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DO FIRMS REALLY WANT TO GROW?

INTRODUCTION

In the economic and business administration literature, as well as in general interest publications, it is frequently mentioned that the modern firm is often subjected to many external development barriers. For instance, according to the annual Polish survey on the enterprise formation and operational conditions conducted in 2007, one half of sampled small and medium-sized enterprises (SMEs) reported facing development barriers in their everyday activities (Table 1.).

Table 1. Barriers encountered by small and medium-sized enterprises (2007)

Year of establishment	No barriers	Demand barriers	Supply barriers	Demand and supply barriers
2006	53%	28%	5%	15%
2005	53%	31%	4%	11%
2004	53%	30%	5%	12%
2003	43%	37%	4%	16%
2002	46%	37%	4%	14%
Average	50%	32%	4%	14%

Note: the survey was conducted across an undisclosed sample of firms employing fewer than 50 people.

Source: GUS (2008b).

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As a result of the existence of such externally imposed impediments, firms otherwise willing to grow are unable to. This in turn is implicitly assumed to result in the observed highly leftwards skewed firm size distribution. In Poland 95 percent of firms employed fewer than ten employees in 2007 (GUS, 2008c). At the same time, according to the most recent Eurostat statistics, only 0.2 percent of all EU firms can be classified as large, whilst 91.8 percent of all the European firms are microenterprises (Eurostat, 2009). Furthermore, such a size distribution of firms not only seems to be consistent across countries, but also across years (GUS, 2008c).

Despite the existence of the external development barriers, it is clearly visible from many available statistical studies that some firms manage to grow larger than others. This observation questions the inferred relationship between the adverse external environment and firm growth. For if all the firms operating in a given branch of the economy face similar external barriers to growth, it is rational to expect all of them to be of equal, or at least similar, size. In this paper we argue that more often than not it is the firm in question that is to blame for its lack of growth, rather than its – however stern – environment. Our research hypothesis, therefore, can be stated as *apart from the negative impact of the external environment on the firm growth, firms are limited in their growth capabilities from within*.

RESEARCH CONTEXT AND METHODOLOGY

Despite the fact that the modern enterprise emerged concurrently with the neoclassical microeconomics (Chandler, 1977; Ekelund et al., 2002), the mainstream economic thought has not paid much attention to the drivers of, and limits to, firm growth. In essence, according to the neoclassical microeconomics, firm growth process is shaped by its cost function determining its optimal size at a given point in time. A not dissimilar mechanism behind the growth of the firm has also been proposed by Ronald Coase (1937), who sought to find the rationale behind the existence of the firm. From his seminal article it is possible to infer that firms grow as long as it is cheaper to internalise transaction costs associated with using the markets for exchange of goods and services. That is, firms grow as long as their cost functions and the market mechanism allow them to. Since such explanations to the phenomenon of firm growth were deemed to be inadequate, alternative theories of firm growth have started to come forth since the 1930s. These alternative schools could be conveniently viewed as the stochastic and the resource-based. The former, represented by Gibrat (1931), Ijiri and Simon (1967), and Jovanovic (1982), advocates a more or less random pattern of firm growth and its factors. The latter school, represented by authors such as Penrose (1966) or Nelson and Winter (1982), advocates that it is the firm's resources, such as managerial capabilities or organisational routines, that determine its growth prospects.

This paper is deeply rooted in the resource-based stream of economic thought. For the purposes of proving our research hypothesis we are going to adopt deductive reasoning, supported with statistical data on firm and entrepreneurial behaviour drawn from the most relevant literature of the subject and governmental statistics. We are not going to adopt the case study method for practical reasons as our research goal is to arrive at a general, and therefore somehow detached from any particular firm or industry, theory.

RESEARCH SCOPE

In order to narrow the potential development barriers let us take a closer look at the data shown in Table 1. Among the development barriers, the Polish Statistical Office distinguishes between the "demand" and "supply" barriers. The barriers that could be best described as the supply ones are common to all the players in a given industry. Hence, the supply barriers include such factors as access to qualified labour, external sources of financing, the strength of contractual enforcement and, somewhat less frequently quoted, availability of raw materials and technology. At the same time, the so-called demand barriers incorporate such categories as the insufficient customer purchasing power, too high a level of competition, price cuts by competitors and low brand awareness (GUS, 2008b). Even though at the first glance all the "demand" barriers may seem to lie outside the firm's control, after a closer examination it becomes apparent that both the chosen industry as well as the adopted operational and marketing strategies are not determined by the outside world, like the "demand" classification would like to imply, but rather by the firm itself. Thus, aspects such as the firm's goals and strategies, as well as its management's needs and internally available resources, are undoubtedly the driving forces behind the "demand" barriers. And such elements of the firm's internal environment are what we are going to analyse herein, and to conveniently describe as the internal barriers to firm growth.

