Generalising Theories Explaining the Different Modes of SME Development and the Associated Growth Trajectories

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Abstract

Previous research has identified two forms of “abnormal” growth – styled as business dwarfism and gigantism - which can both lead to missed opportunities for owners/entrepreneurs and local economies, and even to business crisis and collapse. It has also shown that stunted and inflated growth phenomena, rather than being characterised by completely different rules and rationales, are closely related and that certain fundamental structures and processes underpin both those forms of abnormal company growth behaviour. This paper reports an examination of a further SME phenomenon – what we have chosen to call "micro-giants". These are companies that would be categorised as relatively small firms but are actually competing successfully in non-niche markets with much larger firms, or even multinational giants. As such, these firms have grown their sales to significant levels by what might be considered a normal growth trajectory.

Three detailed case studies of micro-giant firms are described. Detailed structures inter-relating the firms’ strategic assets are examined and found to be similar in many respects to those identified for firms experiencing abnormal growth. It is contended that viewing the management of strategic assets as part of the normal business management process, while reflecting that both normal and abnormal growth behaviours can ensue, is a *physiological* approach. This is distinct from the “where things went wrong” or *pathological* approach of the earlier work. This reinforces the validity of the strategic asset management models as tools for understanding small firm growth dynamics

Keywords: *Small Firm Growth; Dwarfism, Gigantism, Micro-giants; Case Studies; Modelling & Simulation*

Introduction

There are many factors that determine how firms develop over time and what form of growth trajectory they exhibit (including no growth!). Some of these are external and concern market conditions, the competiveness within the sector, general availability of finance, and so on, others are internal and concern the ambitions and aptitude of the owners, access to family resources and other similar factors.

There is really, therefore, no such thing as "normal" development for an SME. That said, the literature contains ample material relating to general theories about small firm growth and a number of growth archetypes have been put forward which usually imply some notion of normal growth, typically with a growth curve following an "S" shaped trajectory. A programme of research based on over fifteen detailed case studies and analysis with quantitative models has been investigating patterns of SME development that does not confirm to the steady growth mode following an S curve, and which may, therefore, be considered as "abnormal". The research so far has adopted what might be considered a pathological approach – considering how various distortions or deformities have lead to deeply disappointing outcomes caused by business dwarfism and gigantism. This paper takes a different view to investigate to what extent the analysis can be extended to other small firm growth patterns by using the model structures and processes established in that previous work. This approach involves the study of an organisation's vital processes and the functioning of different internal structures using both diagrams to reflect possible mechanisms and processes, and system models to examine the relationships between structure and behaviour. This might be considered a generic or physiological approach.

Our previous research identified two forms of abnormal growth – what we have styled as business "dwarfism" and "gigantism". These can both lead to missed opportunities for owners/entrepreneurs and local economies, and even to business crisis and collapse. It has also shown that stunted and inflated growth phenomena, rather than being characterised by completely different rules and rationales, are closely related and that certain fundamental structures and processes underpin both those forms of "abnormal" company growth behaviour. This paper reports an examination of a further SME phenomenon – what we have chosen to call "micro-giants". This is where companies that would themselves be categorised as relatively small firms are actually competing, and competing successfully, in non-niche markets with much larger firms, or even multinational giants. Such firms are likely to have access only to modest, small-firm level strategic assets, and possibly operating in many regards like typical small firms (e.g. through close family-owner processes), and yet they have to maintain new product development processes, distribution networks, global materials sourcing, and so on, that are comparable to their giant competitors.

Three detailed case studies have now been undertaken on small firms which are competing with much larger companies, albeit in geographically delineated sectors of markets. The case study firms are in the book publishing, foodstuff, and domestic cleaner product sectors of the retail consumables market. These companies have grown to quite respectable size, though they have arguably now plateaued as their growth is constrained by the geographical areas in which they operate. They have therefore grown steadily and following an S shape growth trajectory, and their development is likely to be considered "normal". Following the detailed examination of these new cases, the structures capturing the inter-relationships and management of strategic assets, as developed in the earlier cases, were revisited to assess to what extent the structures previously identified apply also to the micro-giant situation. The central issue being investigated is that if the structures and decision processes identified in the earlier studies of "abnormal" growth also form the basis for studying the phenomenon of the micro-giant, then they similarly apply to what is argued is normal growth. This would suggest that abnormal phenomena like dwarfism and gigantism and normal growth types like the micro-giants are driven by common structures, and, as such, any outcome could result in a small firm's development simply depending on the balance of pressures on the growth leverage points and thus on how the inter-reactions between the strategic assets play out over time.

If the structures can also explain the drivers of growth in micro-giants and potentially lead to simulations of micro-giant behaviour as created in the earlier abnormal growth studies, then the range of small firm growth phenomena that can be characterised and examined with this approach is extended. This would suggest that the characterisation of strategic resource management in terms of dynamic feedback structures as a single core construct that is able to reflect normal and abnormal growth behaviours is pointing towards a common general theory that can explain how quite different modes of SME development can emerge.

Driving Processes Identified in Earlier Abnormal SME Growth Research

Previous work by the authors has used the System Dynamics methodology to support the various key actors in better framing the systems which generate dwarfism and gigantism behaviours (Bianchi & Winch 2006, 2008, Bianchi et al., 2006). System dynamics is used to map system structure to capture and communicate understanding of behaviour driving processes and the quantification of the relationships to produce a set of equations that form the basis for simulating possible system behaviours over time. The underlying principle is that if process structure determines system behaviour, and system behaviour determines company performance, then the key to developing sustainable strategies to maximise performance is understanding the relationship between processes and behaviours and managing the leverage points.

The earlier work on suggested a set of possible business structures based on feedback thinking and structural diagrams reflecting a resource-based view of the firm (see, e.g., Amit & Schoemaker 1993; Dierickx & Cool, 1989; Warren 2002). The earlier studies of both the dwarf and gigantism phenomena have confirmed that the management of strategic assets, and more specifically the maintenance of an appropriate balance between the assets, is the key to sustainable growth. (Strategic assets is a catch-all term and includes a range of assets or resources critical to the success of a firm.) The emerging models all centre on the building up and decline of key core assets:

- financial assets,
- the quality of products or services,
- customer base, and
- production capacity (e.g. human resources, machinery).

Each of the strategic assets can to some extent be controlled in isolation of the others; however, where there is not balanced growth or coherence in the assets, then firms will likely be unable to grow to achieve maximum potential, or might grow in a non-sustainable way. The generic business structure created is as shown in Figure 1.

