

GENERAL FEATURES OF THE ROMANIAN FAST GROWTH ORIENTED FIRMS*Nicolae BIBU¹**Diana SALA²**Maria ALB³*

ABSTRACT

This paper presents the general features of the firms facing rapid growth in the Romanian context. We have focused on turnover growth. The results show that firms that have achieved rapid growth prove both, a managerial and an entrepreneurial competence, enabling support for the rapid growth, compared to other firms that have failed this.

The analysis of 153 firms oriented towards rapid growth, highlights some interesting aspects about the age the size and the field of activity of the fast growing firms from Romania.

The relevance of this paper is the identification of the general features of the fast growing firms from Romania and the main fields in which these firms activate. It also represents a starting point for studying the managerial aspects that enable firms to overcome the rapid growth barriers in the Romanian context.

KEYWORDS: *entrepreneurship, fast-growing firms, strategic management.*

JEL CLASSIFICATION: *M10, L21, L26, L25*

1. INTRODUCTION

Fast-growing firms are an interesting topic whereof more and more researchers are interested about. In terms of strategic management, rapid growth raises real challenges for both, entrepreneurs and managers. They are often found in a difficult situation, in which they are forced to find a balance between rapid growth of the firm that opens new horizons and the threats that arise with it. They become even more challenged as the rapid growth happens in times of economic crisis.

Perlick and Weatherford (1991) highlights that well-established axiom suggests that rapid growth is one of the most dangerous areas that small firms faced. With reference to this, Nichter and Goldmark (2009) believe that rapid growth is a complex and complicated phenomenon. Bibu and Sala (2014) also highlight the complexity that accompanies rapid growth of the firm and consider that the entrepreneur must be a manager, and the manager must be a leader.

Mohr et al. (2013) consider that rapid growth is sought, but it can squeeze the firm's resources. The authors present that the literature evidences show that most firms that survive more than 5 years, have had an early growth. Young firms that not have an early growth fail unless they reach the minimum efficient scale.

From a tactical point of view, in the context of limited resources, driving the rapid growth of the firm becomes more burdensome for the manager-entrepreneur, which this time is in a situation where he or she has to find solutions to ensure tactical and operational fuel that will supply the growth and the future development of the firm.

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Coad et al. (2014) consider that these phenomena of the rapid growth of the firm are periods of intense change. These periods may be interesting, they say, because these periods provide opportunities to promote and other kinds of opportunities. But can also be times of stress and uncertainty. Researchers highlights the insufficient knowledge of the internal characteristics of the fast-growing firms.

In the context of the entrepreneurial and managerial challenges raised by the the rapid growth of the firm, especially in times of crisis our goal is to see what are the general features of the fast growing firms activating in the Romanian context. By features of the firm, according to Brüderl and Preisendörfer (2000) about Storey (1994), we refer to age, size, industry, geographic location and legal form of the firm. In connection with the characteristics of fast-growing firms, the literature provides partial answers to the question, what is characteristic to the fast-growing firms in different socio-economic contexts?

Although this topic has been discussed in several papers in the literature, there is little work addressing the rapid growth of the firm, in terms of the features of the firm on the Romania. Exceptions are Bibu and Sala's work, which, however, does not address the rapid growth in terms of size, age, industry and legal form. It would be interesting to see if the fast growing firms in the Romanian context exhibit similar characteristics to those presented in the literature: if there are more or less rapidly growing firms in the Romanian context? if these firms are young or mature? if this firms create more jobs or not? if these firms operate in high technology fields or not? These are just some of the discussions of this work.

The contribution of the paper is that it shows these features in the light of the turnover rapid growth, which may provide interesting aspects because when approaching the subject from a profitable point of view, things might emphasize different aspects then when approaching the subject in terms of jobs created.

The paper is divided as follows: Section 2 presents the literature review of the fast growth of the firms in relation to age, size, geographical location, and field of activity. In Section 3 we present the method of selection of the participating firms. The paper continues with the analysis of the data set in section 4. Given the OECD (2007) definition of the fast-growing firms, Section 5 presents the dominant features of the Romanian fast growth-oriented firms, thus: fast-growing firms compared to firms without fast growing. The last section of the paper presents the conclusions and limitations of the paper.