Before we proceed to the main part of our paper let us state that for our purposes firm growth is to be viewed as any increase in firm size as measured by its headcount. The reason is twofold. Firstly, the number of people employed is the most commonly adopted proxy of size (Kimberly, 1976). Secondly, it is also perfectly correlated with other size measures, as proved by our empirical analysis of the different size proxies based on a sample of Polish publicly listed companies, see Table 2.

FIRM STRATEGY AND INDUSTRY

Let us start our analysis of the internal barriers to firm growth with the firm strategy and the industry in which it operates.

Table 2. Correlations of measures of firm size

	Market capitalisation	Turnover	Operating profit	Total assets	Headcount
Market capitalisation	1				
Turnover	0.948*	1			
Operating profit	0.966*	0.979*	1		
Total assets	0.967*	0.956*	0.947*	1	
Headcount	0.948*	0.964*	0.970*	0.929*	1

Notes: * significant at 1%, n=27 companies listed on the Warsaw Stock Exchange.

Source: own calculations based on data presented in the appendix to the paper.

FIRM STRATEGY

Since the firm's inception one of the most important determinants of its survival chances, but also its growth prospects, is the adopted growth strategy. Apart from selecting in which industries to compete, each firm has to decide on how to compete and commit to the implementation of its own set of goals and ways of achieving these goals. To be successful, a firm needs to adopt and implement a strategy which is both coherent and well aligned with its internal and external environments. Any mistakes made during the process of formulation or implementation of a strategy may not only result in limited growth of the firm, but first and foremost in its structural inability to compete. Such a strategy failure usually takes one of the two common forms. The first is the inability to properly tailor the firm's strategy to its external and internal environments. And the second is the unwillingness to engage in the strategy making process itself.

In order to prove that the strategy making process is often missing or being wrongly conducted, we are going to compare two studies on the already established Polish small and medium-sized enterprises. The first of the studies was conducted in 2001 across a sample of 120 firms, targeting primarily the services sector of the economy (Janiuk, 2004). The second was conducted in 2004 and covered 310 profitable enterprises; these were shortlisted by the authors of the study based on their unique competitive strategies (Łobejko, 2008).

The former study finds that 71 percent of firms have no defined strategy; while the results of the latter study show that among profitable firms only 7 percent lack a clearly defined strategy. Thus, it follows that even though an average firm has no defined strategy in place, the successful firms in general do have a well defined and executed strategy. What is more, according to 71 percent of the surveyed managers running the profitable firms, it is the adopted strategy that allowed their firms to become successful (Łobejko, 2008). In addition, apart from the fact that nearly 71 percent of surveyed firms from the general population do not have a strategy of any kind in place, additional 8 percent have strategic plans covering only the next few months, and nearly 93 percent of the firms do not even plan their sales and production for periods longer than one year (Janiuk, 2004). Consequently, if so many firms are not willing to properly design their growth strategies, it is hard to expect them not only to grow but even to survive.

STRATEGIC IMPLICATIONS OF INDUSTRY CHOICE

The decision of how to compete has to be preceded by the decision of where to compete. The choice of industry determines not only the feasible growth strategies, but first and foremost the maximum attainable size of the firm and pace at which it can be achieved (Penrose, 1966). The reason is that the age of the industry determines both the maximum number of players and their maximum size, primarily due to the ongoing changes in the demand levels and the competitive positions of the industry players (Gort and Klepper, 1982).

Yet, if the industry dynamics affects the growth prospects of a firm to such a considerable extent, do firms tend to target high-growth industries in practice? In order to answer this question let us analyse the choice of industry made by the recently established Polish SMEs. Table 3. presents the choices of the main industry of all the newly established Polish enterprises over 2004–2006, as compared with the respective industries' growth rates and gross output shares.