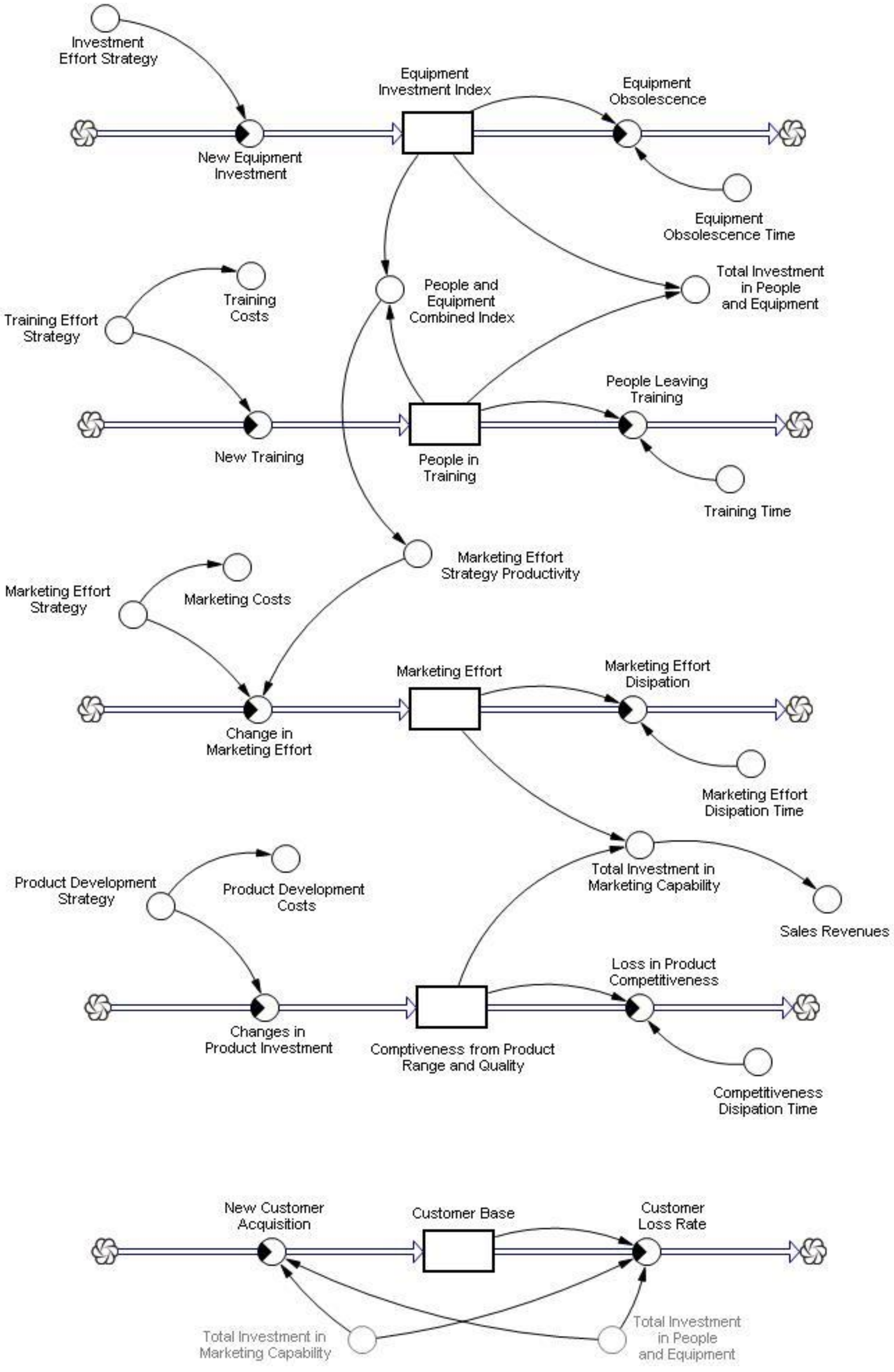

Figure 1: An Integrated Representation of Strategic Asset Management

This stock-flow diagram shows the resource management processes that exist in all companies and controlled to various levels of effectiveness. It has been argued that ineffective control of the balance between the key strategic assets is what has lead to abnormal growth. This interpretation could be viewed as a "pathological viewpoint", taking a definition of pathology that involves (a) The scientific study of the nature of disease and its causes, processes, development, and consequences, (b) the anatomic or functional manifestations of a disease, and (c) a departure or deviation from a normal condition (The American Heritage Dictionary of the English Language, 2000).

Of course, dwarf firms are not firms that fail, but ones which survive and possibly operate reasonably profitably over long periods albeit at a small size and without fulfilling their full potential. That said, the view in the research is that such firms have not grown normally in the sense that they have not gone through the "S"-shaped company lifecycle of start-up, growth, and maturity when they reach natural externally constraining limits to further growth. Similar issues concerning the dynamics surrounding strategic asset management and asset balance also apply in gigantism situations. Such firms have also been considered abnormal in their growth trajectories as over-ambitious growth plans, often prompted by access to growth initiative funding and support, have caused an 'overgrowth and collapse' mode of behaviour whereby the excessive growth has been unsustainable leading to crisis and even demise of the company.

However, it could be that the generic structure identified above can also explain a wider variety of trajectories and be the basis for models that simulate other forms of more normal growth. In this respect the viewpoint is not a pathological one, in the sense that it is focussing on abnormalities or what has gone wrong, but rather is a physiological viewpoint. Using the same authority's definition of physiology (in a biological context): "The scientific study of an organism's vital functions, including growth and development, the absorption and processing of nutrients, the synthesis and distribution of proteins and other organic molecules, and the functioning of different tissues, organs, and other anatomic structures. Physiology studies the normal mechanical, physical, and biochemical processes of animals and plants." (The American Heritage Dictionary of the English Language, 2000).

This paper now examines whether the generic models are applicable to companies that have experienced more normal growth trajectories and can therefore be the basis for a physiological approach to studying SME growth in general.

The Micro-Giants – A Growth Type That is Unusual But Not Abnormal

Small firms that are able to compete head-on with much larger firms in non-niche market places is a relatively rare but not unheard of phenomenon. The literature however typically treats going global and competing against much larger firms as part of the same package. The literature reflects a limited number of semi-detached streams of thinking. The first focuses on how SMEs can leverage their capabilities and compete internationally by joining forces with other firms, either in terms of networking with other SMEs or by partnering with multinationals. For example: Gilmore et al. (2006) evaluated the potential for networking to leverage marketing activity by small firms in the food distribution industry in the UK; Alvarado and Granados (2009) considered specifically how the "multi-enterprise tie" allows smaller firms to have a stronger position when negotiating with large firms in Mexican agro industry SMEs; and Coro and Volpe (2004) observe the particular role of SMEs in "complementing the strategy and technological supply chain" of large multi-national firms.

The importance of SMEs in many economies, and that, consequently, there is a need and even responsibility on government agencies to support SMEs' competitive resource building is a second stream. Lee (2007) commented that many SMEs that are playing leading roles in national industries are now faced with opportunities of increased overseas markets alongside the challenges of decreased domestic markets due to the expansion of free trade agreements. However, it was also remarked that it is not easy for SMEs to compete with multinational companies in this respect, as they have comparative disadvantages in terms of finance, manpower, technology and overseas marketing, and appropriate support from the government and self-rescue efforts of SME themselves are essential requirements.

Relatively few articles focus on the internal management processes of firms that are attempting to compete with much larger firms. Winch and Gill (2003) looked at high technology small firms and discussed how adopting a deep niche strategy – operating in a small, specialized and defendable niche markets – enables them to remain competitive in the face of much larger firms with huge R&D budgets. Other research typically takes a resource-based view and advocates the building of internal resources and capabilities by SMEs to generate sources of competitive advantages (Maranto-Vargas & Gómez-Tagle Rangel 2007). Vagadia (2009) advocated the use of outsourcing by SMEs as a way of boosting their competitive resources (though this is hardly a surprising conclusion as he is the CEO of a specialist outsourcing company. Banks are also urged to develop their internet platforms so that they can then support SMEs with international trade services to help them to become global (Fromatim 2007).

Of particular interest in this paper is a specific category of small firm that we call "micro-giants". The term micro-giant is used here explicitly to signify a slightly different concept from that of the small giant (Burlingham 2005). Small giants are considered as private companies whose owners have not only financial (such as EBITDA) or growth targets, but also a number of non financial goals, such as having great relationships with suppliers, providing good personalized service to customers. Such companies often do not have a professional management and rely fully on their owners' capabilities, intuition, flair for business and personal contacts. Such companies have also intimate relationships with the local community (e.g. city), so that they become a model for the local citizens. Also their internal environment provide an intimate workplace. Most small giants have a local geographic area and consist of individual units, e.g. restaurants, hotels, or handcraft workshops.

The term micro-giant does not just relate to the company per se, but specifically the position of the firm in relation to its main competitor(s), which is or are much larger, often multinational, firm(s) in a non-niche and non-local market. The firm can be viewed as a "giant" since it is successful in spite of the competition of much larger firms, and because of its own much reduced size in comparison to the competitors means it can be also defined as "micro". From Table 1 it is possible to observe that our definition of micro-giant firms has a number of factors in common with the existing definition of small giant, but actually the two concepts are not the same.

