberts, 1999a & 1999b; Rubenson & Gupta, 1990). These founders need to recruit, retain and develop a competent management team (Birley & Stockley, 2000) and, in doing so, their own roles need to evolve into more structured and bounded entities.

Without prior entrepreneurial and managerial experience, the founders of Talent Innovators struggled during the initial two or three years in developing a well thought out business strategy and, consequently, experienced a great deal of uncertainty (Julia, CEO, 1st Interview). Consistent with Bhidé's (2000) findings regarding 'promising' start-ups, the founders of Talent Innovators had only a vague idea of what they wanted to do and the founders' inexperience in business matters resulted in questionable decision-making as suggested by Julia:

> Because both of us were really new to this, there was not necessarily a strong level of confidence that either way was right or wrong. So that was really quite challenging. (Julia, CEO, 1st Interview)

It is not unusual for founders of emerging firms to "lack knowledge about what they can do or should do" (Thornhill & Amit, 2003: 498). The steep learning curve and lack of consensus on how to operate the firm coupled with financial pressures, added further to Talent Innovators' founders' stress. During the first three years, there was conflict between the two founders over what to focus on, as articulated by Julia in the following way:

> [Gordon] is … a very creative sort of thinker, so I always say he likes to see that he's on a Sunday drive, so no destination necessarily in mind. He sees a road that looks interesting and off he goes down that road. Trying to put in place a structure and rigour around someone like that, and we're a very small business, with only a few other people. We were really the two people that were leading the business, you know, there was a lot of I guess conflict in the styles, in our approach to doing things back then. (Julia, CEO, 1st Interview)

In response to how they managed this conflict in styles, she reacted by saying that "we probably didn't in the early days" (Julia, CEO, 1st Interview). According to her, while they agreed on the "core fundamentals" of the firm, "there were some very active discussions" (Julia, CEO, 1st Interview), implying there was considerable disagreement. Their respective modes of operating and fields of focus were noticeable areas of conflict between the two of them. From Julia's perspective, Gordon was predominantly concerned with whether the project was sufficiently challenging and interesting for him rather than whether it made good business sense:

> The concept of him [Gordon] working on, you know, one product, whatever that product was, whether it was his baby or not, it was sort of like well, is that going to be, you know, going to have enough problems in it to keep me occupied, and is it going to be deep enough and exciting enough. So it was probably more that that was the driver behind it. (Julia, CEO, 1st Interview)

Whereas for Julia, business planning and sound processes with some structure and focus were perceived to be key elements for firm success (Julia, CEO, 1st Interview). The impression formed by the author from listening to them tell their owns stories is that, during this period, there was considerable work undertaken independently of each other that only appeared to come together intermittently and after some planning on Julia's part. The two founders were not working in unison or cooperatively with one another and, given they were (and are) married, the pressure on the relationship would likely to have been very stressful.

In addition, during these early years, there was little structure or clarity about organisational roles (including their own) and where other people fitted in. For instance, the roles between the co-founders had not been fully defined or developed. As Julia stated:

> Initially, we didn't really have a good level of clarity between who was doing what. I basically did everything that he didn't like doing, was how I defined it as my job description. But as we grew and we had more people there needed to be more structure. (Julia, CEO, 1st Interview)

Therefore, a driver behind bringing more clarity to their respective roles was the growth in their workforce.

It was not until around 2001, four years after start-up, that Julia's and Gordon's roles were formalised and more clarity brought into the mix. By this stage, they were in larger premises and had twelve employees. Julia had been the MD for a short period of time, having previously held the title of Business Manager (Talent Innovators, Article 2).

> And I felt at that point in time [around 2001] that he [Gordon] would actually be an ideal CEO for the business, given it was a technology company. But to do that role in earnest you had to be a little bit more structured in your approach to things. And he really didn't necessarily want to do that. So it was once we got to that point and clarified that okay well, your passion is technology, how about we create a role called the Chief Technology Officer, CTO, and you drive all of the technology decisions in the business, and I'll move out of the MD role into CEO role and make all of the business and financial decisions. (Julia, CEO, 1st Interview)

The reason why she suggested a change in title from MD to CEO was because, up to that point in time, she had not been accepted by their clients as the person who was running the firm. Rather, clients had seen Gordon as the person running the firm. The new CEO title was created as an exercise in repositioning Julia in the lead role so that clients would notice there were substantive changes in the founders' respective roles rather than in name only (Julia, CEO, 1st Interview).

> But particularly a lot of the earlier clients that were still with us, very much saw [Gordon] as the one that they interacted with on a day-to-day basis because he was the one out there helping design their technology solutions. So they saw him as running the business. And I was more in the background running the operations of the business, so I guess I was more effectively playing a COO [Chief Operating Officer] sort of role, an operations officer role. (Julia, CEO, 1st Interview)

While the title change did not make a big difference in practice internally, it was intended to drive the message (mainly externally) that she was in charge of the overall firm and that Gordon was responsible for technology designs and solutions. While role titles are important because of the perceptions they create, the incumbent must also enact the part if he or she is to be believable. Having established the business direction around HR applications and convinced her co-founder to become the CTO,[27] she was in a prime position to grow the firm. However, in the aftermath of the 2001 'September 11' events, revenue growth went into a sharp decline.

It is clear from the interview data that the roles which eventually surfaced reflected the founders' respective strengths and areas of expertise. Gordon was clearly the key technology specialist who could write and oversee the development of the firms' products. He was the 'creative type' who was good at, not only problem solving, but also generating new ideas and product innovation (Julia, CEO, 1st Interview). However, his skills in managing people were, on his own admission, not his strengths (Gordon, CTO, 2nd Interview). Asked whether he had any particular views about managing people, Gordon's response was: "No view at all. To this day, I remain a very bad manager of people." Pressed on what were the main characteristics of his management style, he responded as follows:

> A very bad style. I don't know whether I should tell you about it. Throw people in the deep end and hold them under and see if they sink or swim. And as a

[27] By 2009, Gordon's title had changed again to Director of Innovation to reflect the more creative side of his work (Julia, CEO, 3rd Interview).

> consequence of that style, we just get other people to manage the people. (Gordon, CTO, 2nd Interview)

Julia, on the other hand, brought to the firm a strong interest in business processes and managing people but without managerial experience. According to Gordon (CTO, 1st Interview), she had the skills to establish and run the firm, albeit with a significant amount of learning along the way. Her primary learning method was on-the-job (Julia, CEO, 1st Interview).

Julia's CEO role, however, continued to evolve as external managers were hired and managed their own areas of responsibilities. Nevertheless, this did not always run to plan as one manager alluded:

> It actually took a few tries. To get the right people to work with her management style and vice versa and that she could trust and empower to do that. We did have few managers come through the business – come and go – and I think it was probably that matching the person to be able to have the authority and trust to be able to do that (Mark, BDM, Interview)

In 2004, following more than twelve months of substantial revenue growth, the founders hired their first Operations Manager on a six figure salary and in the same year they went on their first working holiday overseas. These were clear signs that they were ready to some extent to 'let go of the reins'.

This required the introduction of more formal structures and decision-making processes with more clearly defined delegations. However, the greater formality did not entail writing voluminous procedure manuals or policy documents (Julia, CEO, 1st & 2nd Interviews). Rather 'formality' took the form of particular mechanisms such as recruitment processes, job descriptions and competency framework, performance management system, and recognition systems. These mechanisms will be considered more fully in the next section.

By 2009, Julia's role had more structure, including a management team consisting of an operations manager and three GMs with delegated authorities. While Julia had delegated

the entire customer service side of the firm, she continued to be heavily involved in the firm's finances, product direction and people management (Mark, BDM, Interview). Her continuing heavy involvement in product direction suggests that she still thought she needed to keep tight rein on the firm and, for that matter, on Gordon. By this stage, her CEO role was much more clearly defined than Gordon's role who maintained his focus on technology and product innovation (Julia, CEO, 3rd Interview). His role was not a standard managerial role but relied on a number of team leaders to manage product development (Mark, BDM, Interview). If managers did not meet his expectations, he would raise this with Julia to follow-up (Julia, CEO, 3rd Interview). He did not do this himself, presumably, because he recognised this was not one of his strengths.

According to one manager, Julia had also shown signs of growing with the changing role demands. From the perspective of one long term manager, Julia no longer displayed the stress she was under, as she once did (Mark, BDM, Interview). In fact, both founders had developed and matured over time, and they did not display their anxieties as much as in the early days (Mark, BDM, Interview). This manager summarised the more recent environment in the following way:

> One of the key things, each time they happened, [the founders'] ability to react to those without making it evident to employees as to what those pressures were. At each of those stages there were additional workloads, so it was a resourcing issue. The first time it was quite evident that there was additional stress, communications became abrupt; it was very visible, that pressure. In subsequent growth times, each time we went through that there was a greater level of confidence shown by [Julia] to be able to get through that, which I think the confidence and a stability of OK we are going to have to work extra hours but here is a goal let's try and achieve that, here is a bonus or something as a reward if we manage to get there. Better leadership in managing the workload. The way it was delivered and supported was much better. (Mark, BDM, Interview)

This demonstrates that the founders, particularly Julia, were able to learn and adapt to the changing role demands. The founders of Talent Innovators, therefore, fit into the group

that successfully do make the transition to executive managers once the firm has grown to a more substantial entity (Rubenson & Gupta, 1992; Willard, Krueger & Feeser, 1992).

In the Section 7.5, the importance of resources and capabilities for firm sustainability is examined within the context of Talent Innovators case study.

7.5 Organisational Resources and Capabilities

A contention of this study is that firm sustainability is critical to entrepreneurial founders of emerging firms. There are different perspectives from the data collected for the three case studies regarding if and when a firm has achieved sustainability. A key ingredient that drives a firm towards sustainability is its senior managers, including the entrepreneurial founders, who make and implement strategic decisions. In other words, the management team does matter (Penrose, 2009; Smith, Mitchell & Summer, 1985). This standpoint is also encapsulated in the upper echelons model (Hambrick & Mason, 1984) which claims that organisational decision-making is complex and that senior managers make decisions based on their limited perceptions and interpretations. Nevertheless, these managers are critical for the well-being of the firm because they make strategic decisions with firm-wide impacts.

Another theoretical perspective emanating from the seminal work of Penrose (2009), contends that a firm's growth is limited by managerial constraints, including managers' behaviours and their ability to learn about the firm's growth processes (see also Barbero, Casillas & Feldman, 2011; Rugman & Verbeke, 2002). Therefore, as a firm grows, its managerial resources will need to expand and be reorganised by building its accumulated knowledge and experience in a purposive manner. On their own, founders will be subjected to early growth limitations as they confront, on an increasing scale, organisationally complex issues and, therefore, developing a competent management team becomes a necessity for such growth firms if they are to become sustainable. Meyer and Dean (1990: 229) make a related point when they say that "the founder CEO faces the challenge of building a capable management team to 'round out' his/her limitation".

Furthermore, the role of the founder is unlikely to change and develop significantly without the support of a competent management team (Birley & Stockley, 2000).

In addition, where business partnerships are concerned, the relationship between partners needs to be directed towards shared goals. Partners who cannot trust each other and squabble are less likely to succeed in building sustainable firms as their focus wanes and their energies dissipate. Starting with the co-founders' relationship, the following sections illustrate how managerial resources developed at Talent Innovators.

7.5.1 Entrepreneurial Founder Partnership

The view that interpersonal partner relationships and activities have an important influence on firm performance is well accepted by entrepreneurship researchers (see Watson, Stewart & BarNir, 2003) and there is evidence that entrepreneurial teams outperform single entrepreneurs when establishing start-up firms (Cooper & Gimeno-Gascon, 1992; Vyakarnam, Jacobs & Handelberg, 1999). The human capital of two or more entrepreneurial partners can provide "a complement of perspectives, expertise, and skills necessary for the entrepreneurial capabilities required for effectively pursuing a venture opportunity" (Watson, Stewart & BarNir, 2003: 147). At Talent Innovators, this complementarity of attributes of the founders was evident, as the following passage illustrates:

> It was the critical skill at the start of the business that I brought was the ability to write software, to work in the business doing the primary function of the business was to develop … [Julia] didn't bring that skill. She brought the skill of running a company, the set-up, all the things that needed to be set up to run it, and she couldn't write software. And it was sort of that combination that actually made it work. When I was doing things before the business started I would write software but I wouldn't do any of the other things which meant that the business really couldn't start because we wouldn't send out invoices, we couldn't employ anyone because we didn't have a proper company structure, we just never did proper … all the nuts and bolts of a company. (Gordon, CTO, 1st Interview)

A firm can be led by a very potent force if the founders' perspectives, expertise and skills are complementary and put to productive use.

However, if the partners do not complement one another or do not share a common vision or have management styles that clash, the partnership can be less effective (Vyakarnam, Jacobs & Handelberg, 1999). Not only can the energies and focus of the partners be misdirected but they can have a negative effect on other employees, particularly if conflict is evident to the employees. In the case of Talent Innovators, the founders were confronted during the early days with what Julia referred to as "the natural tension between the two different styles" (Julia, CEO, 1st Interview). She characterised the differences between the two of them in the following way:

> I put together a business plan and that was a battle in the early days because I'd done my chemistry degree and did my honours in microbiology and was doing my post-graduate in a similar sort of area, so I didn't have any specific business training, and [my partner] is … a very creative sort of thinker, so I always say he likes to see that he's on a Sunday drive, so no destination necessarily in mind. He sees a road that looks interesting and off he goes down that road. (Julia, CEO, 1st Interview)

Julia was open about this "conflict in styles" and stated that for a period of time issues and the direction of the firm remained unresolved. According to her, "there were some very active discussions in the early days" (Julia, CEO, 1st Interview). Both founders admitted they were on a steep learning curve during this period of time and had very little guidance and lacked confidence in their decision-making (Julia, CEO, 1st Interview; Gordon, CTO, 1st Interview). Other organisational members also observed the stress that was generated around this time (e.g., Richard, Product Manager, Interview). Over time, Julia developed a strategy for overcoming these impasses. Gordon concentrated on "building fantastic technological solutions" and "while he was distracted", Julia was able to develop plans regarding structure and strategy which she introduced to her partner almost as an aside (Julia, CEO,1st Interview). By slowly chipping away she was able to steer the firm in a direction that, in retrospect, proved sustainable and profitable.

Once these earlier problems had been addressed, the stress levels of the co-founders were significantly reduced and Julia was able to focus on providing sound leadership (Richard, Product Manager, Interview). Although Patricia was the more critical of the four managers interviewed, she nevertheless spoke positively about the co-founders' leadership qualities and went on to say:

> Some of the way it's delivered could be improved but certainly I can see that that's there. It's a strong passion for where they are and across it and picking up on, you know, where they've got opportunities. And I think, you know, when I look at the leadership team that we have now, there's some good history in the company but also some good history in the market as well, so from that respect and I think the leadership meetings are running much better now. (Patricia, GM Sales & Marketing, Interview)

Other managers also acknowledged the leadership qualities of the founders (Dianne, GM Client Services, Interview; Mark, BDM, Interview; Richard, Product Manager, Interview).

With the greater formalisation of their respective roles and the clarification of their business strategy, the founders seemed to have reached a workable compromise that provided a basis upon which to build a sustainable firm. Therefore, it is contended, partnership issues (such as business direction, scope of roles and responsibilities, personal effort, sharing of rewards) need to be resolved as a basis for a firm to progress towards sustainability. The founder partnership can be a valuable resource but, more importantly, it can also be a valuable organisational capability that is rare, inimitable and non-substitutable, thus meeting the Barney's (1991) VRIN criteria. Where the founders are a married couple, such as in the case of Talent Innovators, the contested territory may be more narrowly restricted (e.g., rewards may be equally distributed irrespective of personal effort or role because the benefits accrue to the family) than in other situations. The development of the management team at Talent Innovators will be considered next.

7.5.2 Senior Management Team

A competent senior management team is critical for firm growth (Birley & Stockley, 2000; Hay, 1992) as well as for firm sustainability. However, a senior management team does not

suddenly appear after the firm is founded. At its inception, the co-founders of Talent Innovators were the only managers and a management team emerged as the firm grew. The first externally appointed senior manager (i.e., the Operations Manager) did not occur until 2003, six years after start-up. Prior to this time, managers were in the main 'grown' internally. Reliance on managerial titles alone, however, can be misleading as one manager attests: "There are all sorts of job titles that in this environment don't really mean very much." (Richard, Product Manager, Interview)

To illustrate how roles evolved at Talent Innovators, the roles of four senior 'managers' are considered. First, there is Mark who started with Talent Innovators in 1999 on a 12-months industry-based learning placement while completing his software engineering degree. At the time there were only five people (including the co-founders) working in the firm. Mark's role was initially that of a junior programmer and after two years he advanced to a more senior role that included doing database design work. In 2002, he began providing technical pre-sales support for around six months before getting more involved in assisting Julia with sales work. By the end of 2004, he had transitioned into a full-time sales role. He summarised the multiple role changes as follows:

> Probably every two or two and a half years I have had a fairly significant change. So as a developer then a senior developer, then sales support, then full-time sales and then it was national sales so I was travelling up the eastern seaboard. So I was doing Melbourne, Sydney, Brisbane quite regularly. And then in 2006 started the UK trips and also through China ... and worked on some partnerships. (Mark, BDM, Interview)

In setting up Talent Innovators' overseas operations he was not only managing sales activities but also the administrative work associated with establishing an overseas office and the technical support activities for overseas clients (Mark, BDM, Interview).

Another senior team member who started with Talent Innovators soon after Mark commenced (and upon Mark's recommendation) was Richard. He began working with the firm in 1999 as web designer when he was a part-time student also completing his software engineering degree. After a year in that role he transitioned into a software

developer role but continued to do "a lot of design stuff" (Richard, Product Manager, Interview). He was subsequently promoted to Senior Software Developer before taking leave due to work overload and stress. When he returned from leave in 2004 he moved into the newly created role of Product Manager (before the role was renamed Product Architect). He explained that he was not really a manager and so the title of 'Product Architect' was more appropriate:

> Because I had at this point such an in-depth knowledge of the product, I was well suited to sort of manage its direction going forward. It then turned out that the word 'manager' really wasn't right because I was never really a managerial type person. I was a creative person, we tweaked my role to become Product Architect, which is what I am right now. (Richard, Product Manager, Interview)

Another manager who was interviewed as part of the research was Dianne who started with the firm in 2003. She describes herself as having "started off in a secretarial type of role way back in my dim dark days and have worked my way through to an account management role" (Dianne, GM Client Services, Interview). She describes her changing roles in the following way:

> I started in the business as I said as a client relationship manager, so my primary aim was to come in and to work with our clients. Anything from taking support calls, helping the clients with the system, helping them to implement systems, so any new implementations I would do some documentation work, system set up. I would also perform part of a BA, business analyst type of role with the developers. Sit down and work out what's going to happen, the look and feel. Go out and try and sell them stuff as well. Manage the relationship ongoing. So that was really the role which covered a number of areas that we now have distinct job roles for. And then as the team started to grow, then I became the team lead for the new people that came in, and then started to build up a support team, so then that team reported through to me, so I would still play quite a hands-on role. (Dianne, GM Client Services, Interview)

Therefore, she started with Talent Innovators as a client relationship manager before moving into a consulting role, managing consulting projects for clients and, by 2006, she was the GM Client Services (Dianne, GM Client Services, Interview).

Finally, there is Patricia whose background included running her own small firm prior to joining Talent Innovators. She commenced working for the firm in 2006 in the newly created role of National Sales and Marketing Manager "which was focused purely on bringing new business into the business" and, by 2007, she was in the role of GM Sales and Marketing (Patricia, GM Sales & Marketing, Interview). Sales and marketing was an area identified as a significant weakness for the firm in the early days (Talent Innovators, Articles 1 & 3) and to address this predicament Julia stated:

> But we read a lot, did courses and had mentors. We also hired people who could bring knowledge about other parts of the business. (Quoted in Talent Innovators, Article 3)

This brief overview illustrates the changing nature of important roles in an emerging firm. Those individuals who were hired soon after the firm was founded experienced far more role changes than those who commenced later. Admittedly, they had a longer history with the firm but their roles were far more diverse than those who came later. Patricia, for example, who commenced in 2006 was hired for and remains in a sales and marketing function, while the others who commenced earlier experienced more role changes. In the early years, as the challenges faced by the firm changed so did the roles of those working within its boundaries. While in more recent years, the changing roles are not as pronounced because the organisational structure is more stable and mature.