2. LITERATURE REVIEW

In trying to elucidate the mysteries of rapid growth, researchers have built rapid growth constructs. Authors such as Brüderl and Preisendörfer (2000), Nichter and Goldmark (2009) present that firm characteristics are among the groups of factors that could have an influence on rapid growth. Referring to the generalization of the results about the factors and their content, Nichter and Goldmark (2009) recommended that the results be questioned and reviewed for each country and market context.

Barringer et al. (2005) consider that a group of companies that draw attention is this of fast-growing firms. Brush et al. (2009) emphasize that fast-growing firms do not grow in the same manner with the same growth rates or with the same profits.

Despite the managers and the entrepreneurs efforts to drive rapid growth, Coad et al. (2014) present in the "*High-Growth Firms: Introduction to the special section*" that a small number of fast-growing firms drives a disproportionately large amount of job creation, while the average firms has a limited impact on the economy.

The empirical analysis of the work of Storey (1994) conducted by Brüderl and Preisendörfer (2000) also reveals that a relatively small number of businesses are growing fast and the fast-growing group of these firms would be responsible for creating over time a large part of jobs.

Acs et al. (2008) consider that on average, fast-growing firms are smaller and younger than other firms. Powers (1999) presents that fast-growing small firms create overall more jobs, better paid than large firms.

In terms of size and firm growth, de Kok et al. (2012) show that researchers such as Audretsch, Klomp, Santarelli and Thurik (2004) found that studies based on the relationship between firm size and growth, age and firm growth are rooted in Gibrat's law. Gibrat's Law states that firm growth is proportional to the size of the company and the proportionality factor is random. (Delmar et al., 2003, de Kok et al., 2012).

De Kok et al. (2012) consider that the size would be positively related to firm survival. The explanation of authors according to Jovanovic (1982); Ericson and Pakes (1998); Agarwal and Audretsch (2001) is that the positive relationship is based on the *noise selection*. Acs et al. (2008) present that the noise selection model implies that it is difficult to early distinguish the winners from the losers.

Regarding the relationship between age and firm growth, de Kok et al. (2012) show that several researchers have validated the negative effect of age on the firm growth in studies from different countries and industries.

Delmar et al. (2003) believes that the industry in which the firm activates influences the growth model and show that the relationship between firm age and firm growth lies in the fact that firm growth rates tend to decrease with the firm's age.

Acs et al. (2008) show that fast-growing firms are found in a high or lower percentage in all industries, but the high-tech industry would be represented by the largest number of fast-growing firms. Although some researchers would be inclined to associate rapid growth with firms activating in the hi-tech fields, the results from the literature indicates that fast-growing firms are found in all industries. Mason and Brown (2010) present that fast-growing firms are not concentrated in a single sector like high technology.

The conclusion drawn by Delmar et al. (2003) helps to clarify the image about rapid growth since the authors present there is no consistent pattern of growth and fast-growing firms has different growth patterns, that are not random, but which are empirically distinct, understandable conceptually and systematically related to demographic affiliation. The authors consider that the growth pattern of the fast-growing firms differs not only in terms of growth, but also in content and regularity. About how grow the fast-growing firms, Delmar et al. (2003) specifies that it is systematically related to the characteristics of the firms and their environments, such as age, size, industry in which they operate.

3. METHODOLOGY REASERCH

3.1 Data sources

Sources of data presented in this paper comes from the website of the Ministry of Finance (<http://www.mfinante.ro>), where we found the data and information that we collected about firms activating in Timis County. The period of data collection and information was from June to August, 2014.

Mainly, the information we collected are legal form of the firm, the founded year of the firm, the field of activity of the firm etc. The data we have collected about each firm are: turnover, number of employees, total revenue, total expenditure, gross profit or loss and net profit or loss, from the 2008-2013 period. We centralized all the data in several excel sheets. The analyzed period has been hit hard by the economic crisis that has befallen Romania since 2008.

