SUMMARY

GROWTH INTENTION AND VARIANCE OF FIRM GROWTH RATES

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Principal Topic

Why some companies grow, and others do not is a central question for entrepreneurship researchers and practitioners (Audretsch et al., 2014; Gilbert et al., 2006; McKelvie & Wiklund, 2010). *Growth intentions* provide one answer: Intentions and abilities affect entrepreneurial process (Tominc & Rebernik, 2007) and thus firm growth. Yet, evidence shows that the effect ranges from small to medium (Levie & Autio, 2013; McKelvie et al., 2017). This presents a puzzle. First, intention affects human action and owner-managers have agency over their firms. Second, as Levie and Autio (2013) conclude, it is "self-evident that if entrepreneurs do not intend to grow their businesses, their businesses are less likely to grow." (p. 9) Yet intentions are only weakly associated with growth outcomes in empirical data.

Method

We resolve the puzzle with a two-part argument about growth intentions and growth. First, we argue growth intention increase growth is. Second, we argue that too high growth intention lead to failure to grow and even declining over time. We further propose that the inflection point varies between firms based on their growth potential, producing an overall pattern where increasing growth intentions mainly increases the variance of outcomes. We test these hypotheses using longitudinal, survey data from 2,243 Finnish IT SMEs using growth intention scale developed for this study and performance data from firm filings. We test our variance hypothesis by building a mixed effect model with U-shape effect with random slope and intercept.

Results and Implications

Our results indicate that growth intention effect on firm growth varies across firms. We conclude that linear model does not explain the relationship between firm growth and intentions, because the effect becomes negative. This suggests that, like many other phenomena in management and organizational research, growth intentions may subject to the too much of a good thing effect (Pierce & Aguinis, 2013). This conclusion connects with the business term explained by Grove (1996) as "*strategic inflection point*". Surpassing this "point" means that firm's fundamentals are rapidly changing and there is no going back to "business as usual". For practitioners, our study suggests that focusing on the level of ambition and hunger of entrepreneurs and teams might be misplaced unless paired with balanced abilities.