	Micro-Giants	*Small-Giants*
Type of company (property)	Private	Private
Company Age	Mature (at least 2nd generation)	Not necessarily old or mature (also 1st generation firms)
Focus of analysis	Comparison firm in relation to competitors (*giant*)	Mainly an internal analysis of the firm to understand its structure and processes and associated effects on performance
Ownership vs. management	They may lack of a managerial structure. Significant weight of the owner in management decisions	Lack of a managerial structure. Significant weight of the owner in management decisions
Market	Non-niche	Niche or Non-Niche
Geographic scope of activities	Non-Local	Local and non-local

Table 1: A comparison between micro-giants and *small giants*.

A non-evolutionary approach characterizes our view to the micro-giants phenomenon. According to the evolutionary model (Greiner, 1997), growth is seen as a necessary step in order to allow a firm to survive over time. However, empirical evidence shows examples of SMEs competing against much larger (often multinational) firms, whose owner-entrepreneurs have decided not to pursue their own firm's growth.

There are examples of micro-giants which are successful in their non-niche markets and their own competition against much larger firms. This is a relatively rare situation but one that is a "normal" pattern. Such a "normal" pattern mirrors a parallel normal pattern of behaviour relating to a typical firm that grows from an initial small size to a medium, to move towards a large size, maybe eventually to become a multinational firm.

From the following Figure 2 it is possible to note how both giants and micro-giants have a similar profile of growth. In fact, such growth can be depicted through an s-shaped curve. However, while a giant firm has dimensional growth targets and aims to increase its size over time, a micro-giant has more qualitative goals. The difference between the two is captured in the figure by the "gap in size".

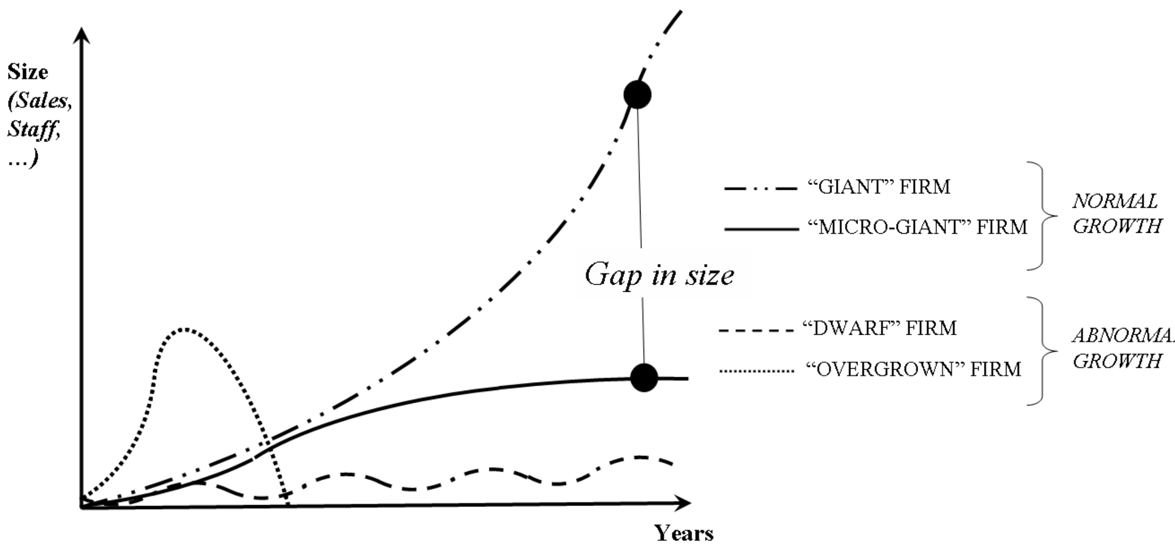

Figure 2: Trajectories defining Normal and Abnormal Growth

Three Case Studies of Micro-Giant Firms Growth Development

Three specific companies have been investigated through in-depth case study analysis. All three compete at the national level or supra-nationally, exclusively or largely in Italy, in non-niche markets, and all have to compete against much larger firms that are positioned internationally in the business sectors. In each case, detailed maps of their strategic resources and the inter-relationships between have then been developed using the generic structure in Figure 1 as a template.

Sellerio Case

Sellerio is a publishing house sited in Palermo (Sicily, Italy). It was founded in 1963 by the Sellerio family, which envisaged business opportunities in the then cultural context. In particular, well known Sicilian writers as Leonardo Sciascia and Antonino Buttitta supported the spirit of such enterprise. Initially, Sellerio decided to position itself in a 'peripheral' market niche since the core topic of its editions was represented by light and elegant publications, disengaged and far from the heated political debate of those years. In fact, at that time, Sellerio's volumes were all characterized by graphical elegance and contained engravings and pictures provided by important illustrators. The main authors edited by Sellerio came from the Sicilian literature tradition and other European quality niches. All Sellerio's collections consist of light stories, novels, essays and detective stories.

The small size of the publisher – in terms of geographical market boundaries - was maintained until the end of the 1970s when the book 'L'Affaire Moro' by Leonardo Sciascia enjoyed great, but unexpected, success among Italian readers that Sellerio was launched toward a national market positioning. As a consequence, in the world of publishing Sellerio began to represent a small and peripheral entity which, by focusing on its writers' skills and on the related quality of its book production, was successful in the market and, even, began to be able to compete with larger-sized companies. Such success was also sustained by maintaining publication style with original and distinguishing graphics: 'pocket' books with elegant design in terms of colours and covers. This format has always identified Sellerio's books in libraries and book shops and, therefore, has strongly contributed to the continued improvement of the image of the publisher in the national eye. Further, the adoption of this design-lead format has allowed Sellerio to sell its books at lower prices compared to its competitors which instead have maintained a ‘classic’ book format (hard covers, larger pages size, etc.). And, of course, lower prices correspond to higher selling volumes. During the 1980s, other writers have enriched Sellerio’s collections but, particularly, Gesualdo Bufalino who in 1981 – with the book ‘Diceria dell’untore’ – won the ‘Campiello’ prize and, in doing so, consecrated Sellerio at a national level.

In the following years, the publisher has continued to compete successfully in the market by acquiring copyrights of important writers but still conserving its familiar approach to management and its small size. Particularly, Andrea Camilleri represents one of the most relevant and world internationally known writers that Sellerio publishes. Nowadays, the Sellerio business model is unchanged and the company still succeeds in defending its market share from ‘giant’ competitors.

A ‘Micro-giant’ in the Book Market

The above introduction highlights how Sellerio evolved since its foundation and particularly, how it emerged that the publishing house has all the features for it to be considered a ‘micro-giant’, as defined in this work. In fact, the direct managerial responsibility of the owner-family, the small number of employees, the peripheral position of the firm, define a small-sized enterprise. On the other hand, successful results in terms of sales performance –attested by its long presence in the market – support Sellerio to compete on a day-to-day basis with ‘giant’ enterprises. Specifically, the main competitors are: Mondadori, Feltrinelli, Rizzoli and Gems Group.

Strategic assets

The main strategic assets that represent the foundation for the long survival of Sellerio in the book market are:

- *Successful writers’ copyrights*: the importance of intellectual capital for the success of enterprises has been remarked by several authors. In this respect, Sellerio has demonstrated a strong inclination to discover and explore the hidden potential of unknown young writers that, due to the nurturing of their skills, have been pushed by the publisher toward success and popularity. Finally, successful writers allow publishers to increase their reputation among distribution channels which will then provide increased shelf-space to such profitable products, contributing further to improving the firm’s positioning in the market.
- *Edition quality and graphics*: quality of the product and graphics are considered significant drivers to clearly identify collections and books (Barnard, 2005). In fact, this factor and a high firm’s reputation represent distinguishing features that encourage customer s to purchase a publisher’s books just by looking at the covers, even when potential customers do not know the authors or topics.
- *Sales promotion*: more than a strategic asset, sales promotion is a marketing tool to strongly encourage the demand of a given product (Stanton, 1981). In this case, Sellerio has always had the ability to produce its books at low costs (pocket, soft-cover format, etc.) and this has led the publisher to frequently compete by lowering books prices and promoting discount campaigns, and this has therefore represented a significant driver for its success in a market where also price is a crucial success factor.