As we can see, out of all the 639 thousand enterprises, established over the period of 2004–2006 in Poland, 35 percent focused on trade and repairs, with 18 percent focusing on real estate and business services, 12 percent on construction and 10 percent on manufacturing. Yet, when it comes to comparing the dynamics of the chosen industries, it becomes visible that 42 percent of all the newly established SMEs target markets growing slower than the overall rate of economic growth, as measured by the GDP, such as trade and repairs, education, real estate, renting and business services, or other services. What is more, further 14 percent of all the enterprises have been established in industries growing at rates only slightly exceeding the GDP growth, like manufacturing or the hospitality industry. Apart from the fact that nearly two-thirds of all the newly created enterprises adopted a strategy of competing in rather low-growth industries, three-fourths of all firms decided to compete in the industries accounting for just 37 percent of the total gross Polish output over 2004–2006. All this allows us to draw a conclusion that competitive strategies, as exemplified by the industry choices, adopted by the newly created Polish enterprises in many cases preclude them from realising full growth rates attainable under another set of strategies.

At the same time, as Table 4. reveals, it is the same companies that decided to locate in low-growth, relatively small and attracting vast numbers of competitors industries that tend to complain most about the strength of the "demand" barriers they face.

Table 3. Polish SME industry choice, industry growth and total gross output composition over 2004–2006

Industry	Newly created enterprises	Industry growth	Industry share in gross output
Trade and repairs	35%	9%	15%
Real estate, renting and business services	18%	19%	11%
Construction	12%	36%	7%
Manufacturing	10%	16%	32%
Transport, storage and communications	6%	21%	8%
Hotels and restaurants	4%	15%	1%
Financial intermediation	4%	27%	3%
Health and social work	4%	19%	2%
Education	2%	12%	3%
Other services	5%	13%	3%
Other categories	n/a	n/a	14%
Total	100%	15% (GDP)	100%

Note: 639 178 enterprises established over 2004–2006 were analysed.

Source: GUS (2008a and 2008b).

Table 4. Barriers encountered by enterprises created in 2006 and active in 2007

Industry	No barriers	Demand barriers	Supply barriers	Demand and supply barriers
Manufacturing	47%	10%	8%	34%
Construction	54%	18%	11%	18%
Trade and repairs	46%	40%	3%	11%
Hotels and restaurants	56%	23%	4%	18%

Transport, storage and communications	62%	20%	5%	14%
Financial intermedia-tion	40%	51%	1%	8%
Real estate, renting and business services	59%	23%	6%	13%
Education	64%	26%	2%	8%
Health and social work	71%	16%	7%	5%
Other services	54%	27%	6%	13%
Average	53%	28%	5%	15%

Note: 3 000 companies employing fewer than 50 people registered in 2006 were sampled.

Source: GUS (2008b).

EXECUTIVE PLANS AND NEEDS

Industries in which the firm operates and the strategies adopted inevitably depend on its age and size, but also on the resources available, past experiences of the firm and its competitors, current industry situation and the goals of those in charge of the firm's strategy (Cyert and March, 1963; Porter, 1985).

ENTREPRENEURIAL AGENDA

Although as the firm grows, it usually becomes controlled by salaried managers, at the early stages of the firm's development its strategies are dominated by the founder's agenda. Business owners usually decide to establish a firm in order to gain independence and become self-employed (Casson, 1982). Still, although the common sense tells us that "both consciously and unconsciously, small business owners aspire to become bigger business owners" (McKenna and Oritt, 1981, p.22), the harsh reality might simply be quite different from this idealised image of the founder-entrepreneur, who may be deliberately pursuing growth-hindering strategies for a number of reasons.

Some firms "are born small to stay small" (Kolvereid, 1992, p. 221) because their founders do not want to manage too large a company, therefore their strategies actually do not pursue the growth potential embedded in their enterprises. For instance, according to the two already introduced studies on the Polish SMEs, only 20 percent of the surveyed entrepreneurs from the general population of firms expected their firms to grow in size as measured by the headcount in the foreseeable future, while 71 percent of the firms classified as successful expected to grow in size within the following two years (Table 5.).

Table 5. Growth expectations of firms

	Expect to increase employment	Do not expect to increase employment	Expect to decrease employment
Firms from the general population	20%	64%	16%
Profitable firms	71%	25%	4%

Note: 120 firms from the general population and 310 "profitable" firms were analysed.

Source: Janiuk (2004), Łobejko (2008).