3.2 Selection of the participating firms

When selected the participating firms, we considered two criteria: turnover and number of employees.

The criterion for the selection of the participating firms was that the turnover growth rate to be higher than 20% for a minimum period of three years, from 2008 - 2013 period. Following the turnover growth as selection criterion, it has resulted that the 153 firms population from Timis County (western Romania) recorded periods of fast growth during the period 2008-2013.

For each firm we calculated the growth rate of turnover (see equation 1). The calculation purpose was to ensure that the data set meets the requirements of the definition of a fast growing firm.

$$R_{CA_{n+1/n}} = (CA_{n+1} - CA_n) / CA_n * 100\% \quad (1)$$

Where,

$R_{CA_{n+1/n}}$, is the growth rate of turnover of Year n+1 compared to Year n; n takes values from 1 to 5.

CA_{n+1} , represents the turnover of the Year n+1; CA_n , represents the turnover of the Year n.

Since it is a period of 6 years, fast-growing firms are differentiated into three periods of growth, as follows: 2008-2013, the fast growth occurred over a period of 6 years; 2009 - 2013, the fast growth occurred over a period of 5 years, and 2010 - 2013, the fast growth occurred over a period of 4 years. In the case of firms without fast growing, we distinguish two periods, namely: 2008-2013 and 2009 - 2013.

With respect to the second criterion, given the definition of OECD (2007, p.61) that restricts fast-growing firms to at least 10 employees at the beginning of the growth, the population of firms shrank sharply to only 27 fast-growing firms.

The application of *10 employees* criterion, allowed us to distinguish between two groups of firms: those with fast growth - 27 fast-growing firms and those without fast growth - 126 firms. These latter did not meet all the criteria of a fast growth therefore they can not be considered as fast-growing firms. However, the turnover increase which allowed them to be part of the selected population transmits a signal about their orientation towards fast growth, but for various reasons these firms have failed to achieve it.

Although we took into account the criteria defined by OECD (2007) in selecting the participating firms, we concur with the opinion of Coad et al. (2014), *High-Growth Firms: introduction to the special section*, which consider that the restrictive rule, at only 10 employees, excludes a considerable number of firms and the jobs created by them. However, we understand that fast-growing firms should not be a substitute for the prevalence of small firms of an economy. However, we are aware that in the Timis country, there are more fast growth-oriented firms that deserve to be analyzed from the management practices perspective. We believe this because some of the firms in our population may become fast-growing firms and the information about their management could provide interesting insights about how firms are driven to fast growth in the Romanian context.

Further, we conducted a statistical analysis of the data set. This statistical analysis allowed us to observe fast growth-oriented firms operating in the Romanian context in terms of size, age, industry and legal form. It also allowed us to develop several diagrams in Excel, which we present in the next paragraphs.

4. DATA SET ANALYSIS

As a working mode we analyzed the population of firms and according to OECD criteria (2007) we distinguished between those firms that have grown fast and those firms that were not. Furthermore, we compared the two groups of firms according to the following criteria: size, age, industry and legal form.

4.1 Geographical location

The 153 fast growth-oriented firms in terms of turnover are present all in Timiș County. In terms of geographical location there is no difference between the first group of firms and the second group.

4.2 Firm size

Considering that fast-growing firms are known for the jobs they create, through this statistical analysis we want to see the evolution in time of the number of employees in the Romanian fast-growing firms compared to those firms without fast growing. To capture the evolution of the number of employees, we present the size of firms for both categories of firms at the beginning of growth period and at the end of the growth period (Figure 1).

In terms of firm size, most of the fast-growing firms are situated into the category of medium-sized firms. Of the 27 fast-growing firms, 9 of them are large firms. In the case of the fast-growing firms, the evolution of the number of employees allowed to 8 medium size firms to evolve towards large firms category. Although in most cases the number of employees increased, their growth did not allowed the evolution towards larger categories of firms.