The overview also illustrates the highly adaptive nature of the early hired managers. During one of the interviews, Julia expressed a strong view that if you have the right person you should be able to find a suitable role for him or her, even if the organisation is small (Julia, CEO, 3rd Interview). This is evidenced by the way Mark, Richard and Dianne were utilised in different roles, as discussed above.

Figure 7.4 shows the structure of the management team at Talent Innovators' head office in mid-2009 with the names of interviewees.[28] What is conspicuous about the structure is that the top HR and finance positions report to the GM Shared Services, a position that is filled by Dianne who also occupies the GM Client Services and GM Client Portfolio Management positions. Therefore, one may question whether the HR and finance functions are given sufficient prominence, in what is by June 2009, a sizeable firm. However, despite the two functions reporting to the GM Shared Services, they are overseen jointly with the CEO (Dianne, GM Client Services, Interview; Julia, CEO, 2nd Interview).

Another noticeable gap is the vacant GM Technology position that was filled by Julia herself for some time (Julia, CEO, 3rd Interview).[29] Why this role had remained vacant could simply be attributed to not having found a suitable candidate. However, an alternative explanation may be connected to the unique role played by Gordon who lacks people skills but whose area of expertise is product development and innovation. As Julia explains:

> He is really responsible for a lot of the innovation and what is next and keeping it simple and being involved in customer projects. He is very good at being an IT face for the customers, he can speak customer language. He has a reasonably high level of business acumen but he has a very strong deep technical knowledge. He sits with a lot of the pre-sales discussions or sales discussions. He assists in a lot of the more challenging client projects and internal projects to do with designing new software he is involved in and just helps guide ... but he doesn't tend to ... it's not like he gets assigned to tasks and then delegates to someone. (Julia, CEO, 3rd Interview)

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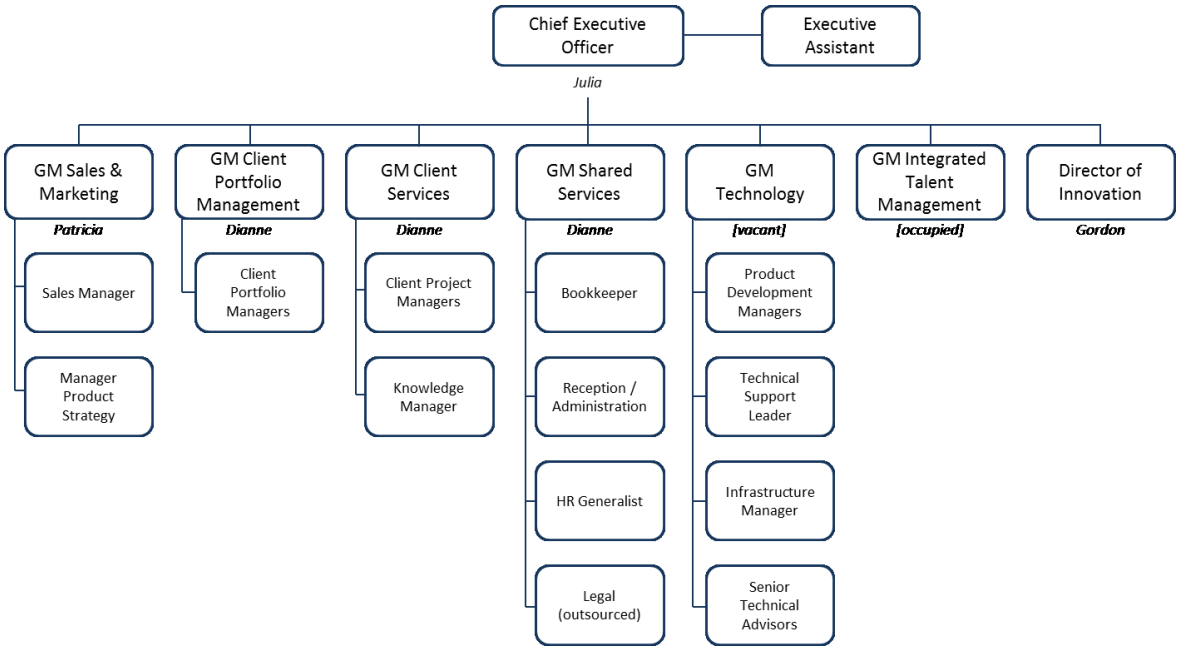
[28] Richard (Product Architect) had left the firm by 2009 and Mark's (BDM) role is not shown because he was located overseas.

[29] Julia did not provide a timeframe but the author gained the impression that this arrangement had been in place for many months with no immediate intention of filling the vacancy (Julia, CEO, 3rd Interview).

As indicated earlier, her intervention in this area may also be required in order to keep Gordon on track; to make sure he does go on "a Sunday drive" (Julia, CEO, 1st Interview). This need not have been something under-handed but could well be something they both understood and recognised.

Figure 7.4: Talent Innovators' Organisational Chart (June 2009)



While the organisational chart reflects important role priorities and activities, it also shows reluctance on the part of Julia to rush into hiring inappropriate people and, in particular, senior managers. However, having a thin layer of senior managers for extended periods of time, where the need had been identified for separate roles, also suggests that workloads could be particularly heavy for some managers (i.e., Julia and Dianne).

So far the key individual members of the senior management team have been discussed. Another very important dynamic is how the team works together. A good test regarding the trust that firm owners place on their management team is whether they are prepared to leave the running of the firm for any extended period of time to the team. In response to a question about how confident Julia was about leaving the management team to operate the firm in 2005 while the co-founders were away overseas for over a month, she responded by saying that she was confident and that they had a "strong team" in place (Julia, CEO, 1st Interview). The previous year, the co-founders were also away overseas on

a working holiday for a similar length of time without any mishaps (Julia, CEO, 1st Interview). However, on the second occasion a technical glitch manifested itself for most of the time the founders were away and disappeared upon their return. Dianne summarised the outcome in the following way:

> And it magically resolved the day [Gordon] walked in the door on the Monday. Damn it. We still don't know what caused it or what happened. … We have a sneaking suspicion that he was deliberately doing it whilst he was away. But, I don't think that is actually the case. (Dianne, GM Client Services, Interview)

While she stated that the management team worked very well together in the absence of the founders, she also gave an example of the team's indecision during the time to make an important equipment purchase. In the team's defence, Dianne indicated that the relevant "purchasing authority hadn't necessarily been delegated down the line" (Dianne, GM Client Services, Interview). Was this an excuse? A clear system of financial delegations was not in place at the time.

Nevertheless, for Dianne, the second of these trips was a test for the whole management team – "a defining moment" (Dianne, GM Client Services, Interview) – and in her assessment:

> … the team worked very well together. So I think it demonstrated that there was a quality of personnel in the business that were able to make some decisions and to work in the business without having the two founders I guess being there on the day. (Dianne, GM Client Services, Interview)

So, while the decision may not have been the right one in retrospect, managers were able to work well as a team. However, for Julia, the technical issue could and should have been addressed more quickly:

> There was a technical issue right just as we were leaving, and it was a major technical issue. But you get technical issues all of, not all of the time but once a year we'll have a fairly major technical issue. So we sort of left the team to work that through. When we came back four and a half weeks later the issue was still there. So there was work-

> arounds and people were getting patchy server performance throughout that entire four and a half weeks which was a nightmare situation for us. We are a 24/7 shop. But [Gordon's] and my expectation would be that that's resolved within a week at the most, but usually a couple of days. (Julia, CEO, 1st Interview)

This unresolved issue had a significant impact on clients which required various follow-up activities over a six month period to placate clients that these sorts of problems would be fixed more quickly in the future (Julia, CEO, 1st Interview). Nevertheless, the management issue for Julia was not the competency of the management team but rather their lack of confidence which she considered was related to company structure and ownership issues:

> It's just their confidence of making what can be really big decisions. You know, if I do this and it stuffs up, there's a major impact. [Gordon] or myself are far more comfortable making those decisions. Obviously it's our business. Trying to get someone else in place that is comfortable making that decision when the two business owners are actively involved in the business is something that I think any business is challenged with if they are in that situation. The beauty with a big company that is publicly listed on the sharemarket, so even though a CEO often owns a large slab of it, they are not seen to be 'the owner'. So other people can say well, this is my area of responsibility, I'm going to stick my neck out and make a decision. But we've had challenges getting management that we know have got past expertise and past experiences in making those types of decisions in our business environment. And we have spoken to a number of different businesses that are in similar situations and they say they find the same thing. (Julia, CEO, 1st Interview)

Julia went on to admit that the authority to make the big decisions depends on their nature and size, and ultimately on their overall impact on the firm (Julia, CEO, 1st Interview). During the 2009 interview, when questioned further about this issue, Julia emphasised managers' lack of experience which contributed to their lack of confidence. However, what became apparent from listening to her reasoning in 2007 was the lack of clear delegations regarding financial decision-making. By 2007, this situation had changed and financial delegations were in place (Dianne, GM Client Services, Interview; Gordon, CTO, 2nd Interview; Julia, CEO, 2nd Interview).

Was the lack of confidence in making the right decision in this instance related to the co-founders not wanting or allowing themselves to 'let go' of key decision-making. When interviewed in 2007, Julia's response was a categorical 'No' (Julia, CEO, 1st Interview). However, others had a different perspective. In response to a question of whether the founders had been good delegators, one manager pointed out that there was a reluctance to make decisions because managers did not want to get into trouble for wrong decisions:

> There was a phase in the company where people said they would never stick their head out or go out of their way to try and make a change because they didn't want their head bitten off, which is very disappointing because, you know, [Julia] says, you know, everyone act as a school of fish, but when people did that and things then went wrong they really got their heads ripped off sometimes for doing the wrong thing and making mistakes. And that really put a dampener on the whole thinking for yourself. (Richard, Product Manager, Interview)

But this situation did change through the feedback that the founders received, including through formal employee surveys. As a result, they changed their behaviours:

> They're stepping back from things and putting an emphasis on what went wrong as opposed to who did it wrong, you know, and just looking at it objectively and learning from mistakes and moving on and not getting so emotional about it as well. I think there has been a big change there. Still room for improvement but a big change. (Richard, Product Manager, Interview)

Another manager also questioned the effectiveness of the CEO's delegation but concluded that "I think she's getting there. I mean it's up to me to build the trust" (Patricia, GM Sales & Marketing, Interview). Nevertheless, she was still frustrated and expressed it in the following way:

> Well, I suppose you know some of the frustrations around it, [Julia's] very much a hands-on manager which I'm used to. Well, you know, having run my own business and then selling to another very much hands-on, very much, you know, totally this is how I run my business … so I'm used to working with small businesses, the

> frustrations of them wanting to be across everything. (Patricia, GM Sales & Marketing, Interview)

As the CEO, Julia introduced other initiatives to address these concerns. By the 2009 interview, she pointed out that they had introduced with considerable success 'Agile', a new software development process, for the Technology Division that was subsequently rolled out in an innovative way to the rest of the firm (Julia, CEO, 3rd Interview). In her view, this methodology was aimed at giving a lot more ownership and greater transparency at the team level. During this final interview, she also stressed how well the leadership group was operating and that decisions were often taken in a consensual way (Julia, CEO, 3rd Interview).

> So I guess I really manage the strategy interaction and what we need to be focused on as a business overall and based on that we agree. Typically, in a very democratic approach, we all sit down together, we don't have too many occasions where there is sort of me against them or a 50/50 split even against the direction we need to go to. We can usually talk it through and if I think I have a different opinion but I think that their opinion is worth trying we will give that a try and vice versa. (Julia, CEO, 3rd Interview)

The opportunity to confirm this perspective was not available but it appears that the founders and Julia, in particular, are prepared to listen to feedback and act upon it providing there is a sound basis for doing so.

Nevertheless, issues around managerial delegations can be problematic as different individuals will have a different perspective of what should and should not be delegated, and there may also be associated criticisms about how quickly or not decisions get made. A key issue for entrepreneurial founders is whether they are tuned into the concerns of the management team and whether they are prepared to actually make the adjustments that are necessary for effectively managing the business. This needs to be a dynamic exercise as the management challenges change over time. Managers invariably will have their gripes. For the founders, it is often a matter of whether these are of sufficient magnitude to address, and if so, how and when they address them. For the founders of Talent

Innovators, a key delegation issue arose when they went overseas on a second occasion and a significant issue arose which the management team had difficulty resolving. Being absence from the business, that continued to operate, on two lengthy occasions in two consecutive years demonstrates, on the surface, an element of sustainability.

The next section deals with HRM practices at Talent Innovators.

7.5.3 HRM Practices

As discussed in Sections 2.2 and 2.3, emerging fast-growth firms face many challenges connected to their lack of resources and fast-paced environment. These conditions are conducive to producing work overload and stress situations. In 2003, Richard became so overwhelmed by his overall workload that he resigned. The scenario is vividly captured in his own words where he describes the role demands from the hiring and training of new staff, developing software, project managing, running user groups and dealing with clients:

> In those really tough times, we were working really, really hard. And we were the only people in the company with all this knowledge and who'd built this product, and then clients came along, [client name] and all that, and all of a sudden we had so much work to do. And we started employing more people to get this stuff done. But those people were coming in off the street, they didn't know anything. So I was in a position where I was the only person who had a really in-depth knowledge of the product, I was still working round the clock to build the thing. On top of that I was training all these new people who didn't know anything. On top of that I was dealing, wasn't just a software developer, I was dealing with clients. I was project managing. I was running user groups. I was just a one man band doing all this stuff. And it got too much. My stress levels are too high and, you know, I couldn't sleep at night. I was just shaking, it was just too much. And I felt the easiest way out was just to resign. (Richard, Product Manager, Interview)

In retrospect, he admitted that he did not handle the resignation very well, meaning that he did not discuss his issues with the founders prior to the resignation (Richard, Product Manager, Interview). However, the resignation did create the opportunity to subsequently

discuss the problems openly. Having a sense of obligation to the firm, he generously gave three months' notice rather than his contractual obligation of only one month, during which time he documented a lot of the knowledge about the product and trained others (Richard, Product Manager, Interview).

After a six month overseas trip, Richard returned to Talent Innovators because, as he stated: "I still had this yearning for developing software and stuff like that and I really, I missed the people I was working with and stuff like that" (Richard, Product Manager, Interview). This episode, that occurred as the company began winning its first major clients, illustrated the risks involved in overworking key individuals because the skill base is not sufficiently broad. However, it also highlights that the founders were not, at the time, sufficiently aware and alert to the nature of Richard's overload problems and the potential business risks, given that he had a great deal of important tacit knowledge that was not documented. The founders, therefore, were fortunate that Richard was able to be convinced to delay leaving until he had completed documenting critical knowledge he possessed.

In another less extreme instance and two years after Richard's resignation, Dianne approached the founders with a desire to change roles. As she recalls, they were both understanding and accommodating, resulting in a role change:

> I went away for a period of seven weeks. I took a nice long break, and decided that that wasn't what I wanted to do any more and I wanted to change my focus. … About two years ago. And then I moved in to more of an HR consulting role which really in this organisation was systems consulting. (Dianne, GM Client Services, Interview)

A possible explanation for a smooth transition in Dianne's case may be in the founders' alertness to their managers' needs and workloads. Perhaps, demonstrating a degree to learning from the Richard episode and improved feedback mechanisms.

Typical of emerging fast-growth firms (see Sections 2.2 and 2.3), Talent Innovators had a large recruitment appetite and even though on-line recruitment tools (such as

'brainbench') were being used (by 2007), Julia admitted that she thought they were still making "too many bad hiring decisions".

> Because we're growing so much there's the pressure to get someone in and get a bum on the seat and it is really tough to find good people. (Julia, CEO, 2nd Interview)

As a consequence of the pressure to hire people, she acknowledged they hire less than perfect candidates with their "eyes open" and once the individual becomes a problem to manage they often have to revert to termination (Julia, CEO, 2nd Interview). Nevertheless, by 2007, Talent Innovators had a sophisticated recruitment process with the main criteria centred on individual fit and motivation (Julia, CEO, 2nd Interview; Talent Innovators, Article 1). Where the job has specific expertise requirements, a skills fit selection criteria would also be critical (Julia, CEO, 2nd Interview). Salaries surveys were also purchased and used to ensure appropriate salary packages were applied (Julia, CEO, 2nd Interview).

The consequences of not having the right people and not managing people properly were spelt out by Julia (CEO, 2nd Interview), who stated:

> That has been proven time and time again with our projects. If we don't have good people on there or if we have good people on a project that don't have clear, explicit instructions, we get a bad outcome and it impacts us commercially. You know, we either end up making less profit on the project or we lose faith with the client and we have to invest a lot more time in marketing and taking the client out to lunches and proving ourselves again and then we might have to sell the next project to them cheap and wear the risk ourselves. So yeah, it has a major bottom line impact if our people do not deliver well. (Julia, CEO, 2nd Interview)

Therefore, regular performance reviews were an important component of Talent Innovators' HRM practices that had been in practice from the start, according to Julia (CEO, 2nd Interview). However, the performance review system was "paper-based" and had not been applied consistently nor had it been "linked to the job and to the competencies of that job" (Julia, CEO, 2nd Interview). Julia (CEO, 2nd Interview) suggested they had not "invested the tens of thousands of dollars that would normally be invested into putting all of these sorts of systems in place" but now that the firm was bigger and

because HR was its core business, making the investment was justifiable. In addition, Talent Innovators had acquired in 2007 Prism Consulting, a HR consulting firm, with performance management and competency–based tools that could readily be applied and tested within the firm.

Also, typical of emerging fast-growth firms is the lack of formalisation (Barrett & Mayson, 2008a; Harney & Dundon, 2006a; Mazzarol, 2003). At Talent Innovators, Julia recognised the importance of formalising policies with the growth of the firm's size:

> In the early days we didn't have any formalised HR policy so it was more just in the practices because the beliefs were [Gordon's] and my beliefs I guess. … Since we've become bigger and that then needs to be executed by other team leaders and managers in the business that we've put more documentation around how to deliver to those values. There is still a lot of work to be done on that. But the values have remained the same. (Julia, CEO, 2nd Interview)

However, Julia (CEO, 2nd Interview) went on to state that she was not "particularly a fan of" policies, except where the "document is short, sharp, simple, to the point and it lives and breathes". She was particularly critical of large documents that no one reads. Nevertheless, she acknowledged the legal necessity of having written policy documents "to protect the organisation from the one percent of people that are going to … not behave in a socially acceptable way" (Julia, CEO, 2nd Interview).

The author was given a list of Talent Innovators' HR policies (Talent Innovators, HR Policies List) in 2007 and apart from 11 occupational health and safety policies and 10 other policies[30] (most of which would have been mandatory), the list was far from comprehensive. Policies that were in draft form included: managing performance, flexible working, staff rewards and recognition, harassment, and termination. Others that were yet to be drafted included: recruitment, privacy, use of IT, and use of electronic communication devices. Given the size of the firm in 2007 and the nature of its core

[30] These included: equal employment; grievance handling; harassment; workplace bullying; expenses and cabcharges; and travel.

business, it was surprising to find that key HR policies were either not drafted or at the drafting stage.

7.6 Chapter Summary

In this chapter, the case study of Talent Innovators was presented in order to elaborate on important issues that confront entrepreneurial founders of emerging fast-growth firms. The co-founders of Talent Innovators experienced difficulties during their firm's formative years in defining and agreeing their own respective roles and the business direction. The roles evolved to suit the backgrounds, skills and preferences of each founder and, importantly, the two roles (once settled) complemented each other. Therefore, the founders' partnership became an excellent fit creating a good platform for firm growth.

Five years after start-up, firm growth took off with the awarding of three large corporate contracts. While this meant the founders could afford to hire external senior managers, there remained a blend of 'home grown' and externally appointed managers. This is both an outcome of the firm's developmental path (i.e., to promote into senior roles personnel who demonstrate adaptability and capabilities to perform within such roles) and a need to bring into the firm managers with broader and, perhaps, larger corporate experience but the latter was not ostensibly an objective of the founders (Julia, CEO, 2nd Interview).

