

Davidsson, Per and Steffens, Paul and Fitzsimmons, Jason (2008)
Performance assessment in entrepreneurship and management research:
Is there a pro-growth bias?.

This is the author-manuscript version of this work - accessed from
<http://eprints.qut.edu.au>

Copyright 2008 (please consult authors)

Performance assessment in entrepreneurship and management research:

Is there a pro-growth bias?

Per Davidsson
Paul Steffens
Jason Fitzsimmons

This research assesses the use of growth as performance indicator in entrepreneurship and management research. We have examined data from the following sources. First, we performed a *scholar.google.com* based analysis of title words such as *performance growth, expansion, profit, profit(ability), value* and *success* in articles published in the last ten years in outlets identified by Fried (2003) as ‘appropriate outlets for entrepreneurship research’, focusing on the top ranked broader management journals in his analysis (AMR; AMJ; SMJ; ASQ; OSC; MSC; all ‘level 1’) and the top five niche journals (JBV; ETP; SBEJ; ERD; JSBM; levels 1-3). Second, we investigated more closely what performance indicators were used in articles published in the last three years in the top niche journal (JBV) and the two top empirical mainstream journals (AMJ and SMJ). Third, we searched the ICE part of the Julia database, which is a special collection covering all kinds of publications in entrepreneurship and small business, at *www.hj.se/ice*. These investigations of performance criteria do not aspire to be complete but we hold that they suffice for giving an accurate account of the main tendencies we discuss below. Our review also draws upon our prior knowledge of these literatures, in particular research on entrepreneurship and the performance of small and medium-sized firms.

The use of firm growth as (sole) dependent variable in business research does not necessarily indicate a blind assumption that growth is always good for a firm’s stakeholders. However, there is little doubt that entrepreneurship researchers show much more interest in growth than in profitability, and often interpret the former as

‘success’. Our searches of the ICE part of the Julia database at www.hj.se/ice shows that in entrepreneurship research, ‘success’ as title word is about four times more common than profit and its derivatives. ‘Growth’ as title word is about ten times as common as ‘profit’, ‘profitable’ and ‘profitability’ combined. Further, a deeper look reveals that in many of the works ‘success’ is operationalized as ‘growth’, often without explicit justification for making this connection. A quantitative indication is that the in ICE/Julia the combination ‘success’ and ‘growth’ is about six times more common than ‘success’ combined with either ‘profit’ or ‘profitability’, whether title word or free text (abstract) is used. Although value creation or similar terms are frequently included in definitions or delineations of entrepreneurship (e.g., Gartner, 1990; Hisrich & Peters, 2002; Morris, Lewis, & Sexton, 1994) they are almost never included as an explicit, operationalized variable (except for in research on initial public offerings, cf. Daily, Certo, Dalton, & Roengpitya (2003); presumably for data availability reasons. Sometimes growth and profitability are used jointly in entrepreneurship research (e.g., Wiklund, 1999), showing at least implicit understanding that it is profitable growth that creates value.

The preoccupation with growth is no doubt greater in entrepreneurship research than in strategy and general management research. A search on scholar.google.com for ‘all in title’ in Fried’s (2003) top five entrepreneurship specialty journal reveals that the ratios for ‘growth or expansion’ to ‘performance’ as title words is 0.91, compared with 0.16 for the top six mainstream management journals. Using the same journals the ratio of ‘profit(ability)’ to ‘growth or expansion’ is 0.08 in entrepreneurship and 0.38 in mainstream management research outlets.

This greater interest in growth in entrepreneurship and small business research is not totally without justification. Young and small firms may have a greater need for growth in order to achieve legitimacy and survival (Aldrich & Auster, 1986; Davidsson, 1991; Stinchcombe, 1965; Storey, 1994), and reliable data on their financial performance can be impossible to collect from small firms and may be irrelevant for very young ones (Brush & Vanderwerf, 1992; Chandler & Hanks, 1993; Van de Ven, Hudson, & Schroeder, 1984; Walsh & White, 1981).

However, there is obviously more to the strong interest in growth in entrepreneurship research than data availability. Gartner (1990) showed that growth was one out of eight themes that professional users commonly associate with the entrepreneurship concept. Stevenson and Jarillo (1990:21, 25) argued that 'Entrepreneurship is the function through which [firm] growth is achieved' and described entrepreneurial behavior as 'the quest for [firm] growth through innovation'. Livesay (1995) chose 'Entrepreneurship and Growth' as the title for his two-volume collection of essential readings in the field, and Sexton and Smilor, (1997:97) explicitly stated that 'Growth is the very essence of entrepreneurship' (cf. Sexton and Bowman-Upton, 1991). Arguably, such assertions build on an assumption that growth reflects value creation.