Dynamic Explanation of the Sellerio Competitive System

The System Dynamics approach now allows us to investigate the reasons behind the success of a 'micro-giant' such as Sellerio. This will be possible by linking strategic assets and relevant variables of the competing system in cause-and-effect relations.

The model structure – introduced in Figure 3 – shows five feedback loops: three reinforcing loops whose dominance may produce an exponential behaviour of key-drivers, and two balancing loops which tend to counteract such effects. In particular, Financial Resources play a significant role: they positively influence the amount of Investments in Intellectual Capital and Editing Quality which directly feeds back into both the acquisition of Successful Writers Copyrights and the Quality of Editions and Graphics. The first affects the books' sales display or Exposition in Book Shops due to the changing demand of those goods;, the latter impacts on the Customer Satisfaction in the same direction which, together with the exposition space dedicated to Sellerio's books, eventually changes the firm's Customer Base (R1, R3). As mentioned previously, the company will seek to acquire publishing contracts with successful writers, which can be achieved in two ways: (1) by purchasing copyrights of already well known writers (attraction), and, (2) by discovering young unknown writers and, then, purchasing their copyrights (selection).

Financial Resources also represent the main driver that allows Sellerio to plan Sales Promotions by introducing them in its annual budget. Of course, discounts and promotional activities positively influence the demand of Sellerio's books – measured by the entity of its Customer Base – which, therefore, feeds back again into Financial Resources (R2).

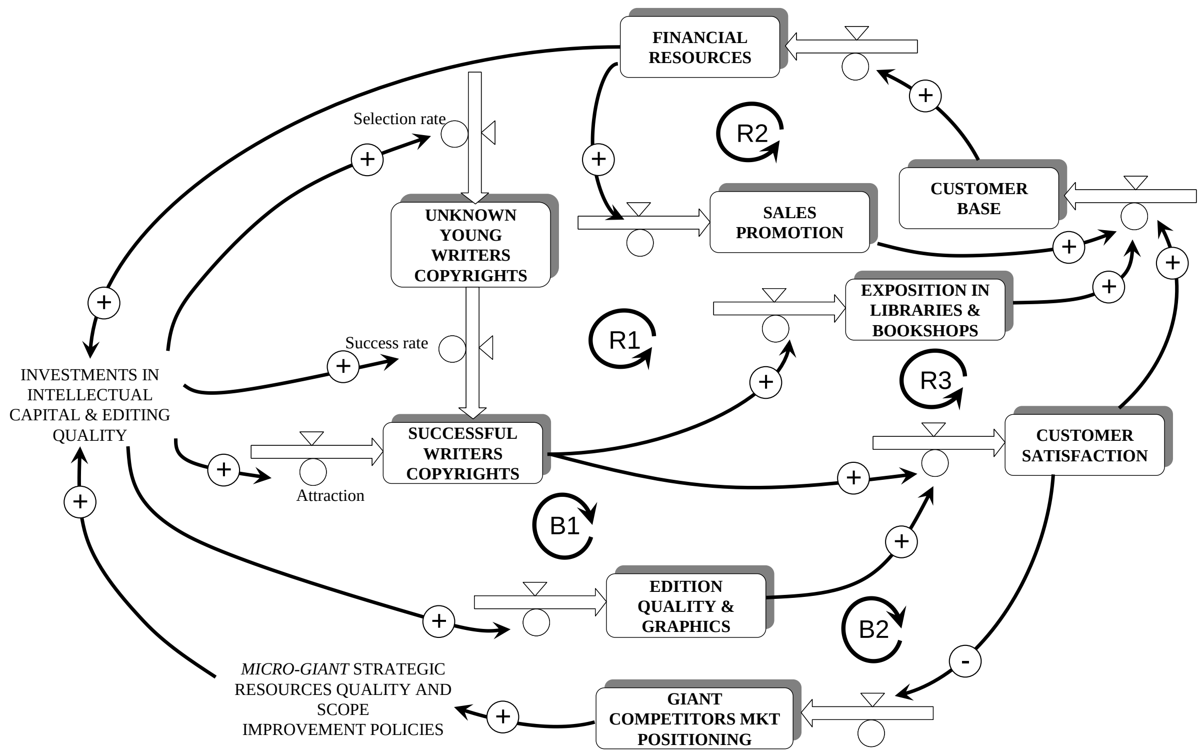

Figure 3: The basic competitive feed-back model of Sellerio

On the other hand, balancing feedback loops determine the connection between Sellerio and its competitors. Sellerio's Customer Satisfaction affects the Positioning of its 'Giant' Competitors in the market, but in an opposite direction compared to the customer base. In other words, the positioning of competitors is weakened whenever the customer satisfaction of Sellerio increases, and conversely is strengthened whenever it decreases. Logically, the positioning of competitors, *ceteris paribus*, causes changes in Micro-Giant Strategic Resources Quality and Scope Policies, which in turn directly affect Investments in Intellectual Capital and Editing Quality.

As above seen, such investments feed back into both the acquisition of writers' copyrights (B1) and the quality of editions and graphics (B2), which again influence the customer satisfaction of the publisher.

Zappalà Case

Zappalà is a family-owned company that was established in the year 1973 to produce typical Sicilian cheese, such as mozzarella, ricotta and other kinds of cottage cheese.

The first laboratory – that still represents the firm's headquarters – was built in Zafferana Etnea, a small village situated at the slopes of the Mount Etna in Sicily. Since the beginning, production quality, product genuineness, customer service and advanced logistics technology have been the main drivers for the firm's development.

During the 1980s, the company accelerated its growth by building new plants and increasing the whole production capacity. This encouraged the firm to reinforce strongly its commercial presence in both the Sicilian and Calabrian markets, becoming one of the major cheese providers of the main supermarket chains operating in these regions (e.g. Auchan, Carrefour, Conad, Coop, Sma, Despar, Pam, etc). By the end of the 1990s, supported by the increasing financial performance, the aspiration to enlarge its product portfolio had led the company to produce and market milk, frozen food and preserves as well as the cheeses.

The extraordinary growth of the firm has been testified by the increasing acquisition of market share both in regional and national contests. This has required Zappalà to compete directly with a multinational firm Galbani (Lactalis Group), which is still the market leader. Galbani is a much larger firm than Zappalà: the ratio between the two firms – in terms of only milk production volumes – is 15 to 20. Today Zappalà, whose equity owning family has reached its second generation, owns three production plants (Zafferana, Caltanissetta, Butera) and a refrigerated warehouse (Cernobbio, in north Italy, near Como); there are approximately 250 employees and the company is undertaking a globalization process by exporting goods outside of the Italian market (Japan).

A 'Micro-Giant' in the Food Market

Though the above figures could be related to a medium-sized – rather than a small company – according to the *qualitative* perspective suggested by the Bolton Report (Bolton, 1971), Zappalà also displays all those features of a 'small' company, which (again according to the Bolton Report): 1) hold a modest market share; 2) are personally managed by owner-entrepreneur(s); and, 3) are independent from other companies or holdings. In particularly, the founder of Zappalà and his family have always had the direct responsibility of managing both internal and external activities. The entrepreneur's personal contacts, experience and charisma have being playing a crucial role in the company growth processes since its start-up. However, today the lack of a professional management is becoming a limiting factor, because of the increasing volume and scope of activities. Therefore, today the firm may be regarded as in a transition phase. Until now, the owner-entrepreneur has tended to be reluctant to delegate managerial tasks and to adopt control systems and recruit executive staff more suited to the new requirements of the firm, and decision-making processes are essentially led by the personal intuition of the owner-entrepreneur (Bianchi, 2002).