This chapter has also demonstrated the symbiotic relationship between entrepreneurial founders' roles and other managerial roles. In order for the management team to develop, the founders must delegate while building managers' confidence and making them accountable. Thus, there are two dynamic and related development paths. The first involves the founders as the only managers who are involved in almost everything undertaken by the firm. As the firm grows, the founders' focus turns to more strategic organisational-wide matters. The second path involves the hiring of senior managers (or potential senior managers) and the development of a competent and effective managerial team. The founders are critical in fostering these two development paths but they also need access to a potential pool of high potential individuals who they can trust and who

provide a good cultural fit. The founders of Talent Innovators had embarked on both of these development paths by 2009.

Founders, as demonstrated in this case study, are not going to get the timing and the decision-making right on every occasion. However, what the founders of Talent Innovators did after at least one crisis (involving the resignation of Richard) was to listen and tune-in more carefully to what employees were saying. Feedback is now sought in various ways (e.g., performance reviews and daily stand-up meetings) from employees and managers.

While delegation is a key element of developing the management team, it often remains problematic for fast-growing emerging firms whose entrepreneurial founders have difficulty in 'letting go'. What to delegate and what not to delegate requires an element of judgement. At Talent Innovators, for instance, two key areas that were not fully delegated were finance and product development. Both areas are critical to the firm's performance and while they could be managed by professional managers, the confidence in delegating was arguably not there in 2009 or the founders had not founder the right managers.

Building on the findings contained in this and the two previous chapters, the Chapter 8 presents the overall findings, as well as, providing a cross-case analysis of the three case studies.

8 Overall Findings and Cross-Case Analysis

8.1 Chapter Objective

The objective of this chapter is to bring together the case study findings and key aspects of the literature review in order to build an empirically and theoretically informed conceptual model of entrepreneurial founder roles and firm sustainability as it relates to emerging fast-growth firms. The chapter provides cross-case analysis as well as situating the findings within the literature review.

Cross-case analysis allows for a greater level of robustness than that provided by the use of a single case (de Vaus, 2001; Yin, 2003) and, consequently, multiple cases can help develop better quality theory (Eisenhardt & Graebner, 2007). In particular, coding applied to each case is compared and contrasted across cases in order to strengthen and enrich the theoretical insights (Eisenhardt, 1989a; Eisenhardt & Graebner, 2007; Yin, 2003).

As discussed in Section 4.4, the coding schema (Table 4.6) used for this research is aimed at maintaining a structured but flexible way of managing the data. The coding schema follows the structure of the preliminary conceptual model (Figure 3.2) consisting of contextual factors (i.e., firm characteristics and structural challenges) and internal factors (i.e., entrepreneurial founder role, organisational resources and capabilities, including HRM, and firm sustainability). The preliminary conceptual model is derived from an extensive review of the literature and will provide the structure for analysis contained in this chapter, commencing with the research context.

8.2 Context

The case studies for the thesis involve three privately owned and self-funded Australian emerging fast-growth firms. Founders of emerging firms are often confronted with problems associated with their legitimacy (i.e., liabilities of newness and adolescence) and size (i.e., liability of smallness) (Aldrich & Auster, 1986; Brüderl & Schüssler, 1990; Freeman, Carroll & Hannan, 1983; Stinchcombe, 1965) and these problems are compounded when the firms also grow rapidly (Barringer, Jones & Lewis, 1998; Flamholtz

& Randle, 2007; Hambrick & Crozier, 1985; Kotter & Sathe, 1978). Founders of rapidly growing firms face growing demands for their products and services that invariably require more resources, such as labour and finances, from markets that may not be favourably disposed to the perceived risks involved. As a consequence, these founders, among other things, often struggle to recruit people and obtain funding for their emerging firms and they are likely to face high levels of uncertainty (Alvarez & Molloy, 2006). The growth paths of emerging fast-growth firms can also fluctuate sharply adding to uncertainty (Garnsey, Stam & Heffernan, 2006). With whatever available resources they can assemble, founders have the demanding and challenging task of building organisational capabilities (Amit & Shoemaker, 1993; Barney, 1991; Dosi, Nelson & Winter, 2000; Penrose, 2009) in order to make their firms sustainable (see Section 2.4).

The role of the founder is critical in emerging firms because typically founders have very few resources (apart from the themselves) and routines have not yet developed and, therefore, even the most basic tasks are channelled through the founder (Baum, Locke & Smith, 2001; Brüderl, Preisendorfer & Ziegler, 1992; Brush, Greene & Hart, 2001; Cooper, Gimeno-Gascon & Woo, 1994; St-Jean, Julien & Audet, 2008; Timmons, 1999). In the thesis, an important characteristic of the case study firms is that each has *two* entrepreneurial founders as owners. Therefore, the findings specifically relate to this sub-set of firms with two or, perhaps, more founders. However, in contrast to assumptions made by Johnson and Bishop (2002), it is contended that there is a significant difference between fast-growth firms with different numbers of founders. A single founder does not have to craft a role with a co-founder; a task that can be highly charged and, if not handled properly, can be detrimental to firm performance and even survival. Nevertheless, single founders are still subject to the expectations of the other firm stakeholders, but these expectations will not be as strong and intense as those emanating from a co-founder.

The business strategies and environmental characteristics of the three case study firms were delimited from the scope of the research. Nevertheless, it is important to note such characteristics because context is important. As suggested by Bhidé (2000), the founders of many so-called 'promising' emerging firms, commence with a general business idea that is not necessarily new when launching the business. This was the case with the founders of

the case studies in the thesis. Healthy Franchise commenced on a small scale with an innovative twist to what was on offer by competitors in the sports and recreation sector. It took them three years before embarking on the franchising route that proved successful and launched them onto the national scene. Similarly, the founders of the Recreation Group came up with a relatively novel idea for the recreational and tourism services sector and commenced to offer their services initially on a very modest scale. Finally, the founders of Talent Innovators started by offering custom made software solutions and it took them a further two years before they started to develop HR solutions that later became their core business. Once the founders of the three firms settled on a business strategy, the fundamentals of that strategy did not change. The strategies evolved and were fine-tuned, but the essence of their business strategies remains intact to this day. Up until recently and with minor exceptions, growth for all case study firms has been organic.[31]

With regard to the external environments in which the three case study firms operated during the first three to five years, there was very little direct competition for the unique business offerings that each firm provided. However, in each case, the environment progressively changed to become competitive and all firms now face strong competition. All firms operate at multiple locations, including in overseas countries, adding to the complexity of each business.

8.3 Firm Sustainability

Earlier, in Sections 1.4 and 2.4, 'firm sustainability' was defined as a state by which a firm can further develop without the encumbrance of its early stage vulnerabilities; where its initial structural challenges have been adequately addressed and, in the main, overcome. It has been argued that attaining sustainability for founders of emerging fast-growth firms is vital in order for them to maintain business performance and reduce the inherent risks associated with their firms being small and new. Founders of these firms are often

[31] The Recreation Group's strategy venture alliance in 2011 involved equity restructuring. As this is outside the scope of the research, details are not provided.

subjected to constant pressure and work long hours under stressful conditions; a scenario that may not be sustainable over time. Therefore, their firms (arguably) have a higher probability of failure than their more mature counterparts (Klofsten, 1997).

The vulnerability that emerging fast-growth firms are exposed to and the importance of firm sustainability was illustrated in the three case studies presented earlier. For instance, one of the founders of Healthy Franchise pointed out that for her, firm sustainability is a more comfortable state than the prior period (Elizabeth, Executive Chairman, Interview). However, this more comfortable and profitable place, tends to mask the considerable risks, perseverance, and capability building that founders of emerging fast-growth firms undertake in order to be successful. One of Healthy Franchise's franchisees (and former consultant) described the state of sustainability in terms of having organisational compliance and having "a tight knit human resource operation" (Sylvia, Franchisee, Interview), both involving clearly defined roles for founders, managers and other organisational members. Having role clarity and delegated responsibilities were issues that the founders of the Recreation Group (Eric, GM Finance & IT, Interview; John, CEO, Interview) and Talent Innovators (Gordon, CTO, 1st Interview; Julia, CEO, 1st & 3rd Interview) also emphasised as well as practiced. Therefore, issues of founder roles and organisational resources and capabilities are key factors in the development of firm sustainability.

Building a sustainable firm that is young and in a fast-paced environment is not a trivial matter. Founders of emerging fast-growth firms face various structural challenges. Representing the first set of challenges are the liabilities of newness, adolescence and smallness (Section 2.2). In addition, a second set of challenges arise as a result of fast-growth, thus, adding further pressures (Section 2.3). More specifically, the second set of challenges, not unrelated to the first set of challenges, faced by founders of emerging fast-growth firms include financial and resource constraints, high levels of uncertainty and the dominant role they are expected to undertake on a daily basis.

Therefore, the structural challenges confronting founders of emerging fast-growth firms need to be addressed if the firm is to grow and prosper. Developing organisational

resources and capabilities to the point where the founder's role can change so that it is no longer tied to the daily operational vicissitudes of the firm will be necessary. Internal factors required for firm sustainability, according to (Bhidé, 1999: 393), relate to:

> … the organization's (as opposed to the entrepreneur's) ability to serve customers profitably and to adapt to changing circumstances. It derives from the talents and training of the firm's members, its structures and systems, and its values and character (the 'corporate culture').

This thesis is particularly concerned with how the founder turns the firm into a sustainable entity and, therefore, less dependent on himself or herself for on-going operational requirements. Attaining firm sustainability is essentially about making the transition from a founder-centric organisation to one that has a broader and more solid operational base (Bhidé, 2000). For Flamholtz and Randle (2007), this involves the transition from 'entrepreneurial' to 'professional management'. The founder will most likely continue to play an important role within the firm – unless he or she exits completely – but the role will be more strategic with little or no operational activities. As Bhidé (1999 & 2000) suggests, firm sustainability is manifest in team effort, in organisational routines and in a culture that is performance driven and yet adaptive to the changing environment. However, it starts with the recognition by the founder of the need to change his or her own role so that the firm can develop into a broader based organisation.

The next section will focus on the founder's changing role in the light of the case study findings.

8.4 Entrepreneurial Founder Roles

Organisational roles do not appear in a vacuum and are not defined at the whim of the entrepreneurial founder alone. Each founder's role arises from demands emanating from multiple sources, one of the most important, being the co-founders' feedback. This section deals with three important factors in developing entrepreneurial founder roles in the light of the case study findings. First, where there are two founders, sorting out who will take the lead role is a decision of critical importance to both founders. Second, there is the

founders' changing time allocation from operational to strategic activities, and third, there is the development of their own managerial competencies. However, before addressing the three factors impacting on founder roles, consideration also needs to be given to structural challenges and growth motivation.

8.4.1 Structural Challenges and Growth Motivation

The effect of structural challenges confronting founders and their emerging fast-growth firms, and founders' motivation for growing their firm will be discussed next, as these provide the backdrop for changing roles.

Challenges Confronting Founders

The challenges that entrepreneurial founders of emerging fast-growth firms face can lead to role stress (Örtqvist, Drnovsek & Wincent, 2007). Role stress can result from role conflict, role ambiguity and/or role overload (Fields, 2002; see Section 3.3.3). In addition, founders are subject to stress emanating from, among other things, financial pressures and high levels of uncertainty regarding their firms' and, hence, their own future prosperity. Degrees of stress were evident in the cases studied for this research.

At Healthy Franchise, Peter (Director, Interview), a co-founder, referred to the considerable changes he was confronted with when the founders implemented their franchising model. Thus, Peter's role changed from working in and managing one modest standalone business to negotiating and closing substantial deals (involving such things as property and equipment) for multiple franchise clubs on a national scale. This major role change occurred without any training and was subject to trial and error. Furthermore, Peter's responsibilities did not seem clearly defined or agreed upon as evidenced by the other co-founder, Elizabeth's (Executive Chairman, Interview) comments regarding his vetting of contractual documents and Sylvia's (Franchisee, Interview) comments about his efforts not being readily noticeable. This suggests that there was considerable role ambiguity and, perhaps, associated role stress, regarding his role in the firm.

For Elizabeth (Executive Chairman, Interview), the franchising model increased significantly her sense of accountability, where she felt responsible for the success of the

firm's franchisees who had invested considerable sums of money and effort. In her own words, the challenge had been one of "a lot of blood, sweat and tears" and she admitted to the stress she had endured in making key business decisions (Elizabeth, Executive Chairman, Interview). The ad hoc nature of decision making and the pressures that were visible at the time were captured by Sylvia (Franchisee, Interview) when she said that "the management team of the day was given no direction" and people "had no idea what they were supposed to be doing". Without any clear directions, it was not surprising that the management team was not effective (Sylvia, Franchisee, Interview).

As a consequence of role ambiguity, workloads increased, particularly for Elizabeth who was responsible for making the franchising model work without effective delegation. Her determination and hard work to ensure that Healthy Franchise did not fail was acknowledged and attributed by Sylvia (Franchisee, Interview) to her "bull doggedness". There is likely to have been considerable role stress for Elizabeth and her attempts to hire her replacement seemed to be indicative of this.

In contrast, the founders of the Recreation Group did not highlight personal stress related to workloads or work organisation during the interviews. Rather, they were both keen delegators and were happy to take extended periods of leave once the firm was capable of accommodating their absences. However, they did experience considerable financial pressures in the early days and then again during the SARS epidemic in 2003 and 2004 (John, CEO, Interview). During both periods, they put together coping structures to deal with these issues (John, CEO, Interview). The first involved implementing an agreed salary arrangement to assist with the firms' cash flow. During the second period, they established frequent briefing sessions with their employees to keep them up-to-date with the firm's financial position, and implemented a strategy of 'no retrenchments' while at the same time not replacing anyone who left the firm. The Recreation Group's founders gave the impression that they were pre-disposed to working through issues in a more structured way than was evident at Healthy Franchise.

Nevertheless, there were pressures on the Recreation Group's managers and employees as a result of the firm's rapid growth and new projects that managers were keen to

implement. Georgia (HR Manager, Interview) observed that in 2004/05 people were "working ridiculous hours for long periods of time" and that this had contributed to "enormous stress". However, people were excited to learn new things and to work on new projects (Georgia, HR Manager, Interview; Tim, GM Business Operations, Interview). So while the founders by this time were operating at a more strategic level, the pressures elsewhere in the organisation were significant and the founders' response included the development of the management team through structured internal training programs, the implementation of project management processes, and the elevation of the HR function within the firm. While Georgia had been hired in 2002 as the HR Manager, she was essentially ignored by John (CEO) during the first 12 months until HRM issues were elevated in importance within his own mind (Georgia, HR Manager, Interview). She observed that this was the time when his role expanded from a sales and marketing focus to a broader focus where he began to give more attention to other areas of the firm (Georgia, HR Manager, Interview).

Likewise, the founders of Talent Innovators had significant financial and resourcing pressures during their firm's first five years (Julia, CEO, Interview). During this time, they went through periods of high demand where people were overloaded and, at other times, there was insufficient work which created stress for the founders. Getting the balance right was an on-going problem until they focused their business strategy on developing a core on-line HR application targeted at the large corporate market. It took another two years before they achieved their first breakthrough. In the meantime, the financial pressures intensified to the extent that the founders were forced to reduce their workforce and relocate to smaller premises in order to cut costs (Julia, CEO, Interview). Up until 2003 the firm operated on a shoestring and the founders' financial pressures were particularly severe in 2002, leading Richard (Product Manager, Interview) to observe that the founders' made enormous sacrifices just to pay the wages each week and their "stress levels were at an all-time high".

Consistent with the liabilities of newness and adolescence premises (see Section 2.2.1), the three case study firms in this study experienced particularly severe financial difficulties that could be characterised as 'near death experiences'. Past studies have pointed to cash

flow and resource constraint problems (Hambrick & Crozier, 1985) as well as problems of co-ordinating increasing workloads and pressures for quick decision-making (Kotter & Sathe, 1978), all of which were present in the cases studied. Flamholtz and Randle (2007) refer to the 'growing pains' that managers and employees of fast-growth firms endure. These pains include insufficient hours to get things done, on-going crisis management and employees not being clear on what they are supposed to be doing. Elements of these challenges were evident in different degrees in all three case study firms during their formative years. The founders of emerging fast-growth firms face many challenges in their attempt to develop their firms into sustainable entities and, as a consequence, they experience degrees of stress that can be detrimental to their health (Boyd & Gumpert, 1983). The above challenges set the context for how founder roles change within emerging fast-growth firms that have achieved firm sustainability. However, before considering how founder roles change, it is important to understand founders' motivation for firm growth.

Founders' Growth Motivation

Important to understanding changing founder roles in emerging fast-growth firms is the founder's motivation for growing the firm. Without such motivation, firms are unlikely to grow significantly. In one study of small business managers' motivation for firm growth, Delmar and Wiklund (2008) confirmed the important effects of previous MDs' motives and feedback from earlier performance and according to them:

> Growth motivation … is partly affected by previous outcomes but remains relatively stable over time. … growth motives are effective predictors of firm growth when they are stable over time. (Delmar & Wiklund, 2008: 450)

In all three case studies, the firms had experienced revenue growth, albeit from a low base, in each of their respective first four years (see Figures 5.2, 6.2 & 7.1). Therefore, there was an established pattern of growth in each case. Furthermore, all of the founders had very little to lose at start-up and they were prepared to put up with the more difficult times

than, perhaps, other founders who had higher expectations. Thus, the founders of the three case studies in this thesis, were quite resilient in the face of adversity.

At Healthy Franchise, the founders established their firm using second-hand equipment and Elizabeth (Executive Chairman, Interview) commenced working in the business after having raised her children without having a paid job, while Peter (Director, Interview) continued to work full-time in his existing business. The founders of the other two case study firms started their businesses soon after graduating from university and had not become accustomed to paid full-time work.

The implication for Talent Innovators, for example, was that during the tough times the founders persevered because they "didn't know another life", having come into the firm almost straight from university life (Julia, CEO, 1st Interview). They did not have "a mortgage or any children or all of those expenses things" and their financial expectations were not high (Julia, CEO, 1st Interview). However, both founders were motivated to operate their own firm because they did not want to work in corporate roles (Gordon, CTO, 1st Interview; Julia, CEO, 1st Interview). Julia recollected her experience working for a large firm:

> Starting our own business or my own business, it was really around having a feeling that we could, or that I could do something better, and that way, that was – I did a short industrial baseline in one year basically out in corporate-land and yeah, a very hierarchical organisation where there were lots of layers and things took a long, long time to get done, which I found very frustrating and thought there were better ways of doing it. (Julia, CEO, 1st Interview)

According to Julia (Julia, CEO, 1st Interview), running her own firm was also part of the way she has "naturally taken a leadership role in most things that [she has] done". The founders, therefore, had some compelling reasons for starting and then persevering with their own firm.

However, the motivation of founders to continue growing in the face of adversity is not always clear. In all of the case studies there was evidence of stubbornness and

perseverance on the part of the founders when confronted with crises. Nevertheless, at an individual level, there were different motivational factors at play. At the Recreation Group, for instance, John (CEO, Interview) expressed his motivation in terms of: "I hugely love having a company". But this should not detract from Delmar and Wiklund's (2008: 440) argument that

> … a small business manager who has experienced firm growth and attributes that outcome to his or her own ability will get a higher growth motivation than another small business manager who has not experienced firm growth or does not attribute that outcome to his or her own ability. The actual growth outcome is an important indicator of the entrepreneur's ability to manage and expand the firm.

Thus, the founders of Talent Innovators received positive tangible feedback in 2002 with the successful sale of their core HR product to three major corporates and this seems to have motivated them to grow the firm further.

Another, and not inconsistent explanation for growth motivation, relates to the founders' views about their firm's sustainability. For Julia, at Talent Innovators, in particular, building a solid financial base with recurring revenues and minimising key person risk were important components of a sustainable firm (Julia, CEO, 1st, 2nd & 3rd Interview) that would be achieved through profitable firm growth. A growing firm is less vulnerable to economic downturns as suggested by Wiklund, Davidsson and Delmar (2003: 253) who found support for their hypothesis that "[t]he expectation that increased size would make it easier (more difficult) for the firm to survive a severe crisis is associated with a more positive (negative) attitude toward growth". However, firm sustainability is concerned with not just survival but also with the development of organisational resources and capabilities, and thus the diminution of key person dependencies, an objective that Julia was endeavouring to achieve (Julia, CEO, 3rd Interview).