In the case of the firms without fast growing, at the end of the growth period we identified 16 firms that have grown fast in terms of turnover without having any employee; 83 small firms, 26 medium-sized firms and a very large firm. Of the 35 firms without employees at the beginning of the growth period, 19 firms have evolved as follows: most to small groups of firms, and the other to medium sized groups. The evolution of the employees of the firms without fast growing has enabled 23 firms to evolve towards a medium size and for a single firm, to evolve towards a very large size.

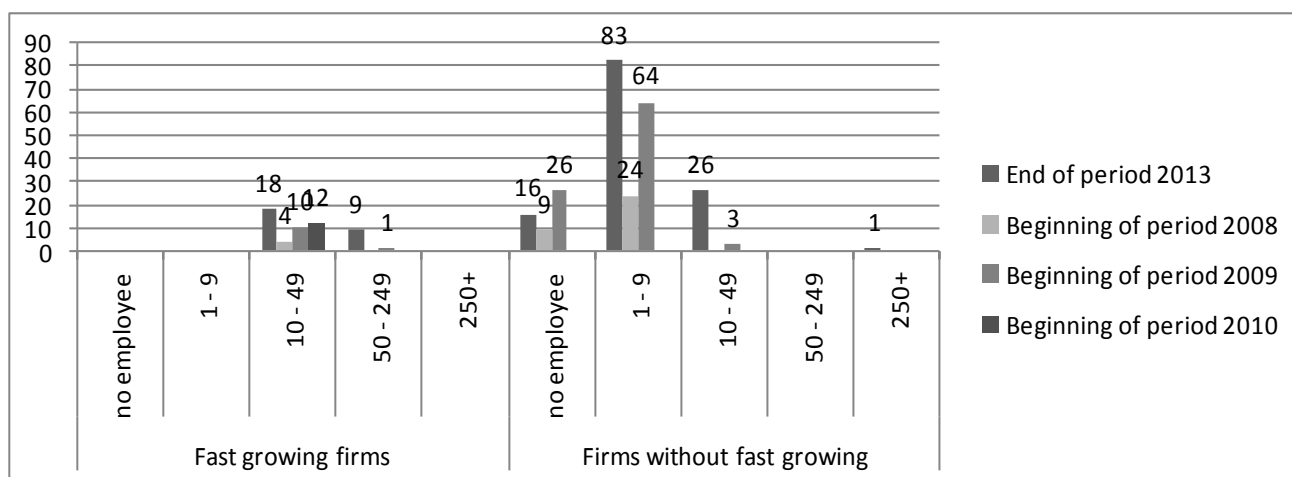


Figure 1. Firm size at the beginning and at the end of the growth period

Source: own processing author

Graphic projection of the fast growth-oriented firms at the end of the growth period (Figure 2) shows that fast-growing firms are few compared to firms without fast growing. Most of the fast-growing firms are found in the 10-49 employees size. Their growth has not experienced large jumps in the number of employees. A reason for this could be that managers focused on increasing turnover. From this perspective, firms without fast growing present several cases of jumps in the number of employees, but without these firms can be classified as fast-growing firms.