Even though the ratio of firms from the general population of Polish SMEs expecting to grow may have been low due to their lack of strategic direction, or the timing of the survey, studies for other countries also find considerable support for the notion that entrepreneurs do not necessarily have firm growth on their own agenda. For instance, according to the results of a Norwegian survey on 242 firms, nearly 40 percent of the interviewed entrepreneurs did not want their firms to grow at all, and nearly two-thirds to grow in terms of employment (Kolvereid, 1992).

Thus, based on the three just discussed studies, it seems reasonable to assert that it is the business owners who have established their firms to stay small, that are responsible for the limited growth aspirations of their firms. The desire to stay small for the sake of maintaining full control over one's actions is further supported by two empirical findings. The first one is the notion that small business owners on average earn less than they could, have they decided to seek employment with another organisation, and only "a handful of entrepreneurs earn substantial returns in self-employment" (Hamilton, 2000, p. 629). The second one is the notion that many underperforming firms do not cease to exist when being run by owners having relatively low performance thresholds (Gimeno et al., 1997).

ATTITUDE TOWARDS RISK

Yet, why is it so that the owner-manager is often so reluctant to pursue growth opportunities? One of the reasons for such behaviour might be his attitude towards the perceived levels of uncertainty and risk associated with his actions. According to the real options theory certain decisions, and especially the irreversible ones, may be postponed due to the presence of uncertainty (O'Brien et al., 2003). At the same time, any decision to grow, both via investments and headcount increases, constitutes a commitment that may be hard to reverse. Thus, every such an action will always depend on the relative utility of the "wait and see option" and decision implementation.

Such relative utility may be best traced using the concept of risk aversion. Assuming that firm growth is indeed linked to a decision to follow an uncertain outcome, in those cases where the owner-manager of the firm is extremely risk-averse, he will always prefer the status quo to any potential wealth or, in the case of our analysis, size changes of his firm in either direction. Thus, he will be very conservative with respect to any potentially risky growth opportunity, often forgoing it.

Moreover, the decision to grow one's business should not be viewed in separation from other activities of the firm's owner. Thus, it is also plausible to assume that the less diversified his wealth is, the higher the level of his risk aversion becomes. In other words, the more dependent as a source of income and storage of value the owner-manager is on his firm, the less willing he will be to risk losing any part of his wealth by undertaking risks associated with the growth of his firm. This notion is supported by the empirical findings proving that concentration of ownership may lead to family-owned firms being managed in risk-averse ways in order to prevent the family from losing one of its most valuable assets, i.e. the firm. Thus, the most risky growth opportunities may be deliberately foregone due to too high ownership concentration, and the risk exposure associated with it (Schulze et al., 2002). Similar conclusions have already been put forward in the literature. According to Fama and Jensen (1985), an owner-manager, being the sole residual claimant of the firm, may not be entirely willing to invest all his wealth into his firm. After a certain investment size has been reached, the entrepreneur has alternative investment vehicles, e.g. financial market instruments, which can provide him with payoffs higher than the marginal rate of return from his company. In addition, investment into a privately-owned company is often deemed by its owners as highly irreversible (Fama and Jensen, 1985).

Also the relationship between the level of risk aversion and the perceived wealth is visible in the case of older entrepreneurs, having shorter planning horizons, and those expecting lower profits. Such entrepreneurs less often accept risks to let their firms grow as compared with their younger, and less content with the current profit and employment size, counterparts (Davidsson, 1989). Therefore, the weaker the reliance on the firm as a prime source of income, and the longer the time-horizon are, the more the owner of the firm will be willing to trade risk for firm growth.

Risk aversion of the owner is once again visible when it comes to hiring external managers to replace the entrepreneur. Since salaried managers have low or even no personal wealth exposure to the value of the firm, it is reasonable to assert that they are more willing to pursue growth opportunities, which by definition are risky ventures, than the owner-entrepreneur would. In addition, let us assume that the notion that external managers are less risk-averse, and in times are even risk-loving, is a well known fact to the business-owners. Hence, we may conclude that a risk-averse owner-manager may be even more strongly inclined not to step down, even despite his possible lack of adequate managerial skills, as he is not only afraid of handing over the control to a manager being himself an outsider to the company, but he is also afraid of the manager's relative risk-neutral, or even risk-taking, attitude.