8.4.2 Founder Team and the Lead Role

The case studies covered in this thesis relate to firms with two founders and, therefore, the concept of founder (or entrepreneurial) team is relevant. As Cooney (2005) argues, the

notion of the entrepreneur as a "lone hero" should be replaced with that of the 'entrepreneurial team'. Evidence suggests that firms founded by teams are more successful than those founded by individual entrepreneurs (Birley & Stockley, 2000; Cooper & Bruno, 1977; Eisenhardt & Schoonhoven, 1990).

There is evidence that, among entrepreneurial founder teams, there is usually a lead entrepreneurial founder (Ensley, Carland & Carland, 2000; Timmons, 1999) Furthermore, lead entrepreneurial founders "have stronger entrepreneurial vision (that is, they see what is not there and they see it better than other entrepreneurs), and they have greater self-efficacy (that is, they have the self-confidence to act on their visions to make them real)" than their team counterparts (Ensley, Carland & Carland, 2000: 73). In each of the case studies, the issue of lead role was not agreed or clearly defined at start-up and it took some time to work through and resolve. Who takes the lead role can be a very contentious issue in an emerging firm where both founders are active on a day-to-day basis.

For Healthy Franchise, an independent consultant, brought in to assist with franchising recommended that founder roles be based on strategic considerations and the decision to place Elizabeth at the helm was relatively straight forward when compared to the other two cases. However, the decision to appoint Elizabeth as the MD was not made until 1993/94, four or five years from start-up. Even long after the roles were settled between the founders, there appeared to be some disquiet on the part of Elizabeth because she seemed to resent the apparent insubstantial role played by her co-founder (Elizabeth, Executive Chairman, Interview).

In the case of the Recreation Group, both founders pointed out the significance of managers and employees coming to them and suggesting that a more formal structure be implemented well before the issue of whether one of them should be appointed as CEO. The decision to appoint Eric as CEO took ten years and, even then, the decision could be interpreted as only an interim one. It was not until John took over as CEO in 2003, and had been in the position for a further two years (i.e., 14 years after start-up), that the decision was made to leave him (rather than Eric) as the on-going CEO (Eric, GM Finance & IT, Interview; John, CEO, Interview).

Finally, the founders of Talent Innovators argued extensively over business strategy and their respective roles before coming to a final decision four years after starting the firm (Julia, CEO, Interview). This was despite being a married couple and, arguably, they were more likely to know and understand each other than the founders of the other two firms. Therefore, the resolution of founder roles in start-up firms can be contentious, time consuming and stressful, and can have implications for firm performance. Ultimately, if the founders cannot agree, it could mean the demise of the firm (Thurston, 1986). The resolution of this issue represents an important, and perhaps, one of the first transitions that emerging fast-growth firms with two (or more) founders will need to undertake.

The development of founder roles is not straight-forward and is subject to many influences over time. The case studies indicate that the expectations and interactions between co-founders are critical in how the roles are defined and developed. In addition, other stakeholders will have expectations that will, to a smaller or larger extent, impact on role definitions and development. In this group, stakeholders are likely to be family members, friends, managers, employees, clients, suppliers and, perhaps, business advisors. Those closest to, and with more interaction with the founders, are likely to have the greatest impact.

Founders of start-up firms may have broadly defined roles at start-up but, in practice, the roles would appear to be works-in-progress. It was not the purpose of this study to ascertain the proportion of firms that have clearly defined roles and where the lead entrepreneurial founder is recognised and agreed from the start. However, the cases studied for this research suggest that founder role ambiguity at start-up is an issue that will need further research to identify its prevalence.

8.4.3 Founders' Time Allocation

Founders of emerging fast-growth firms often struggle with on-going and significant demands on their time (Mazzarol, 2003; Oliver, 1997). They can be subject to constant interruptions and demands for quick decisions that, in turn, can be very taxing on their cognitive and attentional capabilities (Kahneman, 2011; Gifford, 1992; Johnson & Bishop, 2002; Tversky & Kahneman, 1974). Studies have demonstrated that the cognitive costs of

frequent but small interruptions of thought can be high where "frequent interruptions scatter our thoughts, weaken our memory, and make us tense and anxious" (Carr, 2010: 132). Under these conditions, "mental short-cuts are adopted as time pressures increase or as we experience physical fatigue or stress" (Johnson & Bishop, 2002: 14; see also Baron, 1998).

Therefore, while founders have flexibility in defining their roles and allocating time between various tasks and activities, they operate under constraints that do not give them unqualified freedom. Not only is their time is limited, the demands on the time founders do have are very high because of the fast-paced nature of their environment and, therefore, choices regarding how their time is allocated need to be made. In reality, not all that founders wish to accomplish gets done, as Johnson and Bishop (2002: 13) point out:

> As time passes on a day-to-day basis for the founder, some things cannot be accomplished: opportunities are not seized; tasks are not finished; calls are not made; employees are not hired; and goals are not reached.

Therefore, under rapidly changing conditions and with a growing workforce, "the founder must flexibly engage in work-related activities to optimize venture performance as much as possible" (Johnson & Bishop, 2002: 14). However, there are some demands which founders need to address directly. New managers and employees will require more attention as organisational complexity increases and co-ordination and communication demands increase. Generally, founders' time will change from undertaking operational tasks to doing more co-ordinating and communicating (Johnson & Bishop, 2002).

At start-up, the founders of the Recreation Group (as with the founders of the other two case study firms) were very hands-on, simply because they had no one else to whom to delegate. However, this did not remain the case for too long. Apart from head office, the remainder of the firm operated on a decentralised basis – with personnel spread globally – and it would have been very difficult to have had centrally and rigidly controlled service units. Fortunately, one of the founders, Eric (GM Finance & IT, Interview), was naturally inclined towards developing and implementing business systems and processes which assisted with delegating responsibilities while maintaining control over the operations.

Furthermore, as noted previously, the founders were both keen delegators and availed themselves of opportunities to delegate responsibilities (Eric, GM Finance & IT, Interview; John, CEO, Interview).

As a result, the Recreation Group had managed to embed within its organisational structure and culture delegatory practices where the founders were able to take extended time away from the firm – up to 12 weeks holidays per year – and work reasonable hours each week – 35 to 40 hours per week (John, CEO, Interview). While John's disposition was more sales oriented, Georgia (HR Manager, Interview) observed that after about 12 months in the CEO role he began to take "a much more helicopter view of the whole business". At the interview, he produced a detailed list of projects with performance criteria, timeframes and responsibilities that illustrated this broader approach to managing the firm (John, CEO, Interview). However, for Eric, Georgia (HR Manager, Interview) observed that a new position of GM Finance and IT was created to make his role meaningful. He was also committed to sponsoring management training programs and other special projects (Georgia, HR Manager Interview; Tim, GM Business Operations). Nevertheless, Eric's role appeared to be in a state of flux by 2005 with a new CFO role being created and filled that year to address the financial complexity across the group (e.g. different company and tax structures across national borders).

At Talent Innovators, Gordon's time allocation remained focused on technical aspects of the firm but with less day-to-day programming activities. According to Julia (CEO, 3rd Interview), Gordon was the creative type who was good at bringing business innovations to market. He was not a manager of people and, if personnel issues arose, he would take these up with Julia for her to resolve (Julia, CEO, 3rd Interview). Thus, Gordon's partially insulated role involving product development and innovation was unlikely to have changed much as the firm grew following the appointment of Julia as CEO in 2001.

As with the CEO of the Recreation Group, Julia (CEO, Talent Innovators) broadened her role as the firm grew. However, whereas John, at the Recreation Group, seemed to have a more casual approach and relied on a culture of delegated authority, where mistakes were tolerated, Julia seemed to rely on a more structured and time management approach.

Whereas mistakes, up to a point, were tolerated at the Recreation Group, and managers appeared to have confidence in making important decisions, this was not the case, at least initially, at Talent Innovators. According to Julia (CEO, Talent Innovators, 3rd Interview), managers lacked confidence in making significant decisions.

Despite being the Executive Chairman, Elizabeth, at Healthy Franchise, seemed to have maintained more of a hands-on operational role (up to the early 2000s) than the lead founders from the Recreation Group and Talent Innovators. This is suggested by her reference to her own heavy workload and stress, and lack of confidence in the people she hired, and by Sylvia's (Franchisee, Interview) statement that Elizabeth was "not a manager" and that employees had no idea what they were supposed to be doing on a day-to-day basis. Therefore, in order to keep the firm operating, Elizabeth would have been, it seems, micro-managing her employees, a situation that was not sustainable.

On the other hand, Peter's role at Healthy Franchise seems to have been less onerous than Elizabeth's and his time allocation (up to the early 2000s) seems to have been focused on identifying and negotiating property deals, and acquiring new equipment for the firm's franchise clubs. Other tasks, such as reading contracts, appear to be part of a support function to Elizabeth. As discussed earlier, over time, Peter's role diminished in size and seemed to be almost redundant by the time the interview took place in 2005.

In summary, the case studies suggest that it is misleading to argue that changes in all founders' time allocation is similar as firms grow. Where there are two (and perhaps more) founders working in a firm, the time demands and time allocations of the respective founders will differ in accordance with their role demands. The cases illustrate how the lead founder (the CEO or MD) will generally broaden their scope of activities while the non-lead founder will be relegated to roles that may be fabricated to keep them occupied (e.g., Peter at Healthy Franchise) or specialised roles to take advantage of their specific talents (e.g., Gordon at Talent Innovators). Therefore, the non-lead founder role can be problematic for the firm if he or she does not have a set of attributes that are useful to the firm at its particular stage of development. The lead founder, however, requires

competencies that are necessary to enact the CEO or MD role successfully. Therefore, the development of managerial competencies is considered next.

8.4.4 Founders' Human Capital and Managerial Competencies

Entrepreneurial founders' prior industry experience (Barringer, Jones and Neubaum, 2005) and higher levels of education (Sapienza & Grimm, 1997) have been associated with firm growth and success. The type of roles founders perform will be influenced by their willingness and ability to undertake a wide range of tasks and activities. Their past work experiences, positions held, and level and type of education undertaken is likely to have an influence on the roles they will want to pursue. However, the *upper echelons theory* (Hambrick & Mason, 1984) using a demographics approach to top management team research has been questioned because of its failure to explain how "demographic predictors are correlated with presumed intervening processes" (Priem, Lyon & Dess, 1999: 936; see also Ensley, Pearson & Pearce, 2003). While the predictive value of a demographics approach may be questionable, the human capital that founders bring to their emerging firms does shed some light on how roles and managerial competencies evolve.

None of the founders from the three case study firms had prior managerial or business start-up experience. Only Peter (Director), at Healthy Franchise, had operated a small business in the same industry prior to starting Healthy Franchise. Of the six founders in the study, he was (arguably) the only one who played a limited role in his firm's growth and was eventually marginalised, suggesting that his prior experience was helpful in initially launching, but not growing, the firm.

With regard to the founders' educational background, there are indications that the two Healthy Franchise founders struggled particularly with managing firm growth because they were not learning from their mistakes (Sylvia, Franchisee, Interview), perhaps not to the same extent and speed as the founders in the other case studies. Tertiary training may have helped the founders of the Recreation Group and Talent Innovators to absorb new knowledge more quickly and more critically. Therefore, it is argued here, that while a tertiary education can assist founders in starting and growing sustainable firms, it is not a

predictor of firm sustainability or success. A tertiary education, like any tool, depends on how well it is used. Furthermore, other substitutable tools may be available to those founders who are not tertiary qualified. Thus, the founders of Healthy Franchise, succeeded in achieving firm sustainability by preserving and recruiting 'professional' managers. So, what they lacked, they brought in from outside the firm.

The case of Talent Innovators will be explored further to illustrate in more depth how founders' human capital relates to their changing role. Julia (CEO) had undertaken a science degree and had a short period of graduate work experience with a large corporation. Her husband, Gordon (CTO), was qualified and experienced in writing custom software and dealing with clients. However, for both partners, the learning curve in starting the new firm was enormous. At the initial stage, they lacked confidence because they did not have a plan nor the relevant experience, but chose instead to persevere using a trial and error approach.

Two threshold issues were addressed in the first couple of years of the firm's existence: first, deciding what business were they in (and what products would they bring to the market) and, second, agreeing on their respective roles. As mentioned earlier, Gordon initially occupied the role of MD but he was more interested in the technical side of the business and in developing innovative software solutions. Julia started out as the Business Manager and it soon became apparent that she was managing the overall firm, including much of the planning, co-ordination, finances and marketing. The educational background of both founders made the fit into their newer respective roles more of a logical choice. Gordon had the software engineering background making the technology fit appropriate. He was not interested in such matters as managing people or business planning. Julia had a very analytical and process oriented approach instilled in her through her science training, and this was extremely helpful in building a new firm. She was also able to make extensive use of her research skills in developing her knowledge of business and management concepts and practices. She was open to new ideas and was not afraid to try these out.

Prior work experience and educational background are relevant to founder roles in this case because it influenced how the responsibilities were divided between them and how they worked together. Gordon's tertiary training, industry networks and limited exposure to developing software for commercial applications, while still at university, were good building blocks for founding a software development firm. However, he lacked the ability and/or willingness to perform other critical business activities, such as business planning and managing finances, sales and HR. Julia, on the other hand, did not have any background, directly connected to the firm, but she did bring some, albeit very limited, experience from the corporate world, together with her research and process oriented skills. As the founders both indicated, in those early days they lacked confidence and much of what they did was by trial and error. However, they were able to address role issues early on through a series of "robust discussions" (Julia, CEO, 2nd Interview) and eventually settled on complementary and workable arrangements, prerequisites for firm sustainability.

Management competencies are necessary, particularly for the lead founder, if he or she is to build a sustainable firm. As Timmons (1999: 239) argues, there comes a point in time during a firm's development where management competencies become important:

> There are convergent pressures on being an entrepreneur and being a manager as a venture accelerates and grows beyond founder-driven and founder-dominated survival. Key to achieving longer-term sustained growth, and an eventual harvest, is the ability of an entrepreneur to have or develop competencies as an entrepreneurial manager.

Entrepreneurial founders and managers are not necessarily separate and distinct entities as was once thought (Timmons, 1999). Founders can become competent managers.

In the three cases examined for this research, the lead founders had no management experience prior to founding their firms. Management competencies, therefore, were developed on-the-job with some external advisory assistance. In the case of Talent Innovators, the lead founder (Julia, CEO) was tertiary qualified with a research background – albeit in a non-management field – and she was a keen management and

business student by the time she had founded the firm. The founders employed the services of an external advisor to help gain an $80,000 (AUD) government grant for market research, developing intellectual property and strategic planning, and this advisor remained involved in the background for many years following this exercise.

Julia also gave the impression that she was well read in some recent management trends and gave examples of some organisational initiatives arising from her exposure to these trends. For example, she had been exposed to the 'agile' process development approach by her software engineering colleagues and, after further examination, she adapted it for broader use across the entire firm (Julia, CEO, 3rd Interview). Another example is her implementation of a 'raving fans' (based on a book by Ken Blanchard) strategy tied to a rewards and recognition scheme (Julia, CEO, 2nd Interview). In addition, by 2007, Talent Innovators had acquired a consulting firm that helped Julia broaden, even further, her knowledge of HRM principles and was a catalyst for implementing performance management throughout the firm (Julia, CEO, 2nd & 3rd Interview).

Both founders at the Recreation Group, John (CEO) and Eric (GM Finance & IT), were economics graduates and, while they also had no management experience prior to founding their firm, they had some early exposure to management disciplines. Furthermore, similar to the founders of Talent Innovators, they had supportive and complementary dispositions and skill sets (i.e. one focused on business processes and the other on sales and marketing) which, in combination, also added to their management foundations. Like Julia at Talent Innovators, they also had open minds about new ideas and were keen listeners (as evidenced by their willingness to address organisational structural issues voiced by their employees). By 2005, they had been operating an in-house management training program for about 12 months (Eric, GM Finance & IT, Interview; Georgia, HR Manager, Interview).

In contrast, the lead founder at Healthy Franchise, Elizabeth (Chairman), was not tertiary qualified and failed to complete a short business course, and had no previous management experience. Lack of management skills seemed to reflect the difficulties the firm had in addressing fundamental management issues (such as selecting and recruiting employees

and franchisees and clarifying employee roles and responsibilities), particularly in its formative years. Sylvia (Franchisee, Interview) observed that she was "amazed that it [the firm] actually kept on going". However, the lack of management expertise was something that both founders recognised and attempted to redress. Their use of external advisors led to a poor outcome when they hired a GM to replace Elizabeth as MD and who turned out to be inappropriate for the role. Elizabeth's approach with regards to the development of management competency within the firm was to recruit 'professional' people from outside – meaning people with corporate experience – once she could afford them. According to her, she could not afford, during the firm's formative years, the people she had hired by 2005 (Elizabeth, Chairman, Interview).

With regard to the management competencies of the lead founders, the case studies suggest there is a difference between those that are willing to embrace a learning approach and seek to develop their management competencies, and those who may not be as open to new ideas. Elizabeth succeeded in developing her firm into a national and sustainable firm, but under enormous stress as a result of a lack of management competencies. A key management competency is the ability to delegate. Elizabeth appeared to have a problem with delegating and, even by 2006, when she was no longer involved in the day-to-day management of the firm, she admitted to finding it difficult to watch from the side-lines (Elizabeth, Executive Chairman, Conference Address). In contrast, the founders of the Recreation Group embraced and promoted delegation (Eric, GM Finance & IT, Interview; John, CEO, Interview), while the lead founder of Talent Innovators was firmly committed to delegation through the implementation of structures and processes (Julia, CEO, 3rd Interview).

Complementary skills between each pair of founders were also important in how roles evolved. In the main, the roles of the founders – based on their respective skills and experience – were readily able to be distinguished from one another. For the three case study firms, this helped to resolve the CEO/MD role issue and, in at least two of the three cases (i.e., the Recreation Group and Talent Innovators), was a strength, as each founder brought different complementary skills and experience to their firms. Thus, it makes sense for there to be some degree of specialisation in the roles undertaken by each founder for

the efficient and effective management of the firm, and for the entrepreneurial founder team to tap into each other's unique attributes.

Important HRM practices as developed in the case study firms are considered next.

8.5 HRM Resources and Capabilities

The faster emerging firms grow, the more likely they will experience HRM problems (Mazzarol, 2003). These problems typically will cover the full breadth of HRM issues, including recruiting, motivating, developing and managing employees, and it often commences with working out what the scope of the roles are for prospective new recruits. At Healthy Franchise, for instance, employees were unsure of what they were expected to do on a daily basis, causing stress and high levels of employee turnover (Sylvia, Franchisee, Interview). They had no role descriptions and Elizabeth (Executive Chairman) tended to micro-manage their daily tasks and activities (Sylvia, Franchisee, Interview).

Founders of emerging fast-growth firms, particularly during the formative years (i.e., first five years), will be focused on meeting short-term operational requirements with limited attention to firm development requirements (Mazzarol, 2003). For founders who are preoccupied with immediate operational issues, clarifying with a great deal of precision what a prospective employee is expected to do may not be at the forefront of their mind and, in any case, it may not suit their on-going requirements to be too specific about role boundaries that are likely to be more fluid than not. As Alverez and Molloy (2006: 3) point out, "entrepreneurial firms operate under conditions of uncertainty" and, therefore, allowing for labour flexibility is understandable. Thus, there appear to be at least two factors tending to distract founders from clearly defining and documenting employee roles during the formative years of their firms' development: first, there is their limited attentional capabilities because of the considerable demands on their time and, second, their (possible) unwillingness to lock themselves into seemingly rigid structures. Elements of these factors were evident in all three case studies, especially during the firms' formative years.

Consequently, requirements to develop more fully structured HRM practices often get pushed to one side and are only addressed when crises begin to ensue and, even then, the same mistakes can be repeated over and over again before more appropriate solutions are found (e.g., Healthy Franchise's hiring practices). One response to this dilemma is for researchers to prescribe the formalisation of HRM practices. It is often claimed that formalising HRM practices is a necessary requirement for small firms to grow and prosper (Mazzarol, 2003). However, as Barrett and Mayson (2008a: 134) argue, researchers of small firms should be concerned with not just whether rules exist but "with the type of rules that exist, their logic and the outcomes in terms of attitudes and behaviours". Others argue that "[s]urface level characteristics of SMEs, such as the extent of informality, cannot be judged to be indicative of the substance and effectiveness of HRM" (Harney & Dundon, 2006a: 105). Rather, formality and informality have rightful places in all types of well-functioning organisations.