The mainstream strategy and management literatures usually refer to the conceptual dependent variable as 'performance' and rarely use 'success' as title word (i.e., the performance/success title word ratio is much higher in leading management journals than in ICE/Julia). Performance is often assessed through indicators of profitability only (see e.g., Goerzen & Beamish, 2005) for a review as well as an example). When included, growth is used alongside profitability measures, either separately (e.g., Baum & Wally, 2003; Cho & Pucic, 2005; DeSarbo, Benedetto,

Song, & Sinha, 2005; Florin, Lubatkin, & Schulze, 2003; Kim, Hoskisson, & Wan, 2004; Peng, 2004) or combined in an index (e.g., Davies & Walters, 2004; Garg, Walters, & Priem, 2003; J Wiklund & Shepherd, 2003). However, leading management journals also publish studies where growth is either the only performance criterion (e.g., Dussauge, Garette, & Mitchell, 2004; Lin & Gemain, 2003; Mishina, Pollock, & Porac, 2004; Singh & Mitchell, 2005) or accompanied only by survival and hence no profitability assessment (e.g., Batt, 2002; Henderson, 1999). Further, there is little open questioning of growth as performance indicator. When growth is included it is as a positive indicator of firm performance.

What is being questioned in this literature is rather the relevance of accounting measures of profitability. For example, Hawawini, Subramanina, & Verdin (2003:1) hold that ‘Most accounting-based measures are not consistent with value maximization.’ The critique has lead researchers to increasingly include future- and value-orientated indicators instead of, or in addition to, only considering accounting-based measures of profitability (e.g., Kor & Mahoney, 2005; Lu & Beamish, 2004).

In summary, growth is often used as sole or main indicator of ‘success’ in entrepreneurship research and there are also other clear signs of a ‘pro-growth bias’ in that line of research. In mainstream management and strategy research a strong focus on profitability is common. When used, however, growth is uncritically accepted as a positive indicator of performance. The possibility that growth under some circumstances could be negatively related to a more ‘final’ outcome criterion such as firm value is typically not considered or investigated. Given the low and inconsistent relationship between growth and profitability (see Davidsson, Steffens and Fitzsimmons, 2005) this suggests an overly uncritical view on growth prevails in

management research as well, although not to the same extent as in entrepreneurship and SME research.

References

- Aldrich, H. E., & Auster, E. R. (1986). Even dwarfs started small: Liabilities of age and size and their strategic implications. In B. M. Staw & L. L. Cummings (Eds.), *Research in Organizational Behavior* (Vol. 8, pp. 165-198). Greenwich, CT: JAI Press.
- Batt, R. (2002). Managing customer services: Human resource practices, quit rates and sales growth. *Academy of Management Journal*, 45, 587-597.
- Baum, J. R., & Wally, S. (2003). Strategic decision speed and firm performance. *Strategic Management Journal*, 24, 1107-1129.
- Brush, C. G., & Vanderwerf, P. A. (1992). A comparison of methods and sources for obtaining estimates of new venture performance. *Journal of Business Venturing*, 7(2), 157-170.
- Chandler, G. N., & Hanks, S. H. (1993). Measuring performance of emerging businesses. *Journal of Business Venturing*, 8, 3-40.
- Cho, H.-J., & Pucic, V. (2005). Relationship between innovation, quality, growth, profitability and market value. *Strategic Management Journal*, 26, 555-575.
- Daily, C. M., Certo, S. T., Dalton, D. R., & Roengpitya, R. (2003). IPO underpricing: A metaanalysis and research synthesis. *Entrepreneurship Theory and Practice*, 27(Spring), 271-295.
- Davidsson, P. (1991). Continued entrepreneurship: Ability, need, and opportunity as determinants of small firm growth. *Journal of Business Venturing*, 6(6), 405-429.
- Davidsson, P., Steffens, P., & Fitzsimmons, J. (2005). *Growing profitable or growing from profits: Putting the horse in front of the cart?* Paper presented at the Academy of Management Best Paper Proceedings.
- Davies, H., & Walters, P. (2004). Emergent patterns of strategy, environment and performance in a transition economy. *Strategic Management Journal*, 25(4), 347-364.
- DeSarbo, W. S., Benedetto, C. A., Song, M., & Sinha, I. (2005). Revisiting the Miles and Snow strategic framework: uncovering interrelationships between strategic types, capabilities, environmental uncertainty, and firm performance. *Strategic Management Journal*, 26(1), 47-74.
- Dussauge, P., Garette, B., & Mitchell, W. (2004). Asymmetric performance: the market share impact of scale and link alliances in the global auto industry. *Strategic Management Journal*, 25(7), 701-711.
- Florin, J., Lubatkin, M., & Schulze, W. (2003). A social capital model of high-growth ventures. *Academy of Management Journal*, 46(3), 374-384.
- Fried, V. H. (2003). Defining a forum for entrepreneurship scholars. *Journal of Business Venturing*, 18.
- Garg, V., Walters, R. F., & Priem, R. L. (2003). Chief executive scanning emphases, environmental dynamism, and manufacturing firm performance. *Strategic Management Journal*, 24(8), 725-744.