PRIVATE CONSUMPTION AND FIRM GROWTH

The entrepreneurial self-interest may be another reason for keeping the firm small. According to the agency theory, the owner-manager of the firm is interested in maximising both the value of the firm and his on-the-job consumption (Jensen and Meckling, 1976). This might be reflected in many ways aiming at increasing the manager's utility, like increased personal expenditure. The presence of such behaviours is also visible when it comes to the relations between the owner-manager and his family. Even though during the early stages of the entrepreneurial venture family bonds may support the entrepreneur and his firm, once the firm enters a later stage in its development altruism towards other family members may put their interests above those of the firm (Schulze et al., 2002). For instance, according to a study on the development factors of forty Polish family businesses conducted over 2004–2005, family and firm needs are often not viewed as opposing, but rather as the same. This makes family-owned firms aim at providing income means to the family, or at providing opportunities for personal development of family members, rather than at growth (Sułkowski et al., 2005). Table 6. presents the goals pursued by the managers of family firms, clearly supporting the notion that it is the family and not the firm in family-controlled enterprises that is at the centre of the managers' attention.

Table 6. Family and non-family goals in family firms (percentage of respondents)

Family goals	Respondents	Non-family goals	Respondents
Income to the family	68%	Market entry and survival	33%
Personal development of family members	18%	Market share growth	30%
Job creation for the family	13%	Profit growth	13%
Increased standard of life	8%	Meeting customer needs	10%
Employment stability	3%	Production	8%
Other family goals	5%	Investment	8%

		Other non-family goals	5%
Average	19%	Average	15%

Note: 40 enterprises were analysed.

Source: Sułkowski et al. (2005).

Thus, family altruism results in the owner-manager of a family firm sacrificing its growth and profit opportunities for the welfare of the members of his family. This is even further exemplified by the relative inability to distinguish between firm and family goals and needs reported by the authors of the study.

Similar observations can also be drawn from the research on the CEO succession at family-owned firms in Denmark conducted by Bennedsen et al. (2007). The authors of the study report that in family-controlled firms there is a tendency to appoint CEO-successors from within the family. Such successors have, on average, lower human capital, as measured by the previous executive appointments and the level of educational attainment, than professional managers. As a result, firms with successive CEOs appointed from within the controlling family underperform their peers run by external managers (Bennedsen et al., 2007).

ENTREPRENEURS' BACKGROUND

The study on the Norwegian entrepreneurs finds that the level of educational attainment drives the entrepreneurial willingness to grow. Headcount growth aspirations are reported to be the highest amongst university graduates, and relatively the lowest amongst high school graduates (Kolvereid, 1992). At the same time, the already discussed study on Polish SMEs has also found that in the subpopulation of firms being run by managers with at least a university degree, the ratio of firms with no defined strategy is, at just 16 percent, considerably below the average of 71 percent (Janiuk, 2004).

What is more, when it comes to the general population of the owners of Polish enterprises, 44 percent of them hold only a high school degree, 22 percent a vocational or a primary school qualification and 35 percent are university graduates (Table 7.). Thus, in the light of the aforementioned findings, judging by the level of educational attainment, it is reasonable to expect two-thirds of all Polish entrepreneurs not to be primarily concerned with the growth prospects of their firms. Likewise, the relatively low level of their human capital may also be responsible for the reported lack of strategic direction of Polish firms.

Apart from the attitude towards growth and the strategy making process in general, the targeted industry also seems to be linked to the level of educational attainment of the founder, with high school graduates being the most likely to target the low-growth trade and repairs branch of the economy, which attracts so many new entrants (Table 8.).

Table 7. The level of educational attainment among entrepreneurs (2007)

Year of establishment	Primary	Vocational	High school	University
2006	4%	21%	41%	35%
2005	3%	19%	41%	37%
2004	4%	17%	38%	41%
2003	3%	16%	52%	29%
2002	2%	21%	46%	31%
Average	3%	19%	44%	35%

Note: 417 213 enterprises were analysed.

Source: GUS (2008b).

Table 8. Founder educational attainment and targeted industries in 2006

Industry	Primary	Vocational	High school	University
Manufacturing	7%	27%	41%	26%
Construction	6%	44%	36%	15%
Trade and repairs	4%	22%	48%	25%
Hotels and restaurants	4%	15%	67%	15%
Transport, storage and communications	1%	22%	53%	24%
Financial intermediation	0%	1%	31%	68%
Real estate, renting and business services	1%	5%	23%	70%
Education	0%	3%	25%	72%
Health and social work	0%	0%	18%	82%
Other services	3%	27%	48%	22%
Average	4%	21%	41%	35%

Note: 149 597 enterprises were analysed.

Source: GUS (2008b).