The CEO at Talent Innovators, Julia, expressed her scepticism regarding the importance of formal policy documents in the following way:

> I guess I am still not a fan of major policy documents ... there are HR policy documents in place and no one reads them and no one knows them unless they need to be drawn on, they're not drawn on. It's a bit like, not that I don't agree with legal contracts, its like a legal contract in that no one references it unless shit hits the fan and, excuse the French, then people look at them and then go ooh. (Julia, CEO, 3rd Interview)

Instead, she said she preferred to emphasise communicating directly and regularly to everyone in the firm:

> So I guess what we have tried to establish is strong communication practices. I do typically a monthly CEO briefing and that can be fortnightly if there is a lot of communication that needs to happen organisationally and that's the whole organisation from around the world. So they dial in via video conference ... so I make sure that at least on a monthly basis I am communicating to everybody as to what is happening at an organisational level, what I think are the key focuses, how we're performing, all of those sorts of things. (Julia, CEO, 3rd Interview)

This was supplemented with a one page 'visual' documenting the firm's mission, the values, the vision and organisational goals, and this in turn was linked to each individual's performance agreement (Julia, CEO, 3rd Interview). Therefore, while some degree of formalisation is a natural progression in the development of an emerging firm, the coherent application of a structured approach (incorporating formality as well as informality) is far more important. As they develop, firms cannot avoid some documentation of HRM policies and practices due to regulatory requirements (e.g., laws pertaining to employment, and occupational health and safety) and a growing workforce that will no longer be in daily contact with the founders. For the three case study firms, policy and procedural formalisation was important as their firms added new sites. A major issue for Healthy Franchise, for example, was lack of compliance by franchisees (Deidre, HR Manager, Interview; Sylvia, Franchisee, Interview). Thus, in order to help maintain some consistency, documentation will be necessary. However, as Julia (CEO, 3rd Interview) at Talent Innovators points out, the actual organisational practices and individual behaviours are ultimately what are important and "if we can get the message across, then we can reduce the amount of formal structure required".

Findings from the case studies suggest that HRM is vital for managing an emerging fast-growth firm towards sustainability and, to this end, three areas are particularly significant; namely, the development of a cohesive *management team*, sound *recruitment processes* and an effective *performance management system*. The rationale for bringing these domains together is: first, in the main, recruitment needs to be well managed because it is the life-blood of rapidly growing firms with their increasing appetites for HR, second, the management team is the lynchpin that allows the founders to pull back from the growing operational tasks and activities, and allows them to manage the firm more strategically and, third, managing the performance of the firm is critical to ensuring that: people are employed to perform as intended, employees are not operating under undue stress, and poor performers are counselled and potentially removed from the firm.

The next section begins by considering recruitment.

8.5.1 Selection and Recruitment

Typically, rapid growth for emerging firms entails hiring more people under tight timeframes, limited financial resources and often with unclear role boundaries (Cardon & Stevens, 2004). Growth also brings some degree of uncertainty for existing employees and managers because their own role boundaries will continue to change as more people are hired and change the composition of internal work groups. Managers are also under pressure to make decisions, including hiring decisions that can potentially compromise performance outcomes. Therefore, under these circumstances, it is difficult to consistently get the right recruitment outcomes. Thus, Deidre at Healthy Franchise summarised the situation as follows:

> The key is that you have to have the right team of people consistently there which is not always possible when the company grows quickly and it is [geographically] scattered. (Deidre, HR Manager, Interview)

However, during its formative years, the founders of Healthy Franchise made the wrong hiring decisions time and again (including some very inappropriate and, ultimately very costly, franchisee selections). Sylvia (Franchisee, Interview) pointed out that employees were hired without employment contracts and job descriptions, and this added to difficulties in managing staff.

Therefore, developing a structured recruitment process that addresses the firm's needs is a critical factor for emerging fast-growth firms. Healthy Franchise took longer to address this requirement than the Recreation Group or Talent Innovators, and for that reason the founders went through more stressful scenarios arising from inappropriate hiring decisions than the other two case study firms. This is not to suggest that the founders of the Recreation Group and Talent Innovators made the correct selections every time, a point readily acknowledged by Georgia (HR Manager, Interview) at the Recreation Group and Julia (CEO, Interview) at Talent Innovators. Rather, hiring problems were not as significant as in the case of Healthy Franchise (Deidre, HR Manager, Interview; Elizabeth, Executive Chairman, Interview; Sylvia, Franchisee, Interview).

In discussing how the recruitment process was developed at the Recreation Group (in the post-formative period), Georgia emphasised that it was well structured and targeted:

> Well, we've got a pretty strict, well-defined recruitment process in both how we attract people and how we interview them, too. We spent a few months, I had someone do a specific project for me focusing on our employment brand and why is it that people are happy here when they work here, where do we want to attract those same sort of people, like for example, finance is a good example. We need to be really quite targeted in where we seek to find new finance people. You have to be quirky to work here." (Georgia, HR Manager, Interview)

For Georgia as well as Tim, attracting the right people meant making sure they wanted to work there and that they would fit into the firm's culture and, she explained, this was done through the interview process (Georgia, HR Manager, Interview; Tim, GM Business Operations, Interview). In a similar way, recruitment was treated very seriously by the founders of Talent Innovators, but this was not a surprise given that this overlapped with their core HR business (Julia, CEO, 2nd & 3rd Interview). An underlying theme regarding selection and recruitment to emerge from the case study findings was the move towards organisational fit.

The next section discusses how case study firms developed their management teams.

8.5.2 Management Team

The boundaries of the founders' roles will be determined by the availability of competent people at the next tier of management. Founders must have the appropriate mix of skills and experience at the management level in order to delegate responsibilities. Without the right people and skills, founders own roles cannot evolve to a strategic focus (Flamholtz & Randle, 2007). Therefore, part of founders' role transition is to attract and recruit appropriate managers or promote them from within, an option that is often not available to founders of emerging firms because of their firms' small workforce. Nevertheless, founders will select managers from inside the firm where this option is available and appropriate (e.g., Mark at Talent Innovators), but in a significant number of cases

'professional' managers will be sought from external sources (e.g., Deidre at Healthy Franchise and Georgia at the Recreation Group).

The strategy of founders at Healthy Franchise was to hire 'professional' managers (meaning whose with large corporate experience) (Elizabeth, Executive Chairman, Interview) once they could afford them, implying that they did not have the confidence in their early employees to develop into senior managers. By 2005, there was no employee or manager at head office who had been with Healthy Franchise for more than two years and, therefore, the only consistency in personnel were the two founders (Clive, CFO, Interview). Thus, consistency in routines and processes that are developed over time may not have a chance to become embedded and may adversely impact on firm performance and sustainability.

The founders of Talent Innovators and the Recreation Group tended to target external candidates for specialist positions that could not be filled by internal candidates (e.g., Operations Manager and GM Sales and Marketing positions at Talent Innovators and the HR Manager and CFO positions at the Recreation Group). Talent Innovators' CEO, Julia (3rd Interview), went so far as to express some doubt about whether managers with corporate experience would provide an appropriate fit:

> We've not necessarily gone out looking for that. And that may be detrimental to us. … I don't know that they would have been a really good fit for that type of person in our organisation. So we've always tried to say, okay well yes, we value the experience but the fit needs to be utmost. … Often people that we've spoken to from larger organisations are just far more used to structure and more slower to change, more bureaucratic. (Julia, CEO, 1st Interview)

In the main, emerging fast-growth firms, by their very nature, will lack resources – including managerial resources – and have high recruitment needs and, as Penrose (2009) argues, limitations on managerial resources can been a countervailing force on firm growth. Therefore, opportunities for promoting from within will not be available to founders of emerging fast-growth firms to the same extent as their larger and more established counterparts.

CEO bottlenecks, weak people around the CEO and lack of delegation can restrict a firm's ability to grow (Flamholtz & Randle, 2007) and must be addressed for the firm to become sustainable. Drawing on his four case studies of small growth firms, Mazzarol (2003: 47) concluded:

> For small business owner-managers the implications of this research are that they remain the key to the successful transition from small to larger organizations. Effective management of small business growth demands a commitment from owner-managers to put in place structures, policies and practices that enable employees to take on greater responsibilities and participate in dynamic innovative teams. … Learning to delegate authority and responsibility through application of coaching and HR practice will be essential to success.

For founders who do not have delegatory (and coaching) competencies, finding an alternative and suitable CEO to lead the firm becomes an urgent priority, as in the case of Healthy Franchise. Sylvia's observations about the management team in the firm's formative years are reiterated as a reminder of the parlous state at the time:

> … the management team of the day were given no direction and if a management team doesn't work you can only blame yourself and that must come back to the franchisor. (Sylvia, Franchisee, Interview)

In contrast, the founders of the other two case study firms developed their managerial skills as their firm grew. As John (CEO, Interview) at the Recreation Group was willing to point out, this did not happen without many mistakes; but these were mistakes that were instructive and provided learning experiences:

> I think we are reasonably innovative thinkers. Because we started as nothing – and knew nothing – we keep trying new things. Some of them even work! Another key element is the passion of our staff. They keep having great ideas, remain committed to learning and work their butts off. (John, CEO, Online Interview 3)

In support of John's views, Tim (GM Business Operations, Interview) stated that the Recreation Group had a "learning environment" where mistakes, up to a point, were tolerated.

At Talent Innovators, the first real test for managers was when the founders went on overseas holidays in 2004 and 2005, and left the day-to-day running of the business to them. During the second trip, a technical glitch caused a significant problem and the management team, in the absence of the founders, was indecisive and not able to fix the problem (Dianne, GM Client Services, Interview; Julia, CEO, 1st Interview). Dianne (GM Client Services, Interview) suggested that indecision had resulted because delegations, at the time, were not clear. On the other hand, Julia (CEO, 1st Interview) suggested that the management team were not confident because the founders were usually in close proximity (unlike the ownership structure of a large corporation). However, by 2007, the founders had implemented formal financial delegations in response to the issue raised during their 2005 overseas trip (Dianne, GM Client Services, Interview; Gordon, CTO, 2nd Interview; Julia, CEO; 2nd Interview).

Other mechanisms used within the three case study firms to develop the management team included training programs and performance management systems. The Recreation Group developed a series of in-house management training courses (Eric, GM Finance and IT, Interview; Georgia, HR Manager, Interview). Although one of the criticisms made by Georgia (HR Manager, Interview), was the absence of a HRM system to conduct training needs analysis and, as a consequence, proper management training had been lacking. Talent Innovators, particularly since acquiring the HR consulting and training provider, Prism Consulting, in July 2007, was able to provide various 'in-house' training for all employees, including managers.

Performance management will be discussed separately in the next section (Julia, CEO, 2nd Interview).

8.5.3 Performance Management

Managing people's performance was found, from the case studies, to be another key HRM factor important for the development of emerging fast-growth firms. Formal performance management systems were not evident among the three case study firms until they were in their post-formative years. However, as noted earlier, there is evidence that Elizabeth (Executive Chairman) struggled to manage her managers and staff when she was MD.

Reference was also made earlier to the casual attitude that the founders of the Recreation Group had towards the structuring of positions within their firm. They took decisive action to address the lack of organisational structure only after staff had raised the issue with them. In the case of Talent Innovators, a key manager resigned because he was stressed and over-worked. These issues are symptomatic of a lack of proactive and structured HRM practices. This is not to argue that there needs to be a formal performance management system in place from the start-up phase, but simply that there needs to be a conscious and coherent approach to the way people are managed within emerging fast-growth firms. Otherwise, valuable HR may perform at a less than optimum level or they may exit the firm.

In all three case study firms, a formal performance management system had been introduced and was operational by the time the interviews were being conducted (i.e. 2005 for Healthy Franchise and the Recreation Group, and 2007 for Talent Innovators). In all cases, the respective managers responsible for HRM pointed to the importance of performance management in practice, in contrast to its formal features (Deidre, HR Manager, Healthy Franchise, Interview; Georgia, HR Manager, Recreation Group, Interview; Julia, CEO, Talent Innovators, 2nd Interview). For instance, at Healthy Franchise, Deidre (HR Manager, Interview) spoke about the difficulties with club managers (franchisor owned clubs) in bringing about organisational change. Prior to her commencement at the firm in November 2004, an operational manual had been drafted, but had not been distributed until September 2004. In January 2005 there was a one day workshop for the management team to develop the firm's Purpose, Values and Vision statements and reinforce the commitment to the importance of compliance. By this stage, the performance management system was being used as a means of enforcing compliance across the franchise network and improving performance.

> That's where the resistance to change and the need to bring in compliance across the board and obviously to upgrade performance to be able to support growth in the business. I mean it is hard because the other side of that is that it generates an increased workload. (Deidre, HR Manager, Interview)

Some club managers were not able to make the changes and, consequently, were 'performance managed' out of their roles, and had led to three workers compensation claims. These claims reinforced for Deidre (HR Manager, Interview) the importance of having a sound performance management system, so that poor performers were counselled earlier and removed from the organisation where appropriate.

The issue of people not growing and developing into new roles necessitated by a larger and more complex firm was raised at the Recreation Group separately by John (CEO) and Georgia (HR Manager). Georgia described the situation as follows:

> Over the last at least couple of years more so for people at a senior management level who have joined either way back when the company might have had about 10 staff and have progressively just been part of the management group and they're still there, even though their capacity for either managing or looking more strategically at running the business, they don't necessarily have the right attitude. (Georgia, HR Manager, Interview)

She also alluded to the founders' loyalty to these long term individuals which made it awkward to manage. She continued to explain how these issues are managed:

> We tackle each of those on an individual basis. Like first thing we do try and tackle it through the performance review processes and meeting for the feedback and that sort of thing. We try that. But sometimes you do just have to accept that people have grown as far as they're going to grow and as you say, they've been outstripped by the size of the business. (Georgia, HR Manager, Interview)

An example given by Georgia was the Financial Controller who had not been able to come to terms with the increased financial complexity of a firm stretching across numerous international jurisdictions. In another example, the CEO of the Recreation Group, John, had given the example of an employee who was unable to delegate her responsibilities and was not able to operate in her designated managerial role. Following much discussion, a resolution was found and she accepted a lower level role that reported to a new manager.

For Julia (CEO, 3rd Interview) at Talent Innovators, the performance management system had been designed with the overall goals and direction of the firm in mind. Through her monthly CEO briefings, she would reinforce these goals and direction to everyone in the firm and, in her own words, a lot of work had gone into the alignment of these with each individual's objectives and behaviours:

> We have put a lot of effort into individually making sure that everyone knows what their roles are and how that relates to the company's goals and direction. So there's one page that's got the mission, the values, the vision and organisational goals, and people put their goals around that and align them. So each person in the company knows how and what they're doing is contributing to how and what the organisation is doing. (Julia, CEO, 3rd Interview)

In each case, the performance management system was being used by managers as a tool for communicating performance expectations and directing individual behaviours and outcomes.

Organisational resources and capabilities, other than HRM, are addressed in the next section.

8.6 Other Resources and Capabilities

Given the fast-pace of growth and limited finances of the case study firms, unsurprisingly the firms have a gap in their resources and capabilities (Flamholtz, & Randle, 2007; Hambrick & Crozier, 1985; Kotter & Sathe, 1978; Nicholls-Nixon, 2005) prior to becoming sustainable. During their emergence and fast-growth period, the firms demonstrated a lack of resources and capabilities necessary for firm sustainability.

At Healthy Franchise, this was particularly evident in the finance and compliance areas. By 2005, there had been considerable improvement in the finance area and compliance issues had begun to be resolved, and the firm's IT team were actively involved in addressing information system gaps by developing software related to customer relationship management, supplier procurement, and rostering and payroll systems (Clive, CFO, Interview; Deidre, HR Manager, Interview). Given that software development

was far removed from its core business (i.e., in sports and recreation), it is questionable whether the IT team should have been involved in these activities and whether it was embarking on a new set of problems. Nevertheless, they were undertaking these activities because of the perceived need to address business process issues.

Eric (GM Finance & IT, Interview) and Georgia (HR Manager, Interview) at the Recreation Group emphasised the importance of operational and management systems, including HRM and financial management. In particular, Georgia (HR Manager, Interview) singled out workforce planning, skills analysis and development, and performance management as needing immediate attention. Apart from HRM, the most important capability developments for the Recreation Group were in financial management, overseas group operations and marketing channels (Tim, GM Business Operations, Interview).

For the founders of Talent Innovators, the main capabilities centred around HRM (given that this was their core business), software development, application service delivery, and new business development, including overseas markets. Talent Innovators' HRM systems and practices were both a critical internal, as well as an external, capability and the firm was in a unique position to assess how large organisations used HRM while trying out for themselves leading edge HRM practices. With the acquisition of Prism Consulting in 2007, the founders of Talent Innovators broadened their market offering from an IT to a business based solution, and this required a corresponding broadening of their firm's capabilities.

In addition to HRM, Talent Innovators had well developed software development and application delivery capabilities. Its core HRM product by 2009 had been delivering solutions to corporate clients for five years and during this time there had been further sales to new clients. In order to stay current and meet unique client requirements, the core product had continued to develop with new methods of software development (i.e., the 'agile' approach). Talent Innovators' business development capability was critical in ensuring the firm survived in its formative period and subsequently continued to grow. One area of dispute was whether the firm had adequate financial management information. Patricia (GM Sales & Marketing, Interview) questioned the adequacy of financial information going to senior management, while Dianne (GM Client Services,

Interview), whose responsibilities included finances (i.e., bookkeeping), suggested that financial management was not a problem for the firm.

Interestingly, the three case study firms illustrate an on-going need for not just acquiring resources but importantly developing capabilities that are fundamental to operating a business. These capabilities include HRM, financial management, business development, and internal business processes, particularly regarding delivery of core products and services (e.g. compliance, overseas group operations, and software development). In contrast to their firms' formative years (where the founders commented on their own inexperience and lack of confidence in making decisions and taking decisive action), the lead founders of the sustainable firms were self-assured and confident about their firms' capabilities and what was possible in the near future. During the process of growing their firms to sustainable levels, mistakes had been made but the founders and their managers had also learnt from those mistakes (some quicker than others) and, as part of that process, their firms had built a generic capability regarding *capability building* (Arbaugh & Camp, 2000). This generic capability is in contrast to dynamic capabilities of established firms (Teece, Pisano & Schuen, 1997; Wright, Dunford & Snell, 2001) but differs in that an emerging firm must first learn how to develop routines and capabilities. Therefore, the first step is to learn how to build organisational capabilities involving routines that are often lacking in emerging firms.

As Tom (GM Business Operations, Interview) at the Recreation Group explained, the firm has a lot of depth in the senior management team and there are internal capabilities to do business development in new countries (including feasibility studies that incorporate retail outlets) with unique characteristics. The project driven approach throughout the firm is also testament to the existence of a generic *capability building* capability. Furthermore, Eric (GM Finance & IT, Interview) gave an example of the contents of an internal management program that was "all about analysing stuff, like analysing a product and what the parameters for judging whether you should have the product or not, and using that to get rid of really bad products", indicating a broader generic approach to capability building within the firm. The approach is also consistent with a management structure that relies on devolved accountabilities.

For Julia (CEO, 3rd Interview) at Talent Innovators, the 'agile' approach to running projects was adapted more widely throughout the firm to help ensure greater flexibility and accountability of projects. Since the hiring of the CEO at Healthy Franchise, the theme of greater accountability was also present in that firm (Clive, CFO, Interview; Deidre, HR Manager, Interview).

8.7 Chapter Summary

This chapter has linked the overall case study findings to the literature, thus providing the underlying material for the development of the final empirically and theoretically informed conceptual model of entrepreneurial founder roles and firm sustainability as it relates to emerging fast-growth firms. The chapter places the study within its contextual settings by considering firm characteristics and structural challenges while noting the delimited elements of business strategy and the environment. The vulnerability that emerging fast-growth firms are exposed to and the importance of firm sustainability was also demonstrated.

A theme present throughout the case studies is the pivotal role played by the founders, in the first instance, followed by senior managers as the firms develop. The evolving roles of the founders are influenced by structural challenges confronting their firms as well as their motivations for firm growth. Key issues affecting founder role changes are: role behaviour expectations within the founder team and the resolution of the lead role, the changing time allocations of the founders, and the founders' human capital and development of managerial competencies and how the founders complement one another.