On the other hand, due to the development of its strategic assets, Zappalà has consolidated its position in the food market and is thus today competing with multinational enterprises. This is despite its restricted size and related problems, e.g.: limited access to financial and other strategic resources, modest opportunities to gain economies of scale, and reduced bargaining power compared with suppliers. Last, but not least, some diseconomies in the company profile can be related to its geographical positioning, due to the higher distribution costs (in comparison with many other 'giant' competitors), associated with the lack of logistical infrastructures in Sicily.

Strategic Assets

The basic strategic assets (Bianchi et al., 2004) that Zappalà has developed over time represent the key drivers that drove the company to the success in the food market, at least until 2006. They are:

- *regional attributes of products*: Sicilian food traditions are appreciated all over the world due to their positive effects on health ('Mediterranean diet'); all kinds of cheese reflect traditions and tastiness of the Sicilian food;
- *quality of products and production processes*: high quality standards are guaranteed by selecting high quality and authentic raw materials and strictly controlled processes. Zappalà has also reached and maintains several certifications for food quality (ISO14000, ISO22000, BRC - Global Standard Food, Ecocert Italia, IFS – International Food Standard).
- *customer proximity*: in order to beat larger competitors in the delivery time to many villages in the Sicilian and Calabrian markets, the firm has used refrigerated trucks (which were labelled in the company jargon as 'travelling warehouses')to distribute its products to local supermarkets and small shops with the intent to persuade perspective clients to purchase their product, by competing on price and product quality. Such a system has involved a rapid growth of customers confidence and satisfaction and, consequently, of sales turnover. Due to the increased size of the company, such service has been outsourced since 2008.

Besides these primary strategic assets, *collateral* strategic assets have been developed and supported through the gradual consolidation of *basic* assets over time. Among these, the most relevant is the reputation of the firm. Such an asset has been built by taking care of customer satisfaction, by brand management, and also through intensive advertising. In particularly, advertising campaigns have been characterized by novelty and originality which have successfully contributed to increasing Zappalà's brand standing.

Dynamic Explanation of the Zappalà Competitive System

In order to understand the reason why Zappalà competes successfully in the food market, we again look to linking its strategic assets in cause-and-effect relations to consider dynamic behaviours. The emerging model – introduced in Figure 4 - shows four feedback loops (two reinforcing and two balancing) which outline critical dynamics of the Zappalà competitive system.

Both reinforcing loops (R1, R2) emphasize those feedbacks which essentially regard the strategic framework of the firm. Specifically, they show how Financial Resources support investments in Advertisement, which in turn sustain Brand Positioning and, eventually, the Company Reputation; this again feeds back into Financial Resources (R1). On the other hand, Product Quality directly influences Customer Satisfaction, i.e., the main driver to maintain and enlarge the Customer Base. The Customer Base in turn generates sales revenues and, consequently, ensure once again Financial Resources to the firm.

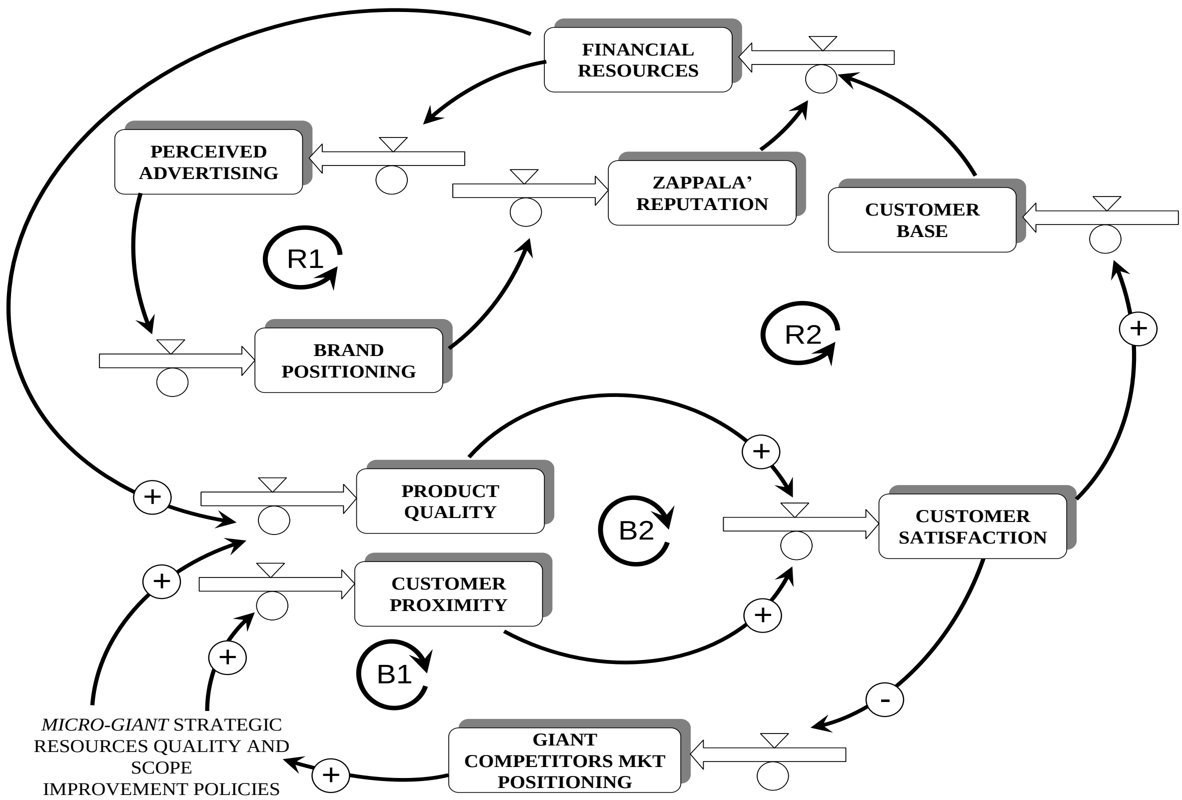

Figure 4: The basic competitive feedback model of Zappalà

Further, balancing loops (B1, B2) restrain the exponential behaviour originating from the above reinforcing loops and, in doing so, take into account market interactions between Zappalà and its competitors. In this case, the satisfaction of Zappalà customers affects in an opposite way the of its ‘Giant’ Competitors’ Mkt Positioning which induces owner-entrepreneurs to focus strategies to improve such significant strategic assets as Customer Proximity (B1) and Product Quality (B2), which definitely support the firm Customer Satisfaction.

Recent Evolutions

As previously discussed, Zappalà is now facing a transition phase. After more than twenty years of growth, the company has gradually reached a significant level in terms of size, number of employees and sales. However, this has not changed the way the firm is managed, both in terms of Board and of strategic conduct. Recently, this has been causing rigidities in adapting to market changes and other contingent needs linked to the firm’s growth. Further, the operative/organizational setting of Zappalà has basically remained similiar to its original formulation, that is, without significant innovative changes and adaptations to market evolution.

In 2008, in order to successfully face such difficulties, the Zappalà family decided to reorganize and rationalize its business activities by adopting strategies more respondent to the new features of the market. In particularly, such processes are being assisted and supported by CAPE Sicilia S.p.A. – a company that operates in private equity business – which has created a strategic alliance with Zappalà, and this has allowed the access of CAPE to decision making processes. In this regard, the Zappalà Board has modified its composition by introducing new members - selected by CAPE on the basis of their experience on food market – and a team of external consultants charged with designing new competitive strategies.

Their objective is to re-orientate the firm toward sustainable levels of profits and to retain competitiveness versus its competitors. To do so, management aims to:

- re-focus the firm onto its ‘core business’ (mozzarella and cheese production);
- provide more support to the most profitable sales’ channels (Sicilian market);
- rationalize promotion and discount policies;
- re-organize internal processes and functions to increase efficiency;
- activate ‘cost saving’ procedures by emhancing the control system of the firm.