Hence, the relatively low level of educational attainment among Polish entrepreneurs may also play a role in, on one hand, their unwillingness to grow, and, on the other, their relative inability to identify the growing industries and to design and effectively implement competitive strategies.

INHERITED RESOURCES

When talking about the internal barriers to firm growth, the resources at the firm's disposal need to be discussed. Although, throughout its entire lifespan, each and single firm has amassed a different set of resources, all of them can be conveniently classified into one of the three broad categories of physical, human and organisational capital (Barney, 1991). All these resources play different roles at different stages of the firm's development. Initially they allow the firm to increase its bargaining power against the internal and external environments (Holmstrom, 1999). However, as the firm grows, its environments evolve as well. As a result, resources, once useful, may become new growth hindrances.

Such a growth hindering role of resources may be best explained through an analysis of the physical capital of the firm, which is often causing the so-called asset-specificity problems. Asset-specificity problems may arise when a firm instead of investing in general purpose investments, i.e. the ones useful in a broader than just a single-contract or a single-industry context, decides to invest in assets or employment applicable to just one business relationship or market (Williamson, 1987). Firms accept asset-specificity of their investments as a means of obtaining competitive advantage via differentiation (Balakrishnan and Fox, 1993). Yet, even though adoption of such a strategy might be profitable in the short run, it may also cause trouble in the long run, especially when it comes to switching from one industry to another.

Similarly, human capital might also become highly specialised within an industry, or a narrow set of activities. Hence, the more human capital intensive the firm is, the harder it may be to change its orientation from one particular business activity to another. This is due to the fact that people narrowly trained in one profession may not be willing or able to consider a re-orientation in their everyday activities. What is more, apart from limiting the expansion into other areas of business, also any new growth within the current industry may be limited due to an excessive level of specialisation of the workforce, and the uniqueness of the knowledge required by the firm.

Furthermore, firms evolutionarily develop their organisational capital consisting of organisational routines and culture. Organisational routines are the methods of effective behaviour shared by the whole firm and thus can also be viewed as "multi-person skills" (Winter, 2005). Organisational routines evolve in response to organisational considerations, and their application allows the firm to minimise conflicts between its members. Yet, any deviation from the well-known routines leads to the increased levels of tension. Therefore, the best way to avoid the costs associated with the internal conflicts is to stick to the prevalent routines (Nelson and Winter, 2002). This in turn may well prevent the firm from responding effectively to abrupt changes in its external environment, thus precluding it from capitalising on new growth opportunities, and making it more vulnerable to the unexpected threats.

Organisational routines are rooted in the organisational culture. Having a strong organisational culture reduces variability in the firm's performance. This allows for continuity and superior results under stable external conditions, but under more volatile conditions it may reduce the responsiveness to change (Sørensen, 2002). Consequently, organisational culture and routines may in a way become a curse from the growth perspective, as these factors are to blame, firstly, for the firm's inability to abandon the relations of the past, like the former goals and strategies, and secondly, for the unwillingness of organisational members to accept growth.

Therefore, if the firm is endowed primarily with industry-specific capital, what was initially designed to be the driving force behind its competitive advantage may eventually turn into a growth hindrance by preventing the firm from diversifying into unrelated industries. This could happen even if the potential growth prospects surpass the ones available in the related industries.

CONCLUSION

In this article we have analysed reasons why the modern business enterprise may deliberately refrain from pursuing growth-oriented strategies. We have established that many barriers enterprises experience on their growth paths are caused internally rather than externally.

From wrong strategy choices to selection of low-growth industries and markets, firm leaders limit the set of available growth opportunities. They also decide upon the overall growth orientation of the firm. Many leaders are, however, reluctant to let their firms grow. This is especially the case with owner-managers who are afraid of losing control over their businesses, as well as of increasing their risk exposures, for the fear of losing the only source of income they have. Also, the fact that only a third of entrepreneurs are degree-holders may, to a certain extent, be responsible for their inability to plan for growth and to implement growth-oriented policies in their enterprises. Furthermore, we have also established that past industries and business commitments might have resulted in developing specific assets, which in turn may hinder the firm's future expansion prospects by tying up necessary physical, human, or organisational capital in no longer growth-stimulating activities.

In conclusion, even though it is common knowledge that many firms are unable to grow due to the external obstacles to their development, one should be aware that not all firms want to and have the internal resources to grow. Thus, as claimed by our research hypothesis, *apart from the negative impact of the external environment on the firm growth, firms are limited in their growth capabilities from within*.