The development of key capabilities is subject to the founders establishing the conditions upon which their firms can acquire, in particular, the right calibre of employees and managers. Fit, especially for the Recreation Group and Talent Innovators, was a critical HRM selection criterion. Once hired, these individuals needed their roles to be defined and structured with clearly specified performance expectations. The case studies demonstrated that role ambiguity and role overload were serious concerns for the founders, especially as they were emerging and during periods of fast-growth. Other

resources and capabilities important for firm sustainability include financial management, business development, and internal business processes.

The next and final chapter presents the final concept model of entrepreneurial founder roles and firm sustainability as it relates to emerging fast-growth firms. This is followed by research limitations, future research suggestions and concluding comments.

9 Synthesis and Conclusions

9.1 Chapter Objective

The chapter will present the final empirically and theoretically informed conceptual model of entrepreneurial founder roles and firm sustainability as it relates to emerging fast-growth firms. The preliminary conceptual model presented in Chapter 3, *Conceptual Model Development*, is briefly revisited, together with summary responses to the research questions, before the final model and, each of its constituent components, is considered. The chapter will close with the study's limitations, suggested future research paths and concluding comments.

9.2 Conceptual Model

The conceptual model presented in this chapter shows the relationship between firm sustainability and the changing roles of the co-founders in emerging fast-growth firms. The model has evolved in two stages: first, the preliminary model was developed from a reading of the relevant literature, and second, the final model, building on the preliminary model, arises from the three case study findings and analysis. Section 9.2.1 begins with a brief review of the preliminary model before presenting the final conceptual model in Section 9.2.2.

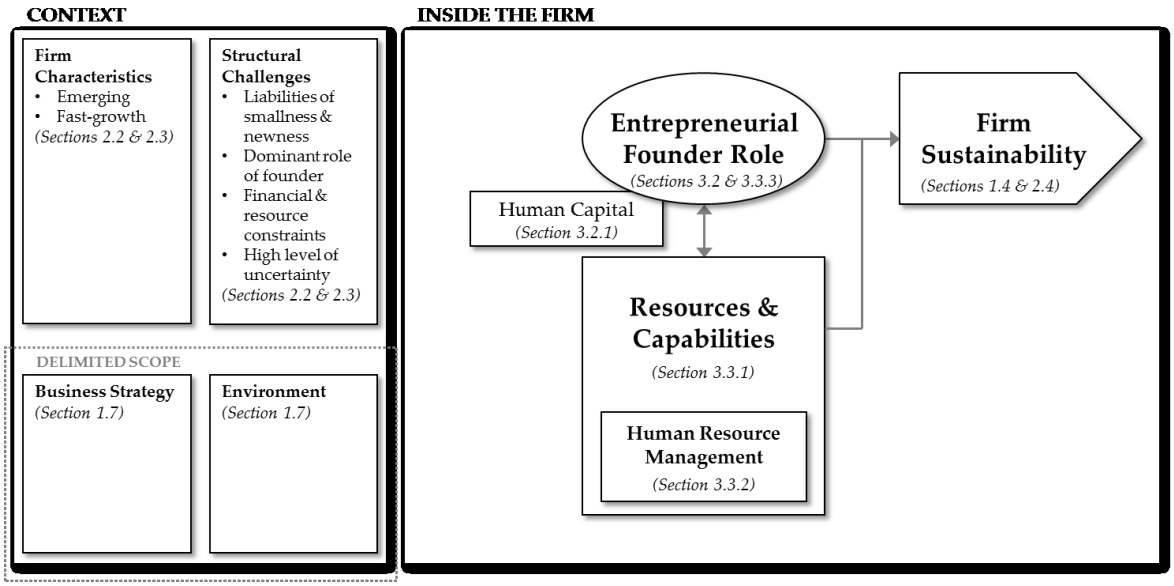
9.2.1 Preliminary Conceptual Model and Research Questions

The preliminary model is replicated in Figure 9.1 for convenience and ease of comparison with the final model in Figure 9.2. The preliminary model helped to ground the research direction and was developed in conjunction with the research questions. Being theoretically derived, each component of the preliminary model shown in Figure 9.1 is referenced to the relevant section(s) of the introduction (Chapter 1) and the literature review (Chapters 2 and 3).

The preliminary conceptual model shows the study's context (i.e., firm characteristics and structural challenges), including factors delimited from the research scope (i.e., business strategy and the environment). The preliminary conceptual model also displays the factors

that were explored and examined in the study (i.e., the entrepreneurial founder role (and human capital associated with the founder), organisational resources and capabilities (including HRM) and firm sustainability.

Figure 9.1: Preliminary Conceptual Model Revisited



The preliminary model was developed as a tool to assist in the exploration of the research landscape. From a theoretical standpoint, the model draws on RBV to set the wider theoretical agenda regarding firm sustainability and organisational resources and capabilities. HRM is used to evaluate how organisational resources and capabilities are developed, while role theory helps to shed more light on the pivotal role of the entrepreneurial founder.

In conjunction with the preliminary conceptual model, five research questions (one principal and four subsidiary questions) were used to help guide the data collection and analysis of the case studies. A brief response to each research question is provided next to show the relevance of the case study findings to the questions and the preliminary model.

RQp: How do entrepreneurial founders of emerging fast-growth firms use organisational resources and capabilities to achieve firm sustainability?

This principal research question brings together the threads arising from each of the subsidiary research questions. Entrepreneurial founders of emerging fast-growth firms

have many challenges to contend with while under immense pressure (see Section 8.4). Necessary, but by no means sufficient, requirements for their firms to become sustainable are related to the development of founder team roles, HRM practices, and other organisational resources and capabilities. Each of these is addressed separately in response to the four subsidiary research questions.

RQs1: What is firm sustainability and is it important?

In this thesis, 'firm sustainability' is defined as a state by which a firm can further develop without the encumbrance of its early stage vulnerabilities; where its initial structural challenges have been adequately addressed and, in the main, overcome (see Sections 1.4 and 2.4). For founders of emerging fast-growth firms, firm sustainability is vital in order for them to maintain business performance and reduce the inherent risks associated with their firms' small size and newness.

Case study participants had their own interpretation of 'firm sustainability' but all agreed that their respective firms had become sustainable. Generally, participants considered survival as the first test of firm sustainability (Deidre, HR Manager, Healthy Franchise, Interview; Dianne, GM Client Services, Talent Innovators, Interview; Elizabeth, Executive Chairman, Healthy Franchisee, Interview; Eric, GM Finance & IT, Recreation Group, Interview). More nuanced interpretations added financial management, financial prudence and profitability as critical components (Clive, CFO, Healthy Franchise, Interview; Eric, GM Finance & IT, Recreation Group, Interview; Julia, CEO, Talent Innovators, 1st & 3rd Interview; Tim, GM Business Operations, Recreation Group, Interview). Elizabeth (Executive Chairman, Healthy Franchise, Interview) also stated that sustainability is a more comfortable state than the prior period of uncertainty and turbulence.

However, for Sylvia (Franchisee, Healthy Franchise, Interview) firm sustainability is about organisational compliance and having "a tight knit human resource operation". Having role clarity and delegated responsibilities were issues that the founders of the Recreation Group (Eric, GM Finance & IT, Interview; John, CEO, Interview) and Talent Innovators (Gordon, CTO, 1st Interview; Julia, CEO, 1st & 3rd Interview) also emphasised, as well as

practised. For the founders of Healthy Franchise, a critical organisational transition involved finding a suitable replacement for Elizabeth (Executive Chairman) to run their firm's daily operations and this was achieved after one failed attempt and a prolonged period of searching for a CEO (Elizabeth, Executive Chairman, Interview; Sylvia, Franchisee, Interview; Peter, Director, Interview). Therefore, overcoming the vulnerabilities that emerging fast-growth firms are exposed to and building suitable organisational capabilities is important to entrepreneurial founders.

RQs2: In what way do entrepreneurial founder roles change as the firm achieves sustainability?

At start-up, the founder is typically involved in all aspects of the firm, including service and product delivery. The role begins to broaden into a managerial role with added complexity as the firm grows and more employees are hired as evident in all three case studies (see Section 8.4). As this happens, organisational structure and clarity of roles becomes important and, as demonstrated in the Recreation Group and Talent Innovators case studies, employees will expect structure and work routines to be formalised to some extent. Employees at Healthy Franchise, who were subjected to unorganised and unstructured work, became stressed and 'burnt-out' (Sylvia, Franchisee, Interview) and, as a consequence, by 2005 the founders were the only long term personnel remaining in the firm (Clive, CFO, Interview; Sylvia, Franchisee, Interview). Therefore, the extent of founder role changes will depend on how quickly the workforce grows and on the availability of suitable managerial resources at the founder's disposal.

However, a key factor is the founder's ability and willingness to delegate his or her authority to other managers (see Section 8.4). Ability and willingness will be influenced, but not determined, by the human capital characteristics of the founder. Capable managers who are not allowed, in practice, to manage are unlikely to remain. Arguably, this is what happened at Healthy Franchise where Elizabeth (Executive Chairman) found it difficult to 'let go' of the day-to-day management of the firm, contributing to the exodus of many employees and managers. This is in contrast to the Recreation Group where the founders were keen delegators, and encouraged managers to manage and allowed them to make mistakes (up to a point). The founders of Talent Innovators took a more structured

approach to delegation and initially experienced some 'confidence' issues that were subsequently addressed. Therefore, unsurprisingly, founder roles in emerging fast-growth firms can change substantially due to organisational needs but some will struggle to change.

Nonetheless, there is a notable qualification to be made where there are two entrepreneurial founders. It is important to differentiate between the co-founders when it comes to the respective roles they play in the development of the firm. One of the founders is likely to take a lead role (as CEO or MD) and the other may have a substantial (e.g. Eric, GM Finance & IT, Recreation Group and Gordon, CTO, Talent Innovators) or insubstantial (e.g. Peter, Director, Healthy Franchise) role depending, in part, on his or her human capital endowments. Related is the complementarity of their respective skills, abilities and knowledge (Markman, 2007). The founders of the Recreation Group and Talent Innovators appear to have a more effective working relationship than the one at Healthy Franchise, where one of the founders no longer had a substantive role to play.

RQs3: Which organisational resources and capabilities are important for firm sustainability and how are they developed?

The role played by the entrepreneurial founder is a key organisational resource and capability for an emerging fast-growth firm and this is addressed above in response to Qs2. The case study findings also point to the importance of HRM practices in achieving firm sustainability and this will be addressed below in response to Qs4.

Other organisational resources and capabilities that were found to be important for firm sustainability are: financial management, business development, business processes, including compliance, and capability building (see Section 8.6). In addition to HR, two other functional areas, found in the case studies to be significant for firm sustainability, involved financial management and business development. All case study firms experienced financial pressures that threatened their very existence at some stage and each founder understood the importance of financial prudence. It was, therefore, not surprising that the finance function was overseen by a founder (i.e., Eric, GM Finance & IT, Recreation Group and Julia, CEO, Talent Innovators) or a senior specialist manager (i.e.,

Clive, CFO, Healthy Franchise). While the financial management systems in place at the time of the interviews required (arguably) enhancing and/or upgrading (Clive, CFO, Healthy Franchise, Interview; Deidre, HR Manager, Healthy Franchise, Interview; Georgia, HR Manager, Recreation Group; Patricia, GM Sales & Marketing, Talent Innovators, Interview), the functions were monitored and controlled at sufficiently senior levels within the firms.

Business development, incorporating sales and marketing, was also found to have received a great deal of attention by the founders of the case study firms. The firms are characterised by growth and their founders are motivated by growth. Therefore, one would expect to find a reasonably strong business development function operating within the firms. Revenue growth is important for firm sustainability because small firms remain vulnerable (see Section 2.2.2) and, as one founder pointed out, it is easier to attract and retain people when the firm is growing and there are expanding opportunities for employees (Eric, GM Finance & IT, Interview).

Another common theme arising from the case studies was the importance of developing business processes and routines. For Healthy Franchise, this was brought up in the context of organisational compliance (or lack thereof) (Deidre, HR Manager, Interview; Sylvia, Franchisee, Interview). Compliance and accountability were high priority initiatives that the new CEO had begun to address since his appointment (Clive, CFO, Interview; Deidre, HR Manager, Interview; Sylvia, Franchisee, Interview). At the Recreation Group, Eric (GM Finance & IT) was recognised for his business process skills and was involved from the beginning in establishing processes to operate the business (John, CEO, Interview; Tim, GM Business Operations, Interview). Similarly, Julia (CEO, Interview) at Talent Innovators was adept at designing and implementing business processes and routines.

When the founders of the case study firms started their respective businesses, they lacked start-up, industry and managerial experience and, as a result, they had little confidence in making decisions and taking decisive action. The exception was Elizabeth (Executive Chairman) at Healthy Franchise who was quick to make decisions that lead to a chaotic work environment and detrimental hiring decisions (Sylvia, Franchisee, Interview). As

their firms grew, the founders and their managers began to build experience and know-how. They learnt from mistakes and, as part of that process, their firms built a generic *capability building* capability (Arbaugh & Camp, 2000). This capability stands in contrast to dynamic capabilities of established firms covered in the RBV literature (Teece, Pisano & Schuen, 1997; Wright, Dunford & Snell, 2001). Whereas the challenge often confronting established firms is to change and further enhance their existing capabilities, the challenge facing emerging firms is to build new capabilities. Therefore, developing a capability for building other capabilities is important for emerging fast-growth firms.

Organisational resources and capabilities necessary for firm sustainability are the building blocks for founders who wish to pursue the more ambitious goal of (sustainable) competitive advantage (see Section 3.3.1). Therefore, the resource and capability requirement for firm sustainability does not need to meet the more arduous VRIN or VRIO criteria of RBV (Barney, 1991 & 2002) (see Section 2.4.1).

RQs4: Are HRM practices important for firm sustainability and, if so, why are they important?

The case studies have demonstrated the importance of HRM practices (see Section 8.5). Mazzarol (2003) rightly argues that the faster emerging firms grow, the more likely they will experience HRM problems. In particular, the case study findings identified selection and recruitment, the management team and organisational structure, and performance management as important for the development of emerging fast-growth firms.

Emerging fast-growth firms have an insatiable appetite for hiring people (Hambrick & Crozier, 1985; Kotter & Sathe, 1978) and, at times, they struggle to find people with the right skills and organisational fit given their 'newness' and financial constraints. Compromising the hiring process can be costly, as was evident in the case studies (Georgia, HR Manager, Recreation Group, Interview; Julia, CEO, Talent Innovators, Interview), especially for Healthy Franchise (Clive, CFO, Interview; Elizabeth, Executive Chairman, Interview; Sylvia, Franchisee, Interview). In response to poor hiring outcomes, all firms eventually introduced more robust selection and recruitment processes.

The development of the management team was also found to be a major focus for the founders of the case study firms. Management team development was important (Urban & Naidoo, 2012), not just in its own right as an organisational resource and capability, but because it provided the mechanism by which the lead founders could broaden and make their roles more strategic. In addition, it provided the opportunity for non-lead founders to carve out substantive roles more closely aligned with their skills and interests (i.e., Eric, GM Finance & IT, Recreation Group and Gordon, CTO, Talent Innovators) or to more or less disengage from the firm (i.e., Peter, Director, Healthy Franchise). The strategy used by two of the case study firms, the Recreation Group and Talent Innovators, to develop their management team centred on a mix of promoting internally, wherever possible, and recruiting externally for other positions, particularly specialised positions (such as the HR Manager and, later, the CFO in the case of the Recreation Group). In contrast, the strategy of the founders of Healthy Franchise entailed the external hiring of 'professional' managers (i.e., those with corporate experience) as soon as they could afford such personnel.

Managing the performance of employees and managers on a formal basis was an issue that began to be addressed later in the development of the case study firms. Nevertheless, performance issues surfaced from an early stage in each firm. At Healthy Franchise, Sylvia (Franchisee, Interview) pointed to the chaotic nature of the work at head office as a result of role ambiguity and overload, and a lack of managerial direction. Richard (Product Architect, Interview) and Dianne (GM Client Services) at Talent Innovators took extended leave to recover from intensive work pressures, and Georgia (HR Manager, Interview) at the Recreation Group stated that there were times when staff had experienced significant pressure from too much work. Workload issues are not new for emerging fast-growth firms that have growing work demands without matching resources (Hambrick & Crozier, 1985; Kotter & Sathe, 1978).

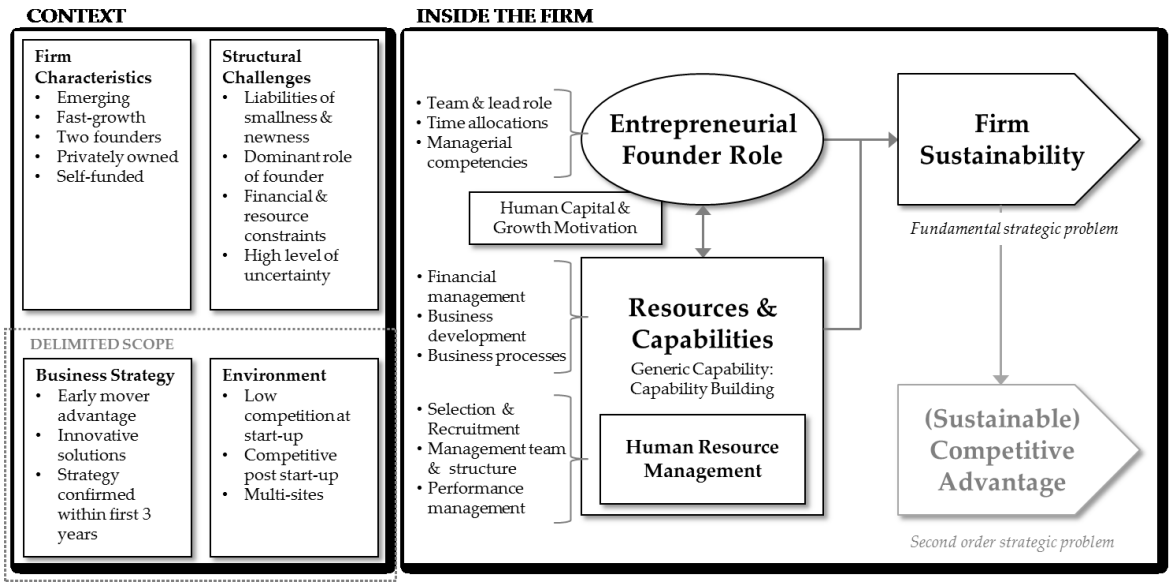
While performance management systems can help balance individual, team and organisational workloads, they provide a mechanism for linking individual, team and organisational goals, expectations, behaviours and performance as well as assisting with the identification and implementation of development opportunities (London & Mone,

2009). One issue identified in the literature (Kotter & Sathe, 1978) and evident in all of the case studies, is the scenario where trusted and loyal employees do not have the ability to develop their role as the firm grows (Elizabeth, Executive Chairman, Healthy Franchise, Interview; Georgia, HR Manager, Recreation Group, Interview; John, CEO, Recreation Group, Interview; Julia, CEO, Talent Innovators, Interview). Nevertheless, as indicated by managers responsible for HR, the implementation of performance management systems appears to have lagged behind the stage of development of each case study firm (Deidre, HR Manager, Healthy Franchise, Interview; Georgia, HR Manager, Recreation Group, Interview; Julia, CEO, Talent Innovators, Interview). The final conceptual model will now be presented as an extension of the preliminary conceptual model and the case study findings.

9.2.2 Final Conceptual Model

As with the preliminary conceptual model, the final model shown in Figure 9.2 is segmented into the *context* and *inside the firm*. The *context* consists of four components: firm characteristics, structural challenges, business strategy, and the environment. While each of the four context components is a given within the confines of the thesis, the latter two components are delimited from the scope as discussed in Section 1.7.

Figure 9.2: Final Conceptual Model



Inside the firm also has four main components: entrepreneurial founder role, resources and capabilities, HRM, and firm sustainability. (Sustainable) competitive advantage (shaded) has been added in order to situate firm sustainability within the RBV theoretical perspective. Each component of the final conceptual model is considered in turn below.