- Gartner, W. B. (1990). What are we talking about when we are talking about entrepreneurship? *Journal of Business Venturing*, 5, 15-28.
- Goerzen, A., & Beamish, P. W. (2005). The effect of alliance network diversity on multinational enterprise performance. *Strategic Management Journal*, 26(4), 333-354.
- Hawawini, G., Subramanina, V., & Verdin, P. (2003). Is performance driven by industry- or firm-specific factors? *Strategic Management Journal*, 24(1), 1-16.
- Henderson, A. D. (1999). Firm strategy and age dependence: A contingent view of the liabilities of newness, adolescence and obsolescence. *Administrative Science Quarterly*, 44(281-314).
- Hisrich, R. D., & Peters, M. P. (2002). *Entrepreneurship. Starting, Developing and Managing a New Enterprise* (5th ed.). New York: McGraw-Hill.
- Kim, H., Hoskisson, R. E., & Wan, W. P. (2004). Power dependence, diversification strategy, and performance in Keiretsu member firms. *Strategic Management Journal*, 25, 613-636.
- Kor, Y. Y., & Mahoney, J. T. (2005). How dynamics, management, and governance of resource deployments influence firm-level performance. *Strategic Management Journal*, 26(5), 489-496.
- Lin, X., & Gemain, R. (2003). Organizational structure, context, customer orientation, and performance: Lessons from Chinese state-owned enterprises. *Strategic Management Journal*, 24(11), 1121-1151.
- Livesay, H. C. (Ed.). (1995). *Entrepreneurship and the Growth of Firms*. Aldershot, UK: Edward Elgar.
- Lu, J. W., & Beamish, P. W. (2004). International diversification and firm performance: the S-curve hypothesis. *Academy of Management Journal*, 47(4), 598-609.
- Mishina, Y., Pollock, T. G., & Porac, J. F. (2004). Are more resources always better for growth? Resource stickiness in market and product expansion. *Strategic Management Journal*, 25(12), 1179-1197.
- Morris, M. H., Lewis, P. L., & Sexton, D. L. (1994). Reconceptualizing entrepreneurship: An input-output perspective. *Advanced Management Journal*, 9(Winter), 21-31.
- Peng, M. W. (2004). Outside directors and firm performance during institutional transition. *Strategic Management Journal*, 25(453-471).
- Sexton, D., & Bowman-Upton, N. (1991). *Entrepreneurship: Creativity and Growth*. New York: MacMillan Publishing Company.
- Sexton, D. L., & Smilor, R. W. (1997). Growth strategies. In D. L. Sexton & R. W. Smilor (Eds.), *Entrepreneurship 2000* (pp. 97-98). Chicago: Upstart.
- Singh, K., & Mitchell, W. (2005). Growth dynamics: the bidirectional relationship between interfirm collaboration and business sales in entreant and incumbent alliances. *Strategic Management Journal*, 26(6), 497-521.
- Stevenson, H. H., & Jarillo, J. C. (1990). A paradigm of entrepreneurship: Entrepreneurial management. *Strategic Management Journal*, 11, 17-27.
- Stinchcombe, A. L. (1965). Social structure and organizations. In J. D. March (Ed.), *Handbook of Organizations* (pp. 142-193). Chicago, IL: Rand McNally.
- Storey, D. J. (1994). *Understanding the Small Business Sector*. London: Routledge.
- Van de Ven, A. H., Hudson, R., & Schroeder, D. (1984). Designing New Business Startups: Entrepreneurial, Organizational, and Ecological Considerations. *Journal of Management*, 10(1), 87-107.

- Walsh, J. A., & White, J. f. (1981). Small business ratio analysis. A cautionary note to consultants. *Journal of Small Business Management*, 3, 20-23.
- Wiklund, J. (1999). The sustainability of the entrepreneurial orientation - performance relationship. *Entrepreneurship Theory & Practice*, 24(1), 37-48.
- Wiklund, J., & Shepherd, D. (2003). Knowledge-based resources, entrepreneurial orientation, and the performance of small and medium-sized businesses. *Strategic Management Journal*, 24(13), 1307-1314.