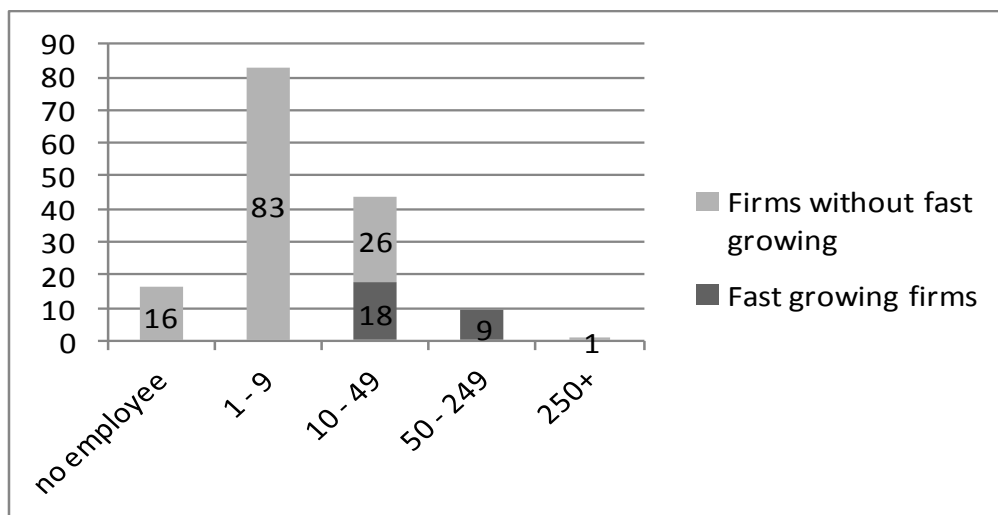


Figure 2. Firm size at the end of the growth period

Source: own processing author

Taking into account the number of employees in the first year and the last year of the growth period does not provide a complete image about the employees evolution between the period. There might be variations as upwarding or downwarding the number of employees. Table 1 presents for each group of firms and for each period of growth, the number of firms reporting an increase of the employees, a decrease of these and a maintain of the employees at the end of the growth period compared to the first year of the beginning of the growth period. Also, we specify if there was or not any variations.

Between 2008-2013 the number of employees of fast-growing firms alternated only upside. Regarding the number of employees of firms without fast growing, in most cases it increased from no employee or a small number of employees. Although for 5 firms, the number of employees has undergone several changes during the period, their employees number remained unchanged at the end of the period, compared with the beginning of the growth period.

Between 2009-2013 the number of employees of fast-growing firms increased in 11 of the cases and it was maintained in one single case. Regarding the number of employees of the 93 firms without fast growing we found all the three forms of evolution: increase - in most cases, decrease - in 9 cases (in 7 out of these 9 cases, the number of employees decreased until the end of the growth period to zero employees) and maintenance in 15 cases.

Between 2010-2013 the number of employees of fast-growing firms alternated in two ways: growth in 11 cases and decrease in one case.

4.3 Firm age

The firm age analysis by size allows us to see whether young firms grow faster in a higher number than the mature firms does. In our data set of 153 firms, 23 firms were founded in 2009.

We consider firms under 5 years old as young firms. Those aged between 6 to 17 years we consider them as firms nor young nor mature. We consider the firms over 20 years old as mature firms.

The age graphic projection of the fast growth-oriented firms by size (Figure 2) shows there are fewer young fast-growing firms. In the case of fast-growing firms, we can observe that only a single firm is aged 1-5 years and four firms have an age equal to or greater than 20 years old. Most of the firms that are growing fast are aged between 6 and 15 years old, these firms are relatively young and middle-sized. A similar situation occurred in the case of firms without fast growing, most of the them are relatively young and small.

Of the 25 young firms, only one has managed to rapid growth and it is of middle size. Of the 116 relatively young firms, only 22 were able to grow rapidly. Of these, most are of medium sized and less than half of them are large firms. The mature firms have a similar situation. Of the 12 mature firms, only four were able to grow rapidly of which, 3 are of medium sized and another one is of large size.

Tabel 1. Evolution of the employees number in fast-growing firms comparative with firms without fast growing during 2008 – 2013 growth period

Employees evolution	Period	Fast growing firms				Firms without fast growing		
		2008-2013	2009-2013	2010-2013	Total	2008-2013	2009-2013	Total
Number of employees at end of period higher to that from the beginning of the period		4	10	11	25	28	69	97
Number of employees at end of period lower to that from the beginning of the period		0	0	1	1	0	9	9
Number of employees at end of period equal to that from the beginning of the period		0	1	0	1	5	15	20
Total		4	11	12	27	33	93	126