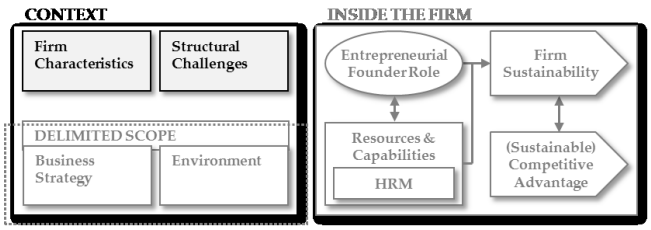
It is important to bear in mind that the final conceptual model is intended to explain some *necessary, but not sufficient,* conditions for firm sustainability. Thus, the changing role of the entrepreneurial founder, and how it links with organisational resources and capabilities, including HRM, can only be a partial, albeit important, explanation of firm sustainability.

Context

Firm Characteristics and Structural Challenges

Figure 9.3 positions *firm characteristics* and *structural challenges* within the overall conceptual model. Three elements of *firm characteristics* (i.e., emerging, fast-growth and privately owned) were used as selection criteria, while the remaining two elements (i.e., two founders and self-funding) arose by chance from the cases selected (see Sections 2.2, 2.3 and 4.4.1). The founders had difficulty raising finances initially – when the need was greatest – and, by the time banks or other institutions were prepared to lend them money, additional funds were not required (e.g., Elizabeth, Executive Chairman, Healthy Franchise, Interview). Consequently, each of the selected firms was self-funded. By coincidence, the selected firms had two founders and this provided a useful comparative benchmark between the three firms.

Figure 9.3: Firm Characteristics & Structural Challenges



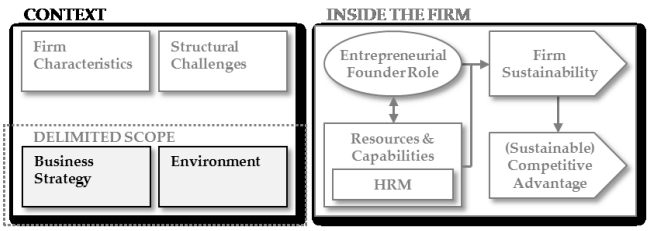
The elements listed as part of the *structural challenges* were derived from the literature and formed part of the analysis of each case study. Structural challenges arise from liabilities of newness, adolescence and smallness, the dominant role of the founder, financial and resource constraints, and the high level of uncertainty associated with emerging fast-growth firms.

The three cases in this study are consistent with the two main contextual components of the model, as well as earlier research discussed in Chapter 2, *Research Context*, regarding challenges faced by founders of emerging fast-growth firm. Liabilities of newness, adolescence and smallness were evident in the each of the cases. The founders played a dominant role, especially during their firms' formative years, when they performed critical operational tasks. Financial and resource constraints were also a consistent theme across the case studies during the first few years, as were questions regarding survivability and uncertainty. Nevertheless, while there are commonalities across the three cases, each firm exhibited its own unique timeline and each of the contextual factors was experienced in varying degrees. Thus, the concept of an *organisational life-cycle model*, discussed in Section 2.4.2, is useful in helping to focus attention on important factors associated with a stage of a firm's development. However, caution needs to be exercised regarding prescriptive conclusions that may be drawn regarding particular firms, including their chronological age (Kimberly, 1980). For this reason, the concept of *organisational transitions* has provided a more flexible and non-deterministic perspective.

Business Strategy and Environment

As stated in Section 1.7, *business strategy* and the *environment* were delimited from the scope of the study to keep the research within manageable limits. The placement of *business strategy* and the *environment* within the conceptual model is shown in Figure 9.4. However, as business strategy and environmental characteristics provide important contextual information, a very brief outline is provided regarding each selected firm.

Figure 9.4: Business Strategy & Environment



Each case study firm operates in a different industry sector. Healthy Franchise is situated in the sports and recreation sector nationally and overseas. The Recreation Group provides recreational and tourism services world-wide, and Talent Innovators provides HRM as an application service provider nationally and overseas and, later, added HRM consulting

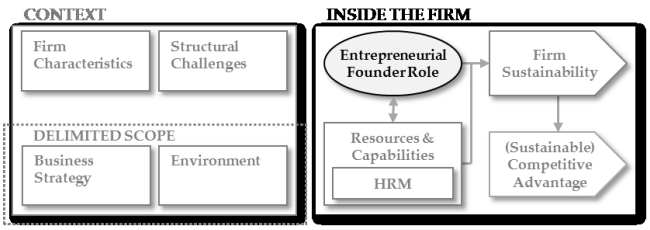
and training services. All firms are spread across multiple sites, although Talent Innovators operated from a single site during its first 10 years. Each firm had an innovative business strategy from the start (i.e., Recreation Group) or developed it within its first three years (i.e., Healthy Franchise and Talent Innovators). In their chosen markets, the firms had an early mover advantage and, therefore, had low competition during their formative years. However, competition increased over time and with the growth of their respective markets.

Inside the Firm

Entrepreneurial Founder Role

Figure 9.5 displays the position of the entrepreneurial founder role relative to the other components of the model. There are three elements within the *entrepreneurial founder role* component of the conceptual model that were found to be important. These relate to the founder team and who becomes the lead founder, the founders' changing time allocations and development of managerial competencies (see Section 8.4).

Figure 9.5: Entrepreneurial Founder Role



As discussed in Section 3.2, in their initial decision to start a firm, founders create roles for themselves that are a combination of negotiated outcomes and whatever immediate pressing demands are placed on them to attract sales and get the work done. Organisational roles during the first year or two can be extremely fluid. Over time, founder roles evolve with the changing pressures and demands until there is major event or issue (organisational transition) that forces them to reconsider what they are doing. Such a defining moment can occur when the organisation reaches a certain employment size, where organisational members require greater structure for obtaining decisions from founders and other managers. This was the case with Talent Innovators when employees brought this issue to Julia's attention in 2001 when the firm had about twelve employees. Organisational transitions, therefore, may consist of major abrupt events but they may also

occur in less dramatic ways over a period of time, perhaps ranging over several months. Therefore, at start-up, founder roles are very broad and hands-on, and these roles change significantly as the firm grows, depending on the founder's human capital endowments, and whether he or she takes the lead role or not. The cases studied for this research suggest that founder roles may remain ambiguous for long periods and until team founder roles are sorted and the firm is being run by a functioning management team.

As discussed in Section 3.3.3, roles are a set of expected behaviours that incorporate both the incumbent's perceptions and behaviours, and those of the individuals and groups that interact with the role incumbents (Katz & Kahn, 1978; Mitchell, Dowling, Kabanoff & Larson, 1988). Roles will evolve and develop as the founders find their respective comfort levels around their particular skills, abilities and knowledge (Markman, 2007). The case study findings regarding the evolution of entrepreneurial founder roles are consistent with, and can be explained by, existing role theory.

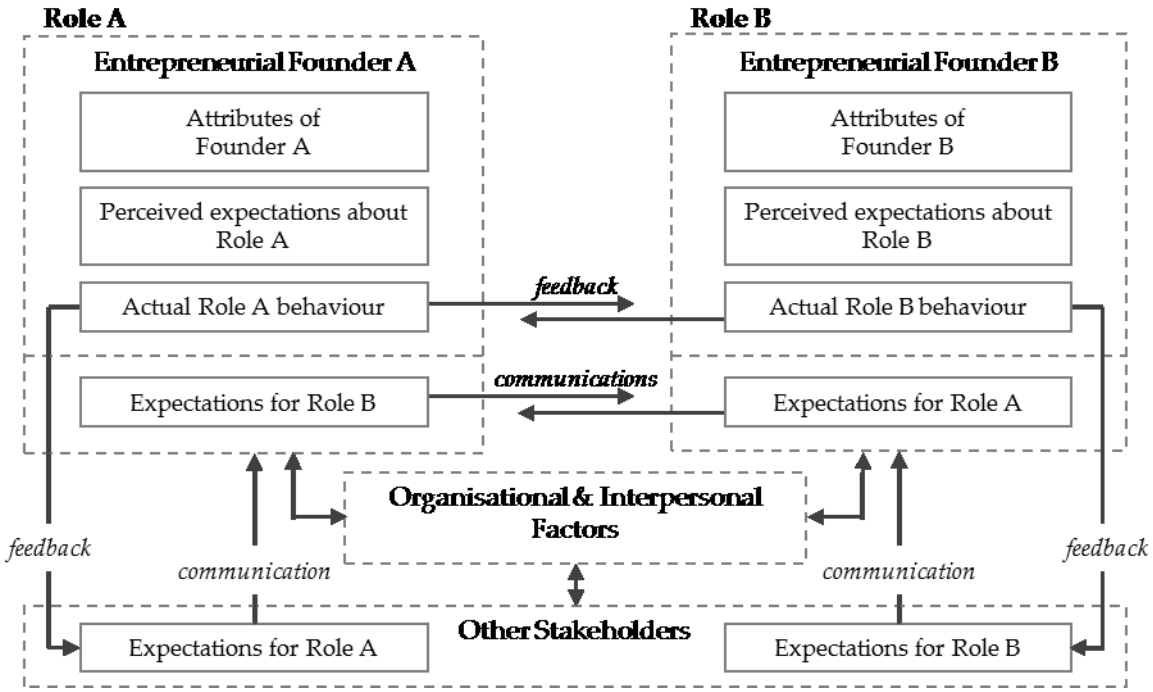
Figure 9.6 is adapted from the generic *Role Episode Model* in Figure 3.1 (see Section 3.3.3) to highlight the importance and complexity of the interactions between the co-founders as their respective roles evolve. The figure displays that the boundaries and the content of each founder's actual role behaviour will be influenced by the incumbent founder's attributes (including skills, abilities and knowledge) and perceived expectations about his or her role. An incumbent founder's role behaviour also will be influenced by the expectations of the other founder as well as other stakeholders (such as other managers and employees). The pre-eminence of the co-founders in the extended model highlights the symbiotic and pivotal nature of the relationship because a break-down in this relationship can mean the demise of the firm (Thurston, 1986).

For one founder to take the lead role is a big step, particularly if this was not cemented at the start-up stage, and requires sensitivity and, perhaps, extensive discussions and considerations. The founders of the Recreation Group and Talent Innovators embarked on long-winded and delicate processes to decide the leadership issue. For Healthy Franchise, the decision to initially appoint Elizabeth as the MD, recommended by an independent

advisor, was more straightforward than for the other two cases because of strategic reasons.

Nevertheless, other managers and employees also played important parts in signalling to the founders when important decisions had not been, but needed to be, made. For example, managers and employees approached the founders at the Recreation Group when they perceived a need to implement an organisational structure, and it took the resignation of a long term manager for the founders of Talent Innovators to do something about reducing their key person risks by hiring and training other personnel.

Figure 9.6: An Extended Role Episode Model for Entrepreneurial Co-founders



Source: Adapted from Katz & Kahn (1978); Mitchell, Dowling, Kabanoff & Larson (1988).

Figure 9.6 also shows the importance of organisational and interpersonal factors in the development of founder roles. Organisational factors prescribe the context within which roles are formulated and develop. In this study, privately owned Australian emerging fast-growth firms with two founders defines the broader context. All of the founders in this study faced significant challenges arising from emergence and rapid growth, and all developed into their respective roles through trial and error and, in the main, with limited

external assistance; although all, at some stage of their organisational development, hired external advisors.

With regard to interpersonal factors, role expectations are dependent on the quality of the relationships between the co-founders themselves and with the other stakeholders. In the case of Healthy Franchise, the relationships between Elizabeth and employees during the firm's formative years were often strained and, as a consequence, employees became stressed and turnover was high (Sylvia, Franchisee, Interview). Elizabeth (Executive Chairman, Interview) asserted that she was not able to afford higher calibre employees at the time. Under such conditions, it is unlikely that these employees would have persuaded Elizabeth to make changes to her role. Whereas the founders of Talent Innovators made significant changes as a result of Richard's resignation, in part, due to work overload issues. They were shocked by the decision but did embrace it and Richard assisted with transitional arrangements and, subsequently, returned to the firm after an extended overseas holiday.

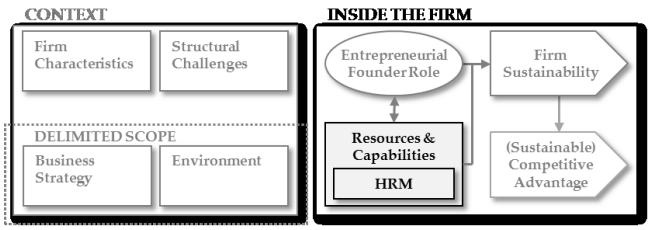
Closely related to how founders allocate their time, is the question of how, and to what extent, they delegate responsibilities to others so that they can focus on more strategic issues. Bhidé (2000: 248) suggests that what is required here is "a broadening and expansion of responsibilities rather than the narrowing implied in 'letting go'". However, the case studies demonstrate that the process of delegation involves both stepping back from the minutiae (i.e., letting go) as well as broadening and expanding the founders' responsibilities.

Founder team roles and time allocation are both connected to managerial competencies, as discussed in Section 3.2. In other words, each founder will bring to their role a set of skills, knowledge and abilities derived, in part, from the human capital they first brought to the firm. Thus, their managerial competencies will have an influence on the type of role they will play as the firm develops and how their time is allocated between competing demands. Founders' growth motivation and experience is also important for ensuring that their firms continue to grow, as suggested by Delmar and Wiklund (2008).

Organisational Resources and Capabilities

Consistent with the RBV perspective, Figure 9.7 locates *resources and capabilities* of the firm, as well as *HRM*, within the overall conceptual model. Three *HRM* elements were identified as important in this study (i.e., selection and recruitment, management team and organisational structure, and performance management) (see Section 8.5) and a further four elements were considered important as part of other organisational *resources and capabilities* (i.e., financial management, business development, business processes and capability building) (see Section 8.6).

Figure 9.7: Organisational Resources & Capabilities



HRM is a critical area for founders because they cannot change their own roles without expanding their workforce and developing a management team. Emerging fast-growth firms often have considerable hiring needs and making the wrong hiring decisions can be very costly and detract from firm growth and performance, as Healthy Franchise discovered (Sylvia, Franchisee, Interview). With a growing workforce and increased organisational complexity, founders will increasingly need to delegate operational tasks to others and establishing a well-functioning management structure and team becomes necessary. Changes in workforce size and organisational complexity also require the firm's direction and individual and team roles to be clearly defined and understood. Furthermore, it becomes necessary to monitor individual and team performance, and address deficiencies and developmental needs. As the firms developed, a need for formalising HRM practices was articulated by various case study participants, but there was guarded support for going down this path. Julia (CEO, Talent Innovators, 3rd Interview) agreed that some formalisation was necessary (particularly for legal purposes) but, according to her, the real value lay in the way HRM was embedded in organisational practices without creating too much bureaucracy.

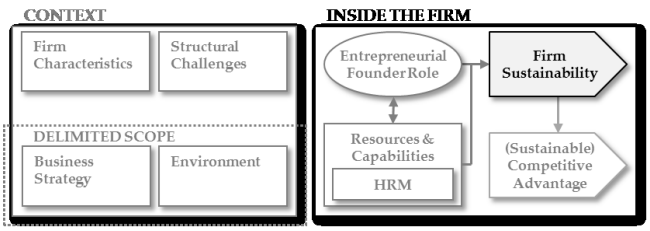
Other organisational resources and capabilities were found to be important for firm sustainability. Cognisant of earlier financial hardships, many case study participants (especially founders), emphasised the importance of financial management, financial prudence and profitability. Therefore, it was not unexpected that the finance function was overseen by a founder or a specialist senior manager. A great deal of attention was also given to business development because the firms are characterised by growth and their founders are motivated by growth. Revenue growth is important for firm sustainability because small firms remain vulnerable (see Section 2.2.2). In addition, case study participants placed importance on developing capabilities concerning business processes and routines. Experience and know-how regarding a generic capability of building organisational capabilities was also evident. In support of this observation were examples of confidence in major project developments and decision-making (such as setting up overseas partnerships and branches).

Criteria developed by Barney (1991 & 2002) for attaining sustainable competitive advantage is not a test that needs to be applied to emerging fast-growth firms for attaining firm sustainability. For emerging fast-growth firms, "more immediate short ranged, and pragmatic goals linked with issues of survivability and sustainability may carry more weight than the quest for competitive advantage" (Harney & Dundon, 2006b: 108). As discussed earlier, organisational resources and capabilities necessary for firm sustainability are the building blocks for founders who wish to pursue the more ambitious goal of (sustainable) competitive advantage (see Section 3.3.1).

Firm Sustainability

Firm sustainability relative to other components of the conceptual model is shown in Figure 9.8. As Boxall and Purcell (2003: 30) argue convincingly, the *fundamental strategic problem* confronting an emerging firm "is that of becoming and remaining viable in its chosen market" (see Section 3.3.2). The *second*

Figure 9.8: Firm Sustainability



order strategic problem lies beyond the fundamental problem and is concerned with (sustainable) competitive advantage (Boxall & Purcell, 2003; Boxall & Steeneveld, 1999). In this thesis, interest is centred on 'firm sustainability', a concept useful for addressing the fundamental strategic problem. Once an emerging firm has become sustainable, it can then "play in a higher level 'tournament'" and strive for (sustainable) competitive advantage (Boxall & Purcell, 2003: 32) but prior to this, it will have various structural challenges to overcome.

Founders of emerging fast-growth firms, as with the founders of the case study firms, typically face several structural challenges associated with their firms' characteristics (see Sections 2.2 & 2.3). These challenges comprise problems associated with liabilities of newness (and adolescence) and smallness, including a lack of financial and other resources (Aldrich & Auster, 1986; Brüderl & Schüssler, 1990; Freeman, Carroll & Hannan, 1983; Stinchcombe, 1965). 'Liability' related challenges are compounded when firms also grow rapidly (Barringer, Jones & Lewis, 1998; Flamholtz & Randle, 2007; Hambrick & Crozier, 1985; Kotter & Sathe, 1978) with sharply fluctuating growth paths that add to their uncertainty (Garnsey, Stam & Heffernan, 2006).

During the emergence phase, founders find themselves playing a pivotal role in the daily operations for their firms, usually as a result of a combination of minimal resources and lack of organisational routines (Brüderl, Preisendorfer & Ziegler, 1992; Brush, Greene & Hart, 2001; Cooper, Gimeno-Gascon & Woo, 1994; St-Jean, Julien & Audet, 2008). The critical importance of founder roles in the early operational life of the firm has been shown in the case studies. However, this critical dependence on the founder also contributes to organisational risk and uncertainty. Furthermore, the concentration of decision-making with the founder can be a source of personal stress as cognitive and attentional overload sets in (Kahneman, 2011; Gifford, 1992; Johnson & Bishop, 2002; Tversky & Kahneman, 1974). In the face of such structural challenges, founders have the demanding and challenging task of acquiring resources and building organisational capabilities (Amit & Shoemaker, 1993; Barney, 1991; Dosi, Nelson & Winter, 2000; Penrose, 2009) in order to make their firms sustainable (see Section 2.4).

9.3 Research Limitations

A number of research limitations are recognised. The first concerns the difficulties in gaining access to suitable firms and their members (Bryman, 1989; Curran & Blackburn, 2001). Emerging fast-growth firms, whose founders are conscious of their limited time and resources, are likely to be reluctant to participate. Therefore, due to the nature of the target group of firms and their founders' accessibility, difficulties were anticipated and built into the research design (see Section 4.4.2). It was, therefore, important to assure them that data collection would be obtained with minimum time and effort from themselves and their employees, and this in turn meant that the data collected was generally limited. As a result of this, data was collected, in the main, from founders and other managers, and not employees. Thus, the study has been conducted through a managerial perspective.

In addition, problems of accessibility also restricted the final number of firms included in the study, after eliminating five firms for their unsuitability (see Table 4.3). Increasing the number of cases beyond three proved to be difficult within the context of this research scope. Nevertheless, valuable data and insights using cross-case analysis were able to be drawn from the three cases in the study.

The second limitation concerns the use of retrospective data (see Section 4.5). Ideally, the study would have been based on a longitudinal design, but this is difficult to achieve particularly given the accessibility issues described above. As Davidsson, Achtenhagen and Naldi (2007: 368) state, retrospective studies "do not lack value" but "they are subject to potential biases due to hindsight and rationalization after the fact on the part of informants". Recognised problems with retrospective data collection methods include bias recollection, reinterpretation of past events in the light of current developments, and mistaking event sequences (Cox & Hassard, 2007; Fessel, Epstude & Roese, 2009; Glick, Huber, Miller, Doty & Sutcliffe, 1990). In order to minimise such problems, attempts were made to triangulate the data as much as possible and a timeline template was used during interview sessions to assist interviewees to pinpoint key organisational events (see Sections 4.4 and 4.5).