Kemeco Case

Kemeco is a chemical industry located in Palermo (Sicily, Italy). It was established during 1970s by the founder, Pietro Murania, who is still the CEO of the firm. The company name comes from the combination between two words – ‘chemistry’ and ‘ecology’ – so to underline its business philosophy oriented to develop and sell products by combining scientific laboratory research and environmental care.

Since its foundation, the core business of Kemeco has been represented by the development and the production of detersives and detergents for domestic cleaning. The industrial plant consists of two groups of laboratories and technical offices which stands on a two hectares area in the peripheral zone of the city. On the other hand, product distribution is carried out in both Northern and Southern Italy through two warehouses, located near Brescia (Lombardy) and Palermo. Kemeco employs about 70 workers and in recent years has reached a sales volume of approximately Euro 20 millions. The firm’s customers are the multinational supermarket chains (e.g. Auchan, Carrefour, Conad, Coop, Crai, Sma, Sigma, Despar, Pam, Standa, Esselunga, GS, etc.) as well as small retailers.

The first products launched in the market were represented by toilet detersives (Rio Azzurro label) and scented detergent ammonia (Rio Casa Mia label); despite of a hard competition within the cleaning products sector, in a short length of time such products involved a rapid growth of Kemeco in terms of both sales and market share. On this concern, the successful market penetration of the company has been always supported by original and memorable advertising campaigns which have allowed Kemeco to clearly distinguish its products among a glut of goods on the market and to rapidly gain new market shares in the national context. Furthermore, the focus on production quality and environmental care – also testified by ISO 14001 certification – have characterized the whole company growth experience.

The entrepreneurial spirit and commitment of the founder is a critical driver for the competitive success and has led the firm to diversify the product portfolio by investing continuously in Research & Development (R&D), innovation, new technologies and production capacity. As a result, supported by increasing brand loyalty and customer satisfaction, Kemeco has developed new products so to cover every household cleanliness needs; in addition to toilet and floor detersives, the development of dishes and laundry cleaning products has reinforced the competitive advantage of the firm. Nowadays, as a well-established competitive strategy, Kemeco tries to understand in advance consumers' needs and, consequently, to respond timely to market opportunities by developing and launching innovative products. As described in the next section, such approach has led the firm to successfully deal on the market among Giant competitors.

A 'Micro-Giant' in the Household Cleanliness Products Market

As discussed above, Kemeco is characterized by a small size in terms of staff employed and plant size. The company is also located in a peripheral position of Europe, characterized by logistic criticalities, and is managed as a small family-owned enterprise. Nevertheless, due to a successful managerial approach, its extraordinary growth has led the company to compete in a worldwide arena, which includes both national and multinational enterprises characterized by a huge size and advantages in terms of economies of scale, access to markets and strategic alliances with suppliers and credit institutions. In particularly, Kemeco's main competitors are: Colgate-Palmolive (Ajax label), Unilever (Cif, Svelto, Lysoform, Coccolino), Procter & Gamble (Dash, Ace, Ariel, Swiffer, Viakal, Mastro Lindo) and Henkel (Dixan, Bref, Vernel, Nelsen)[1]. In the light of the above considerations, Kemeco is doubtlessly identifiable as a Micro-Giant firm.

Strategic assets

The most significant strategic assets which determine the success of Kemeco in the household cleanliness market are:

- *Corporate image:* since the launch of its first product in the market, Kemeco has been focused on marketing investments and in improving its communication strategies, in order to empower its product labels and increase brand loyalty among customers. Concerning this, a large use of advertising campaigns – both on TV channels and journals – has been carried out and has made the firm brands well-known in the market. Kemeco commercial advertisement is characterized by creativity, originality and mass media impact. Together with products quality acknowledgement, such advertising 'bombardment' has strongly increased the corporate image of Kemeco which still represents a critical strategic resource for the competitive success of the firm.
- *Founder's entrepreneurial capability:* the establishment and success (or failure) of each enterprise – especially those which are family-owned – strictly depend on the founder's skill to discover market niches where to introduce products. The founder's key-role is specifically emphasized in the start-up phase of the firm, as well as in the first years of entrepreneurial growth. In the Kemeco case, after more than twenty years since its establishment, such role is still crucial

[1] Sales volume of Kemeco's competitors (2009): Colgate-Palmolive 15,327 Ml/$; Unilever 39,823 Ml/€; Procter & Gamble 79,029 Ml/$; Henkel 13,573 Ml/€.

in both the internal organization of productive processes and the external relationships with market actors (suppliers, customers, credit institutions, Public Administrations, and other stakeholders).

- *Innovation and know how:* besides marketing activities, Kemeco allocates a substantial part of its strategic investments in R&D and innovation, in order to continuously renew its production. Therefore, the firm has developed a consistent know how in experimenting and producing chemicals and ecological detergents. This has contributed in providing high quality standards to Kemeco products. Its laboratories today represent an essential strategic asset to face the market competition.
- *Product portfolio diversification:* related to innovation and know how development, product diversification has characterized the successful survival of Kemeco during its life. In fact, by launching different lines of cleaning products (toilet, floor, laundry, and dishes) and a multiplicity of versions for each array, Kemeco has covered the whole hemisphere of household cleanliness needs, and, in doing so, has also met satisfaction and loyalty of customers.
-

Dynamic Explanation of the Kemeco Competitive System

The emerging model – displayed in Figure 5 – makes explicit those cause-and-effect relationships which dynamically determine the growth shape of Kemeco as a Micro-Giant firm.

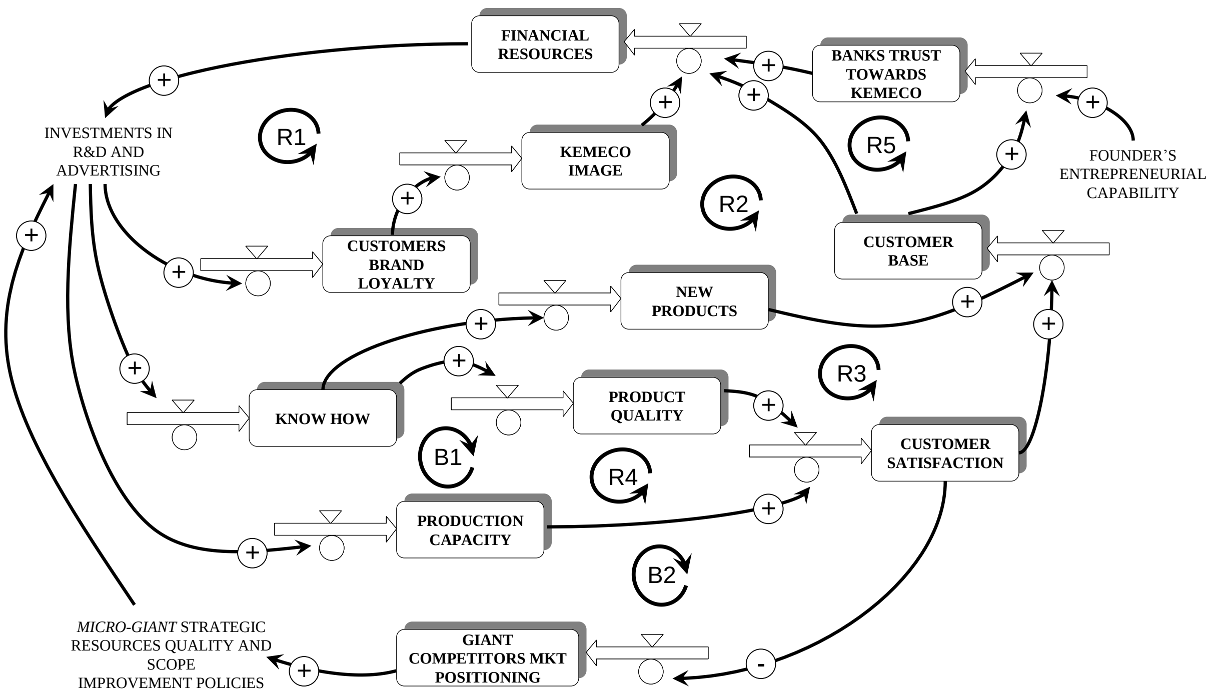

Figure 5: The basic competitive feedback model of Kemeco

Specifically, it consists of five reinforcing and two balancing loops. Financial Resources feed all reinforcing loops. They allow Kemeco to invest in R&D and Advertising, which - on the one hand - determine an increase of Customers Brand Loyalty and, consequently, the strengthening of the firm Image. This impacts again on Financial Resources (R1). Financial Resources also affects Know-How: an increase in Know How raises Product Quality and New Product versions or lines. The former raises

Customer Satisfaction (R3), while the latter enlarges the firm Customer Base. Logically, an increase in the Customer Base *ceteris paribus* enlarges Financial Resources (R2).