Source: own processing author

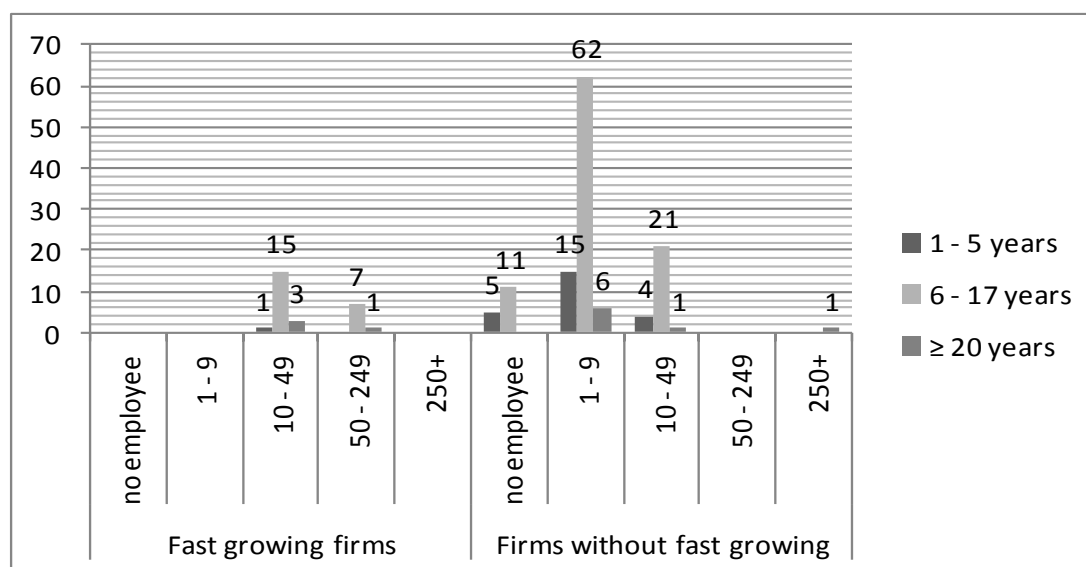


Figure 2. Age of the fast growth-oriented firms by size

Source: own processing author

4.4 Field of activity

The field of activity analysis of the Romanian fast growth-oriented firms provides an image of the areas in which firms are growing fast and those areas in which firms failed to grow fast. Considering the CAEN (NACE) coding, table 2 presents the common fields of activity among fast-growing firms and those firms without fast growing.

Fast-growing firms are operating in 19 areas of activity. Of the 27 fast-growing firms, two of them have changed the field of activity during the period of rapid growth, and another one have changed

the field of activity before the beginning of the growth period. In the case of firms without fast growing, we have identified 71 areas of activity. Of the 126 firms without fast growing, 29 have changed the activity over the growth period.

The main areas of activity with most fast-growing firms are activities to develop custom software (software-oriented client); growing of cereals (except rice), leguminous crops and oil seeds plant; shoe manufacturing and freight transport by road.

4.5 Legal form

In terms of legal form, of the 27 fast-growing firms only one had the legal form SA (*corporate*) and had 25 employees at the end of the growth period. Of the 126 firms without fast growing we identified 2 firms that had the legal form SA. In both cases, most of the firms had the consecrated legal form SRL (*Limited liability company*).

Tabel 2. Common fields of activity among fast-growing firms and those without fast growing

Guard security activities
Activities to develop custom software (software-oriented client)
Hairdressing and other beauty treatment substituted in Bars and beverage serving activities-2013
Retail sale of flowers, plants, seeds, retail sale of pets and feed them in specialized stores
Retail sale in non-specialized stores with predominant sale of food, beverages and tobacco
Wholesale of waste and scrap
Growing of cereals (except rice), leguminous crops and oil seeds plant
Electrical installation
Plumbing, Heating and Air Conditioning
Freight transport by road

Source: own processing author

5. FEATURES OF THE ROMANIAN FAST GROWTH-ORIENTED FIRMS

The preliminary statistical analysis of the data set has provided some interesting insights about the dominant features of the Romanian fast-growth oriented firms. For example, firms that grow faster for longer periods of time (in our case, firms that have recorded a turnover higher than previous year over a period of 6 years) have a higher probability to increase the number of employees from one year to the other. Or that, as the fast growth periods are becoming shorter (in our case, firms that have recorded a turnover higher than previous year over a period of 5 and 4 years), the number of employees varies more in one direction or another.

Could this mean that firms growing with higher turnover growth rates from one year to another for longer periods of time come to be more stable, attracting more human resources than firms that grow rapidly over a shorter period of time, in which they are struggling to find the balance between survival and growth? It requires further research so that we can decide on this issue.