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APPENDIX

For the correlation analysis of many different size measures we have shortlisted 16 companies from the Warsaw Stock Exchange's Food industry index and 11 banks from the Banking index. Only companies headquartered in Poland, listed on the Warsaw Stock Exchange as of 28th December 2007, present in the respective indexes as of 8th November 2008 and revealing their total headcount as of the end of their financial year have been analysed. Data gathered for the correlation analysis is shown in Tables 9. and 10.

Table 9. Different measures of organisational size (WIG Food industry Index)

Company (2007 data)	Market capitalisation (PLN m.)	Turnover (PLN m.)	Operating Profit (PLN m.)	Total assets (PLN m.)	Headcount
Duda	723	1325.3	54.5	879.7	2498
Indykpol	357.76	725.7	27.3	345.1	1826
Pamapol	542.1	316.2	22.9	458.3	1678
Kruszwica	939.35	1846.4	78.2	1302.3	1630
Hoop	503.91	833.3	47.7	531.1	1254
Jutrzenka	365.77	489.7	83.5	502.6	1223
Mispol	224.48	176.4	12.5	208.8	1095
Beefsan	163.57	260.4	6.5	183	865
Ambra*	255.85	440	12.8	460.9	773
Wawel	413.93	245.2	28.2	210	726
Wilbo	48.76	204.3	3.8	129.8	573
Seko	125.69	93	5	74.3	544
Mieszko	102.17	216.6	10	218.6	519
Makarony	44.59	83.8	2	95.9	416
Pepees	119.34	117.9	1.3	171.6	311
Elstaroil	361.59	381.5	-2.4	392.2	115

Table 10. Different measures of organisational size (WIG Banking Index)

Company (2007 data)	Market capitalisation (PLN m.)	Turnover (PLN m.)	Operating Profit (PLN m.)	Total assets (PLN m.)	Headcount
PKO BP	52 600	9 604.4	3 609.2	108 568.7	30 659
Pekao	59 443.73	7 143	2 582	124 096	22 926
BZ WBK	18 313.03	3 884.9	1 391.4	41 332.1	9 206
Bank BPH	2 986.49	1 131.3	284.6	13 027.5	8 554
ING Bank Slaski	9 432.25	3 540.4	787	52 010.9	8 074
Kredyt Bank	6 383.98	1 962.5	502	27 128.2	6 979
Millennium	9 875.98	2 238	584.6	30 530.1	6 067
Handlowy	13 052.89	2 848	1 034.2	38 908	5 921
BRE	14 955.56	3 140.5	845.6	55 983	4 795
Getin	10 433.87	1 462.14	802.4	19 004	4 291
BOS	1 293.81	577.6	98.7	9 168.9	1 721

Notes: Indicates that the financial year ends in June of the following year; market capitalisation as reported by the Warsaw Stock Exchange (GPW) on 28th December 2007.

Source: 2007 Annual Reports, Warsaw Stock Exchange, Session results – 28th December 2007, available at www.gpw.pl.

ABSTRACT

The goal of this article is to shed new light on the problems of firm development and, specifically, the role of entrepreneurs and managers in driving growth, by showing that firms often do not want to grow. Using deductive reasoning, supported with statistical data on firm and entrepreneurial behaviour, we show that firms are limited in their growth capabilities from within, and that regardless of the perceived rationality of economic agents, their decisions may not be fully explainable from the wealth-maximisation perspective.

Key words: firm, growth, entrepreneur, strategy, resources, needs.

JEL Classification: D22, L21, M21

CZY FIRMY TAK NAPRAWDĘ CHCĄ ROSNĄĆ?

STRESZCZENIE

Niniejszy artykuł poświęcony jest problematyce wzrostu wielkości przedsiębiorstwa, a w szczególności roli przedsiębiorców i menedżerów w kształtowaniu jego ścieżki. Nasze rozumowanie oparte jest na dedukcji wspartej powszechnie dostępnymi danymi statystycznymi oraz wynikami badań ankietowych innych autorów. Przy pomocy tak zdefiniowanego aparatu badawczego pokazujemy, że pomimo racjonalnych oczekiwań, przedsiębiorstwa i przedsiębiorcy w swej działalności często nie są nastawieni na wzrost wielkości firmy.

Słowa kluczowe: przedsiębiorstwo, wzrost, przedsiębiorca, strategia, zasoby, potrzeby.