In addition, an increase in both the Customer Base and Founder's Entrepreneurial Capabilities determine an increase of credit institutions Trust towards the firm, that is, banks will be favourably disposed to sustain Kemeco investments by lending money (R5). Likewise, Investments in R&D are also responsible for increasing the firm's Production Capacity which, consequently, stimulates its Customer Satisfaction, as it is possible to see in loop R4.

On the other hand, balancing loops (B1, B2) display how Kemeco interacts with its competitors in the market. In fact, Investments in R&D and Advertising determine an increase in both Know-How (B1) and Production Capacity (B2) which feed Kemeco Customer Satisfaction. Since a negative relation between Kemeco Customer Satisfaction and the Positioning of its Giant Competitors in the market exists, an increase of the former generates a reduction of Competitors Market Shares and *vice versa*. This also implies changes in Micro-Giant Strategic Resources Quality and Scope Policies, which positively affect firm's Investments in R&D and Advertising.

Critical Drivers in Micro-Giant Growth and Competitiveness

The prevailing explanation model for a "giant" firm can be related to the dominance of a reinforcing (i.e. growth oriented) loop that is – in the long run – subject to a balancing (i.e. stability oriented) loop [see Figure. 6].

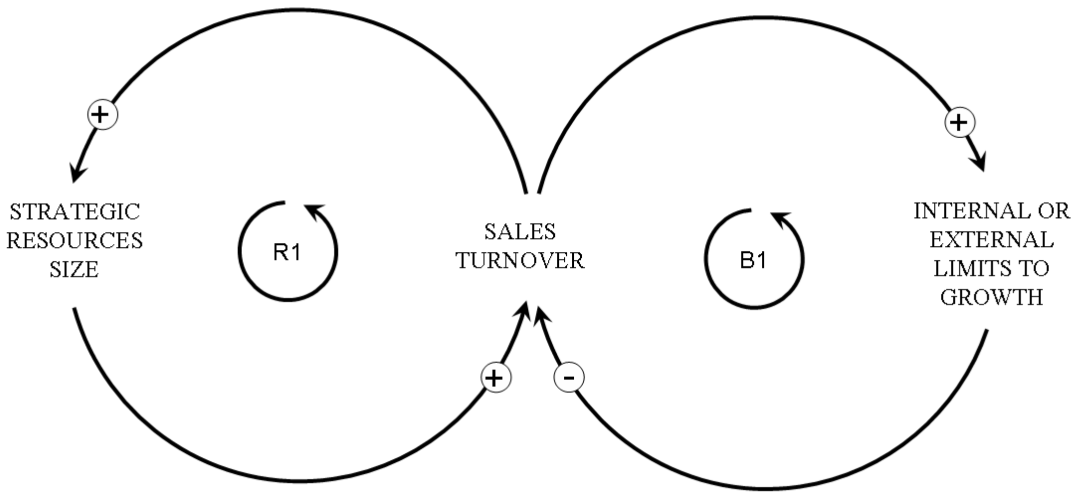

Figure 6: Dimensional Growth in a *Giant* firm (associated with Cash Flows Reinvestment to build Strategic Resources) and related limits.

The structures above as applying to normal large firm growth can be paralleled for micro-giant firms as in Figures 7-a and 7-b.

If we consider the phenomenon on a dimensional viewpoint only, the prevailing explanation model for a micro-giant relates to the dominance of balancing loop. This is because the strategy of a micro-giant firm is to pursue a stable volume of activities and sales turnover (see fig. 7-a). In these terms, a micro-giant could be modelled through similar generic structures to a dwarf business. The difference between the two is that, while the logic of ruling balancing loops is dominant for all strategic resources in a dwarf business, for a micro-giant the balancing loop is around the desired level of sales turnover or other dimensional size.

The loop B1 in this structure depicts the adjusting processes which characterise dimensional growth in a micro-giant firm: the company increases its investments in strategic assets only if it detects a discrepancy between a desired and actual sales turnover (or other relevant dimensional factor). The perception of such discrepancy generates an adjustment and (maybe after a delay) an increase in the mix of strategic assets (in terms of size, i.e. the quantity or volume, such as for instance, hiring more staff or increasing production capacity). This generates a higher sales turnover, and reduces the perceived gap. This is a typical goal adjustment behaviour.

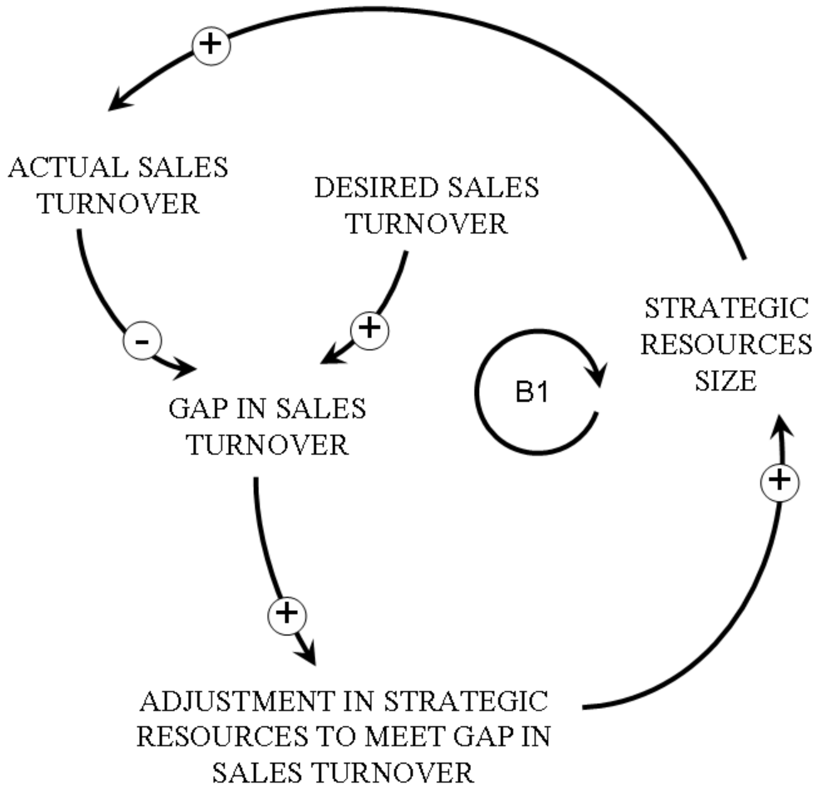

Figure 7 - a: Main loop associated with dimensional growth factors in *micro-giant* firms.