Consistent with results from the literature, our analysis on a small sample confirms that in the Romanian context, only a small percentage of fast-growing firms creates a large number of jobs. Striking is that some of the firms without fast growing, but oriented towards fast growth, have a rapid growth of the annual turnover without having any employee hired.

We have also noted that Romanian fast-growing firms presents a greater stability of the number of employees during the period of fast growth compared to the firms without fast growth, that have suffered greater variations from one year to another, meaning reducing the number of employees.

Fast-growing firms grow faster towards larger sizes, which mean that these firms engage more human resources and thus, create more jobs. However, in the Romanian context it is still a small number of fast-growing firms compared to those that do not grow so fast.

A small number of the young firms within 5 years old, have a rapid growth. Most of the firms that grew faster are neither young nor mature, which could mean that the companies with some experience in the field are more likely to grow faster. Most young firms that grew faster are medium sized and not small or large sizes.

The analysis of the fields of activity of the Romanian fast growth-oriented firms has revealed some common fields for the fast-growing firms and those firms without a fast growth. We could not identify not a single fast-growing firm activating within research and development field or in an innovative technological field. The result is not surprising since it is in harmony with earlier findings of other researchers in the literature.

Firms without fast growing, but oriented toward fast growth have had several attempts to adjust the field of activity compared to the fast-growing firms. A possible explanation of the frequent changes in the field of activity in the case of firms without fast growing might be the managers trying to find the right field in which firms can grow rapidly.

In harmony with the literature, from our analysis does not appear that the geographical location and the legal form of the firm would have any major impact on fast growth, since there it is no significant difference among fast-growing firms and firms without fast growing considering these aspects. However, we believe that in the Romanian context, the location of the firm in a developed area, with access to the transportation infrastructure and qualified workforce can positively influence the fast growth of the firm.

6. CONCLUSIONS

In this paper we presented the dominant features of the Romanian fast-growing firms. We referred especially to aspects of size, age, area of activity and legal form of the firm.

In harmony with the questions of this paper, the results of statistical analysis that we developed have provided us some interesting issues about fast growing firms operating in the Romanian context. In Timiș County there are few firms with rapid growth in the analyzed period. This finding is not surprising because it is in line with other authors findings such as Brüderl and Preisendörfer (2000), Coad et al. (2014) which we presented in the introduction of these paper. Further, fast growing firms are neither young nor mature. Our sample indicates that most young firms that grew faster are medium sized and not small or large sizes. Fast growing firms create jobs. However, firms that contribute significantly to the creation of new jobs are scarce. In line with results from the literature, fast growing firms in the Romanian context does not necessarily activate in high technology areas. Fast growing firms appear in different fields. We believe as Delmar et al. (2003) believes that the industry in which the firm activates influences the growth model of the firm.

In a future research it would be interesting to reflect on the management model and/or management practices that lead to fast growth and sustained fast growth, especially in times of crisis. We believe that Romania presents cultural differences and specific issues that entrepreneurs face daily in the management of the firm. In these specific conditions, some firms excel and achieve impressive growth rates, also contributing to the economic value of the country. And while rapid growth may or may not be desired by entrepreneurs, achieving and sustaining fast growth is a proof of the entrepreneurial success and also a validation of the managerial success in the Romanian economic environment.

We also believe that knowing the domains of activity in which the fast growth-oriented Romanian firms activate, will allow us to make comparisons between firms in a future research. Our opinion is that since firms are operating in the same field and some of them grow quickly and others do not, the difference between a class and the other is the management of the firm.

Alike Coad et al. (2014) concluded, we find that the depth of new insights generated by the latest results in fast growth field suggest “*a vibrant future for this research field, which is at the heart of academic research on industrial and corporate change.*”

A limitation of the study is we do not have data on fast-growing firms from other parts of the Romania, unless Timis country. Also, at this time we do not have information about the current activity of the firms we have analyzed. There are missing a few financial data that were not available at the time we collected the financial information about the firms' activity.

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