A third limitation relates to the choice of 'successful' cases. As discussed in Section 4.5, using a combination of 'successful' and 'unsuccessful' firms was contemplated but, due to difficulties in tracking founders and other managers of failed firms, the decision was made not to pursue this line of inquiry. Furthermore, the lessons to be learnt from 'unsuccessful' firms were tangential to the main objectives of this study (see Penrose, 2009) that concern how firms become sustainable.

The fourth limitation is that participants were not involved in reviewing drafts of their respective case study reports (see Section 4.5). While this would have helped to clarify some issues, it did not seem feasible to return to them given the limited time they had been willing to offer and the time that had elapsed between data collection and the case write-ups.

The final limitation relates to the concept of firm sustainability. As with firm performance, firm sustainability is multi-dimensional and too broad to be researched thoroughly in a thesis of this nature. Therefore, in order to make the research project manageable, the scope was delimited to the role of the entrepreneurial founder and organisational resources and capabilities (see Section 1.7). As a consequence, the findings relate to factors that are *necessary, but not sufficient,* for firm sustainability.

9.4 Future Research

There are several potential avenues for future research arising from this thesis. First, the concept of firm sustainability could be examined further using additional qualitative, as well as quantitative methods, to ascertain the importance of factors other than entrepreneurial founder roles and organisational resources and capabilities. These may include factors delimited from the scope of this research (i.e., business strategy and the environment). However, organisational resources and capabilities provide rich sources of further research opportunities, and work could be carried out in more depth on resources and capabilities other than HRM, particularly the generic *capability building* capability (Arbaugh & Camp, 2000).

A second area for potential future research concerns entrepreneurial founder teams, an area that is under-researched with important consequences for firm development and performance. This study centred on firms with two founders but little is known about how roles are formed and enacted in larger teams and how founder teams compare with single founder firms. Closely related is the topic of cognitive and attentional limitations on founders' role behaviours and decision-making abilities, and the associated issue of role stress. For instance, are founders in multiple founder firms able to address these issues better than those in single founder firms?

Finally, while recognising the difficulties of accessibility, especially when dealing with emerging fast-growth firms, future studies would benefit from data collection methods that include a longitudinal design and participants other than managers. This would overcome the potential biases associated with retrospective data collection methods and the more narrow managerial perspective inherent in this study.

9.5 Concluding Comments

In conclusion, an empirically and theoretically informed conceptual model of entrepreneurial founder roles and firm sustainability as it relates to emerging fast-growth firms has been developed in this thesis. The model has been developed from a diverse range of literature, incorporating the fields of entrepreneurship, managerial and organisational studies, strategic management (RBV), HRM and social psychology (role theory), and field research using three case studies and qualitative methods. In particular, the model operates at two levels of analysis – at the firm and the entrepreneurial founder levels – linking RBV, HRM and role theory. It is important to note that role theory has been overlooked within the fields of HRM (Jackson & Schuler, 1995) and entrepreneurship (Johnson & Bishop, 2002; Wincent & Örtqvist, 2009), despite suggestions that it can make a positive contribution to these fields (Jackson & Schuler, 1995; Johnson & Bishop, 2002).

The conceptual model is unique and provides a significant contribution to knowledge and understanding by showing how firm sustainability (a newly constructed concept) is achieved within the context of Australian privately owned and self-funded emerging fast-growth firms with two founders. By focusing on the changing role of the entrepreneurial

founder, the model explains some *necessary, but not sufficient,* conditions for achieving firm sustainability. It also makes the important distinction within the emerging fast-growth firm context between firm sustainability and sustainable competitive advantage. It is argued that the latter concept is more suited to established rather than emerging firms, where firm sustainability is a more applicable. Despite the move away from sustainable competitive advantage to firm sustainability, the RBV framework remains relevant to this research because of its focus on organisational resources and capabilities.

In brief, the model suggests that, as emerging fast-growth firms develop and structural challenges are addressed, entrepreneurial founders will face pressures to define and clarify their role boundaries, particularly in relation to each other. This process will typically end with one founder taking a formal lead role. The conceptual model also suggests that founders can make the transition to executive managers, but not all founders are capable of working effectively at this senior level in a medium to large sized firm as the literature suggests (Flamholtz & Randle, 2007; Willard, Krueger & Feeser, 1992). The expectations and pressures will differ considerably whether the founder is in the lead or non-lead role. Non-lead founders can enact significant and effective roles for themselves that are aligned to their own skills, abilities and knowledge. How co-founders' skills, abilities and knowledge complement one another is important in how the respective roles and the firm develop.

This is in contrast to the debate regarding whether or not entrepreneurial founders are willing and/or capable of 'letting go' the top management position of an emerging fast-growth firm (Churchill & Lewis, 1983; Flamholtz & Randle, 2007; Hambrick & Crozier, 1985; Jennings & Beaver, 1996; Rubenson & Gupta, 1990; Willard, Kruger & Feeser, 1992; Timmons, 1999). When two founders are involved, the relationship between the founders will be dynamic and complex, requiring the co-operation of both parties to identify suitable roles for each founder. This thesis provides a unique and more nuanced contribution to the understanding of this dynamic relationship than hitherto offered in the literature.

The conceptual model also shows how founder role changes are linked to the development of organisational resources and capabilities, especially HRM practices Founders may be prepared and willing to delegate responsibilities as their firm grows, but without the supporting organisational resources and capabilities, this objective cannot be realised. From the case studies and situated within the literature, particular resources and capabilities (i.e., financial management, business development, business processes, and generic capability building capability), including the pivotal role of HRM (i.e., recruitment and selection, management team and organisational structure, and performance management), were identified as important for firm sustainability and these are captured in the conceptual model.

Furthermore, the thesis' contribution extends to the particular linkages explored and explained between founder role changes, HRM and other organisational resources and capabilities in achieving firm sustainability. Understanding and highlighting these linkages has practical implications for founders of emerging fast-growth firms and their stakeholders. With such a better understanding, founders may address particular aspects of their firms' structural challenges sooner and with a more concerted effort. In so doing, they are more likely to minimise difficult 'growing pains' and to achieve firm sustainability more quickly than would otherwise be the case.

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Appendix 1 Letter of Introduction

MONASH University

<Date>

<Name>
<Title>
<Business>
<Address>

Dear <Name>

This letter invites you to participate in a Monash University research project I am conducting under the supervision of Dr Susan Mayson (Department of Management at Monash University) and Professor Rowena Barrett (Department of Human Resource Management at De Montfort University, UK). The study investigates fast-growth firm sustainability and it is part of the requirements for completing my Doctor of Philosophy degree at the University. The project has been approved by the Monash University Standing Committee on Ethics in Research involving Humans (SCERH).

You and your business have been selected from the *Business Review Weekly* (BRW) lists of the 'Fast 100' because it meets the selection criteria for the study. The criteria includes listing in the BRW Fast 100 in 2004, 2005 and 2006, the firm being privately owned, and the founder continuing to play an active role in the business. Your participation will involve an initial 45 minute interview followed by one or two further interviews of a similar duration over a period of two months. I will also seek to interview a small selection of other organisational members on a more limited basis.

Involvement in this study provides you with the opportunity to contribute to an important area of study that is currently not well developed. It will also provide you with the opportunity to reflect and possibly gain further insights into what has advanced and/or hindered your firm's success.

More details about this study, including information regarding your involvement, are contained in the enclosed Explanatory Statement.

I will contact you shortly to discuss your possible participation in the study and answer any questions you may have. If you consent to proceed, I will ask you to complete the enclosed Consent Form and Questionnaire and return both documents to me using the pre-paid envelope. We will also schedule the first interview at this time.

In the meantime, I can be contacted on (03) 9813 5600.

Yours sincerely

Vince Giuca

Cc: Dr Susan Mayson, Department of Management, Monash University

Appendix 2 Explanatory Statement

MONASH University

[date]

Explanatory Statement

Title: The Sustainability of Emerging Fast-Growth Firms

This information sheet is for you to keep.

1. Background

My name is Vince Giuca and I am conducting a research project supervised by Dr Susan Mayson (Department of Management, Monash University) and Professor Rowena Barrett (Department of Human Resource Management, De Montfort University, UK). This project is part of the requirements for completing a Doctor of Philosophy (PhD) at Monash University. This means that I will be writing a thesis which is the equivalent of a book of approximately 250 pages about the sustainability of fast-growth businesses.

2. Selection

At this stage of the study, we are approaching only a selected few Managing Directors (MDs) and Chief Executive Officers (CEOs) of businesses that appeared in the *Business Review Weekly* lists of the 'Fast 100' published from 2004 to 2006, inclusive. At the next stage and with the permission of the respective MD/CEO, we would wish to approach a few key individuals associated with the development of these selected businesses (e.g. directors, managers and key employees).

The businesses we have selected are of special interest because (i) they met the criteria of the 'Fast 100' during the 2004 to 2006 period, (ii) the founding entrepreneur(s) continues to manage the firm, (iii) the firm continues to be active and (iv) the firm is privately owned.

3. Research Purpose

We are conducting research to investigate how changing roles and organisational resources and capabilities (including human resource management (HRM)) contribute to the sustainability of emerging fast-growth firms. This study is important because, while there are numerous studies on fast growing businesses, there is a lack of research on the consequences of fast-growth for managing sustainability. Studies on fast-growth often focus on how to achieve and maintain fast-growth. However, fast-growth is not an end goal in itself and this study will contribute to our understanding of how sustainability is achieved and managed for firms that have grown rapidly in the past. In our view, firms that are sustainable will be the ones that produce the greatest value to entrepreneurs, investors and the community as a whole.

4. Possible Benefits

By participating in this study you will contribute to research that extends our knowledge about fast-growth firms. In addition, you may gain further insights into the factors that have helped your business succeed and the ones have possibly held you back. Lessons from other comparable firms may assist you in placing your own experience into perspective. Ultimately, you would also be contributing to a valuable study which aims to help current and future entrepreneurs, managers, investors and governments in identifying how to improve the outcomes of fast growing firms.

5. Participants' Involvement

There are four main components to your involvement which are intended to be covered over a two month period in a flexible manner to suit your busy time schedule. A proposed schedule for each activity is summarised below.

Activity	**Time Commitment** (Approximate)	**Timeframe**
1. Questionnaire (attached)	15 - 20 minutes	[date range]
2. Interview (topics listed below)	45 – 50 minutes	[date range]
Other interviews may be arranged by mutual agreement.		

Topics to be covered during the interview are: business start-up, key business transitions, founder and managerial roles, business sustainability and organisational resources and capabilities (including HRM).

Interviews will be conducted by me at a time that is convenient to you and may be conducted at your business premises or by phone.

These types of interviews are normally audio taped so that a transcript can be produced which can then be checked by you.

The questions I would be asking are not likely to cause distress and you will always have the choice of not answering any question you do not wish to answer.

6. Voluntary Participation

Participation in this research project does not involve payment or reward, financial or otherwise, offered.

Being a participant in this study is completely voluntary. You are under no obligation to consent to participate and you may withdraw at any stage, or avoid answering questions which you feel are too sensitive.

7. Confidentiality

Data from the survey will be used in an aggregated form. You will be referred to by code and the researchers will be the only individuals who will have access to code lists. These, along with the original data, will be kept in locked storage at the Department of Management at Monash University for five years in compliance with university requirements. You will not be identified and your firm will be given a pseudonym or referred to in a generic fashion such as 'retailer' or 'manufacturer'. Please keep in mind, however, that it is impossible to make an absolute guarantee of confidentiality and anonymity as the Fast 100 lists are in the public domain.

A report or reports of the study may be submitted for publication, but individual participants will not be identifiable in such a report.

8. Queries and Results

If you have any queries or would like to be informed of the aggregate research findings, please contact Vince Giuca on (03) 9813 5600 or fax (03) 9813 5622.

9. Complaints

Should you have any complaint concerning the manner in which this research (2005/516 LIR) is conducted, please do not hesitate to contact the Monash University Standing Committee on Ethics in Research Involving Humans at the following address:

The Secretary
The Standing Committee on Ethics in Research Involving Humans (SCERH)
Building 3d
Research Grants & Ethics Branch
Monash University VIC 3800
Tel: +61 3 9905 2052 Fax: +61 3 9905 1420 Email: scerh@adm.monash.edu.au

Thank you.

Vince Giuca

Appendix 3 Consent Form

MONASH University

Consent Form

Title: The Sustainability of Emerging Fast-Growth Firms

NOTE: This consent form will remain with the Monash University researcher for their records

1 I agree to take part in the Monash University research project specified above. I have had the project explained to me, and I have read the Explanatory Statement, which I keep for my records. I understand that agreeing to take part means that:

(a) I agree to complete questionnaires asking me about my business and my role within the business ☐ **Yes** ☐ **No**

(b) I agree to be interviewed by the researcher ☐ **Yes** ☐ **No**

(c) I agree to allow the interview to be audio-taped ☐ **Yes** ☐ **No**

(d) I agree to make myself available for further interviews, if required ☐ **Yes** ☐ **No**

(e) I agree to make the information collected available for future research projects ☐ **Yes** ☐ **No**

2 I understand that my participation is voluntary, that I can choose not to participate in part or all of the project, and that I can withdraw at any stage of the project without being penalised or disadvantaged in any way.

3 I understand that any data that the researcher extracts from the interview or questionnaire for use in reports or published findings will not, under any circumstances, contain names or identifying characteristics.

4 I understand that any information I provide is confidential, and that no information that could lead to my identification or that of my business be disclosed in any reports on the project, or to any other party.

5 I understand that data from the interview (including transcript and audio-tape) will be kept in a secure storage and accessible to the research team. I also understand that the data will be destroyed after a five year period unless I consent to it being used in future research.

Participant's Name	
Signature	
Date	

Appendix 4 Questionnaire

MONASH University

Questionnaire

Title: The Sustainability of Emerging Fast-Growth Firms

Name:	Position:
Business Name:	Date:

Please complete the following questions.

1. Which year was this firm founded?		
2. (a) Have you ever worked as a manager in another organisation? (b) If **Yes**, how many different organisations? (c) If **Yes**, approximately what is the largest number of persons you have managed during any previous employment?	(a) ☐ Yes (b) (c)	☐ No
3. Have you ever worked as a manager in a fast-growth firm other than this one? (Annual sales growth of at least 20%)	☐ Yes	☐ No
4. (a) Did you acquire knowledge about your present industry from any previous employment? (b) If **Yes**, was this limited or extensive experience?	(a) ☐ Yes (b) ☐ Limited	☐ No ☐ Extensive
5. What year were you born?		
6. (a) What is your highest completed level of education? (b) When did you complete this level of education?	(a) (b)	
7. (a) Have you undertaken any business or management training in addition to your formal schooling? (b) If **Yes**, please specify type of training and year undertaken.	(a) ☐ Yes (b)	☐ No
8. (a) Have you personally been involved in starting a firm you no longer run? (b) If **Yes**, how many?	(a) ☐ Yes (b)	☐ No

9. (a) Are you at present associated with any other firm that you do not personally run? (b) If **Yes**, in what role?	(a) ☐ Yes ☐ No (b)
10. (a) Do you own this firm? (b) If **Yes**, what percentage of the firm do you own?	(a) ☐ Yes ☐ No (b)
11. (a) Is this firm owned by anyone else (including another business entity)? (b) If **Yes**, what is the ownership percentage of the separate individuals and/or business entities?	(a) ☐ Yes ☐ No (b)
12. (a) Do you have active or silent partners associated with this firm? (b) If **Yes**, are they active or silent partners and how many are there? (c) If they are active, what is their current role?	(a) ☐ Yes ☐ No (b) ☐ Active (No:____) ☐ Silent (No: ____) (b)
13. Do the owners of this firm have family members working in the firm?	☐ Yes ☐ No
14. (a) Has this firm undertaken any mergers or acquisitions since its commencement or since 1990, whichever is the later? (b) If **Yes**, please specify the year and whether it was a merger or an acquisition.	(a) ☐ Yes ☐ No (b)
15. Has this firm undertaken any divestments since its commencement or since 1990, whichever is the later? (b) If **Yes**, please specify the year.	(a) ☐ Yes ☐ No (b)
16. How many operating sites does this firm have?	

Please provide the following information about this firm since its listing in the BRW Fast 100. Please indicate if figures are estimates.

For year ending	[year]	[year]	[year]	[year]	[year]
Gross Revenue ($ '000)					
Net Profits ($ '000)					
Employment (FTEs)[1]					
Management Team (No.)[2]					
Board Members (No.)[3]					

[1] Full Time Equivalents (e.g. two part-time employees or contractors = 1 FTE).
[2] The number of managers or executives who you consult with in making important decisions and who you hold responsible for implementing important decisions. Enter "n/a" if not applicable.
[3] The number of Board Directors who attend regular Board meetings and who participate in making major business decisions.

Appendix 5 Interview Schedule: Founder

Name:	Position:
Business Name:	
Interviewer: Vince Giuca	Interview Date:

Thank participant for agreeing to being involved in this research project.

Explain that the interview will be recorded using an audio tape recorder as previously discussed and agreed.

Semi-structured questions

1. Please describe what it was like when you started the firm/business? In particular: (a) What roles did you and your partner(s) play (if there were partners)? (b) What types of pressures did you and your partner(s) experience?
2. What does firm/business sustainability mean to you?
3. How important is firm/business sustainability for you?
4. Given your experience, which factors do you believe are important in explaining firm/business sustainability? In particular, please comment on the following factors and how they may have promoted or inhibited firm/business sustainability: (a) Your role, skills and experience. (b) The role, skills and experience of your partner(s). (c) The role, skills and experience of your management team. (d) The importance of organisational resources and capabilities. (e) The importance of human resource management.
5. Do you consider that this firm/business has reached a sustainable state? (a) If yes, when was this sustainable state reached? (b) If yes, how did you know that a sustainable state was reached?
6. Given your experience, which factors do you believe are important in explaining barriers to business sustainability?
7. Can you describe important transitions that the firm has experienced since its commencement or since 1990, whichever is the later?
8. For each transition, would you describe events or factors that triggered the transition?
9. Was it necessary for you to change your role and behaviours since the firm's commencement? (a) If yes, would you explain how you changed?
10. Was it necessary for your partner(s) to change roles and behaviours since the firm's commencement? (a) If yes, would you explain how they changed?
11. Was it necessary for the management team to change roles and behaviours since the firm's commencement? (a) If yes, would you explain how they changed?

Does the participant have any questions for me?

Thank participant for his or her involvement in the interview.

Appendix 6 Interview Schedule: Non-Founder

Name:	Position:
Business Name:	
Interviewer: Vince Giuca	Interview Date:

Thank participant for agreeing to being involved in this research project.

Explain that the interview will be recorded using an audio tape recorder as previously discussed and agreed.

Semi-structured questions

1. Please describe what it was like when you started at the firm/business? In particular: (a) What roles have you played? (b) What types of pressures have you experienced?
2. What does firm/business sustainability mean to you?
3. How important is firm/business sustainability for you?
4. Given your experience, which factors do you believe are important in explaining firm/business sustainability? In particular, please comment on the following factors and how they may have promoted or inhibited firm/business sustainability: (a) Your role, skills and experience. (b) The role, skills and experience of the founder(s). (c) The role, skills and experience of the management team. (d) The importance of organisational resources and capabilities. (e) The importance of human resource management.
5. Do you consider that this firm/business has reached a sustainable state? (a) If yes, when was this sustainable state reached? (b) If yes, how did you know that a sustainable state was reached?
6. Given your experience, which factors do you believe are important in explaining barriers to business sustainability?
7. Can you describe important transitions that the firm has experienced since its commencement or since 1990, whichever is the later?
8. For each transition, would you describe events or factors that triggered the transition?
9. Was it necessary for you to change your role and behaviours since commencing work at the firm? (a) If yes, would you explain how you changed?
10. Was it necessary for the founders to change roles and behaviours since commencing work at the firm? (a) If yes, would you explain how they changed?
11. Was it necessary for your management team to change roles and behaviours since commencing work at the firm? (a) If yes, would you explain how they changed?

Does the participant have any questions for me?

Thank participant for his or her involvement in the interview.

Appendix 7 Timeframe Template