On the other hand, a hidden reinforcing loop may explain the success of the same hypothetical micro-giant firm in its market. Such a reinforcing loop (R1) is fuelled by the learning process (generated both inside the firm and by the interaction of the firm with its stakeholders, and other actors in the competitive system) from the constant pursuit of an improvement of strategic assets quality and scope. Quality is here meant as an opposite concept to the previously mentioned concept of “size”. In this case, the main concern is about increasing the level of knowledge (rather than merely staff) or the symmetry between strategic assets and a group of customers’ expectations in a wider market where a giant operates, or even keeping high the strategic assets consistency, etc. Though such a reinforcing loop in qualitative growth does not determine a quantitative growth, it is a primary factor explaining a sustainable growth for a micro-giant.

In Figure 7- b the balancing loop B2 shows how a higher product/service quality perceived by customers, a better brand positioning and improved micro-giant firm image reduces the giant competitors’ relative competitive advantage.

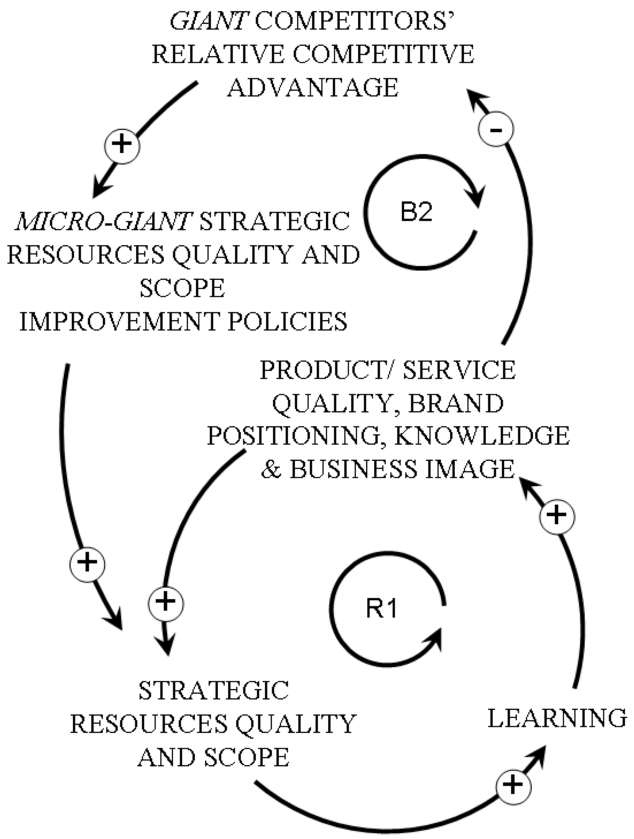

Figure 7 - b: Main loops associated with qualitative growth factors in *micro-giant* firms.

Like dwarf firms, the basis for micro-giants strategic development is the search for stability in their size and on a proper management of a balanced and consistent set of strategic resources. The main difference between micro-giant and dwarf businesses is linked to the constant search for qualitative growth, fuelled by learning processes that characterise the former kind of business. Such a difference allows micro giants to excel in their own markets and directly compete with much larger firms. Table 2 provides a synthesis of the above thoughts.

	NORMAL GROWTH		ABNORMAL GROWTH	
	GIANT FIRMS	MICRO-GIANT FIRMS	DWARF FIRMS	OVERGROWN FIRMS
REINFORCING LOOPS	Quantitative & Qualitative growth	Qualitative growth	N.A	Quantitative growth
BALANCING LOOPS	N.A	Search for size stability	Search for size stability	N.A

Table 2: Dominance of Feedback loops characterising business 'states' in normal and 'abnormal' growth.

Commonalities in Abnormal and Normal Growth Modes

The three cases are all typical examples of stable growth, compatible with financial sustainability principles. As a general issue too, for a micro-giant firm to be successful, entrepreneurs must be aware of the internal sustainability of growth. Possible limits to growth could be related to finance, such as in the Zappalà case. In other cases internal limits to growth are related to the entrepreneur's time or to lack of qualified managers. Ignoring such potential limits to growth may create crisis, even for a successful micro-giant firm. This condition is very close to that of overgrown firms and similar to that of those dwarf companies that have been called *bonsai* and *rickety* (Bianchi et al, 2004). Both kinds of dwarf firms are characterised by an entrepreneur's inclination to change the status quo, i.e. to pursue dimensional growth. They differ since while bonsai firms have a balanced set of strategic assets, rickety firms have an unbalanced and weak strategic assets profile.

Like both the *bonsai* and particularly the *rickety* types of dwarf firm, micro-giants can fall into a crisis if the entrepreneur seeks too fast a growth rate. In a sense, it is possible to assert that when a micro-giant firm undertakes a too fast and intensive rate of growth, in respect to its set of available strategic assets, its profile becomes similar to that of overgrown firms, characterising the gigantism phenomenon. This is similar to what happens to dwarf businesses growing too fast: the cause of their crisis is the same: lack of a balanced level of strategic assets to sustain growth. This concept is shown in Figure 8: on the left hand side we have a physiological state (normal and abnormal growth, for micro-giants and dwarf businesses, respectively) where a study of business processes in stable operation is appropriate; on the right hand side we have a pathological state (abnormal growth associated to gigantism) where things have gone wrong and crisis has emerged.

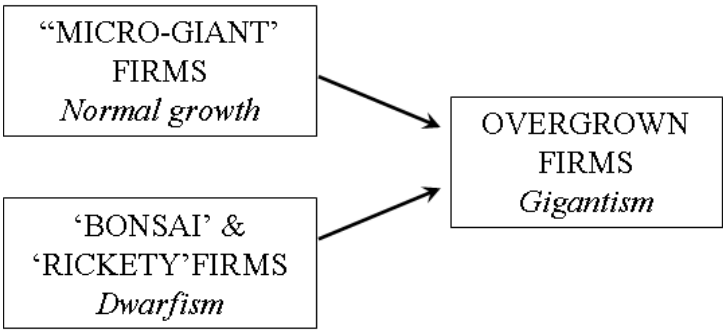

Figure 8: Crisis patterns related to *micro-giant* and *bonsai & rickety* firms

The evidence here suggests that the majority of the structures and decision processes used in the earlier studies of abnormal growth also offers a basis for the study of what we have named the micro-giants phenomenon. In this way, patterns leading to both success and crisis are originated by similar structures to those described concerning abnormal growth (Table 3).

SUCCESS	CRISIS
Balanced mix of strategic resources	Unbalanced mix of strategic resources
Balanced dimensional growth rate leading to a success supported by a sufficient and balanced endowment of available strategic assets	Too fast dimensional growth rate determining crisis due to a weak and unbalanced endowment of available strategic assets
Growth sustained by most levering on intangible resources	Growth sustained by most levering on tangible resources and financials

Table 3: Factors explaining success and crisis emerging from a *micro-giant* firm profile

It has already been demonstrated that maintaining balance between critical strategic assets is the key to understanding what the authors had dubbed “abnormal growth”. The generic strategic asset structures developed to reflect the abnormal growth behaviours of dwarf and gigantism small firms have proved not only to be close parallels to the situation of the micro-giants reviewed in the cases, but also a template for capturing the strategic assets structures of small firms that have experienced what might be considered as normal growth trajectories. Further, it is easy to visualise the inter-relationships by using simple elaborations of the generic stock-flow diagram models developed previously. It is contended here that by viewing the management of strategic assets as part of the normal business management process, while reflecting that both normal and abnormal growth behaviours can ensue, is a *physiological* approach. This is distinct from the “where things went wrong” or *pathological* approach of the earlier work. This reinforces the validity of the strategic asset management models as tools for understanding small firm growth dynamics, and extends the range of growth situations for which framing and understanding the structures of strategic asset systems offers owner/entrepreneurs and other stakeholders important support in aiming for growth-oriented strategic futures. Because the need to sub-categorise certain types of growth as “abnormal” is removed also emphasises that there will always be a thin line between successful and sustainable growth and constrained or abnormal growth. While, of course, the achievement of optimal growth is always subject to the particular aspirations of the firm’s owner-managers, the critical tipping point between a firm achieving normal growth and suffering an abnormal growth trajectory is basically a function of how well the firm can balance its strategic assets.

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