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STRUCTURAL GROWTH DISENGAGEMENT AND VALUE CREATION IN SMALL AND MICRO-FIRMS

MAPPING PATHOLOGIES AND PHYSIOLOGIES OF BUSINESS "DWARFISM" IN A DYNAMIC RESOURCE-BASED VIEW

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Abstract

This paper focuses growth disengagement, in the perspective of those firms who have been keeping their structures, processes and relational systems unchanged for a very long time.
The implicit hypothesis according to which such businesses are affected by a structural disease, are not able to create any significant value, and characterised by similar features, is critically discussed.
Through an analysis of the phenomenon in the business growth and dynamic resource-based-view, a first attempt taxonomy, based on case-studies, is sketched.
It is demonstrated how the implicit assumption according to which such firms are affected by a pathological condition is false, at least if seen as an a priori statement.

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1. Small business "dwarfism" as a structural condition of growth disengagement in small and micro-firms: relevance of the field in the debate on growth and non-growth SMEs

This paper explores the issue of SME (Small and Medium Enterprises) *growth disengagement*, with the aim to understand under what conditions structural non-growth in small and *micro* firms can be considered as either a pathology or a physiology, in the perspective of value creation in the long run.

According to Gibson (2002, p.1), "the notion that firms may have a capped growth objective is evident in many areas". In this view, there are many *micro* and small firms, where owner-entrepreneurs take actions that indicate they are concerned with maintaining a stable business. Growing out of this stability is not regarded as a primary objective. Empirical evidence of this phenomenon emerges from both statistics and case-study analysis.

Turok (1991, p. 29) has also remarked: "there is a considerable interest within the field of small firms policy and research in the identification of features that distinguish firms which grow from those that stand still or fail. This is thought important if more selective small firms policies are to be developed. Identifying distinctive features of more and less successful firms may also provide insights into the factors influencing small firm development and hence improve understanding of the growth process".

It has been also stated by Holmes and Zimmer (1994 p. 97) that: "an operational framework that distinguishes growth from non-growth small businesses does not exist". In order to minimise agency costs, non-growth owner-entrepreneurs are reluctant to enter new activities which will result in an agency relationship (Jensen and Meckling, 1976). This implies that the level of contracts is kept to minimum, and a greater use of casual and part-time labour is done. Holmes and Zimmer distinguished *Growth Capped* from *Growth* SMEs. In the first kind of firms, growth is sought and plans are developed to facilitate it. However, growth will only be financed by additional equity inputs of the existing owners or trading bank debt. Provided that new equity from outside sources is not an option, such firms have internal limits to growth. Conversely, the latter kind of firms is more prone to accept external capital sources to foster growth, which allows them to reach a larger size and foster change.

In an empirical research oriented to understand growth and non-growth motivations for an entrepreneur, Perren (1997) defined a number of relevant factors, such as: *a)* owner's growth motivation, *b)* management expertise for growth, *c)* resource access, *d)* demand for products or services. The author found that all non-growth firms share a negative set of owner's growth motivations, whose effects are particularly significant when the market shows a rising pattern of demand for the business products.

Similarly, Brown and Kirchhoff (1997) have investigated the effects of resource availability on entrepreneurial orientation. Concerning this, they distinguished two important factors: 1) perceived environmental munificence, and 2) resource acquisition self-efficacy.

The concept of growth that is hidden in the above perspectives is mainly associated to an increase in business size, both in terms of turnover and assets.

Related to this perspective, the term *business dwarfism* [1] has been widely adopted in the last decades in the Italian political and socio-economic debate, in order to label a stereotype of business marginality and entrepreneurial mediocrity, based on a structural disengagement from growth.

"Dwarf" firms are commonly referred (Russo G., 1988) as those small and *micro* businesses whose structure and management routines have been kept unchanged over several decades, in terms of: structure [2], processes, and relational systems.

Among the different factors profiling "dwarf" businesses, most crucial are:

1. *age of the firm* since its foundation, which encompasses at least three generations;
2. *an unchanged size* over a long period, implying a stable and bounded number of employees, and a weak investment profile;
3. *bounded and local scope of geographical markets*, implying a limited range of relationships with external "actors".

An implicit assumption of this perspective, is that those smaller firms which have not been increasing their size for a long time – in terms of quantitative indicators – are affected by a structural disease. In order to help them to fix their supposed sickness and lack of attitude to generate value, trade-union leaders and politicians have been used to suggest actions aimed to foster a dimensional leap. Some of the most commonly recommended levers are (Recanatesi, 2003; Rapporto ISAE – Forth Report, 2003; Tapia, 2003):

- tax reductions and a higher labour market flexibility,
- low cost funding and financial assistance;
- inexpensive support in the introduction of a management team and specialised training in different functional areas.

The above mentioned approach is affected by a number of drawbacks which provide a fruitful basis for a research aiming to understand whether:

a) "dwarf" firms are always characterised by a lack entrepreneurship and a structural pathology, leading to poor value creation;
b) growth, aimed to move into a "non-dwarfism" state, is a pre-condition for their survival and value creation in the long term;
c) "dwarf" business growth is only a matter of fostering a dimensional leap;
d) financial subsidies and other aids aimed to "inflate" the size of a "dwarf" business through different measures usually applied in other contexts [3] are consistent with the specific features characterising such firms.

2. Main drawbacks underlying the current approach profiling "dwarf" firms: the need to study the phenomenon in a business growth and value creation perspective

There are a number of reasons by the light of which it is possible to envisage some major weaknesses in the currently adopted approach in defining business "dwarfism".

Most relevant are:

1. all "dwarf" firms are supposed to lack an entrepreneurial spirit, aiming to create value and pursue long term growth;
2. growth is only considered as a matter of increasing business size, in terms of tangible assets. Since "dwarf" firms do not seem to grow (in terms of size), they are not supposed to own an endowment of strategic assets (Amit & Schoemaker, 1993) which will allow them to generate value;
3. a focus on *tangible assets* and *past performance* does not take into account the role played by a number of intangible resources, such as: entrepreneurial personal contacts or image;
4. a *macro* and statistical perspective, aimed to cluster small and *micro*-firms as "dwarf" businesses omits to consider the specific features of each of them;
5. a standardised view, according to which all "dwarf" firms have similar characteristics is implicitly based on an artificial hypothesis of stability in the specific context where they operate.

All of the above weaknesses are originated by the hypothesis according to which "dwarf" firms are implicitly meant as poor, in terms of entrepreneurship. This is intended to be a primary cause of lacking growth and ability to create value by these companies. This idea cannot be shared, at least as a general principle.

The characters profiling the entrepreneurial function and the firm ought to be re-considered by the light of its own peculiarities. The *inclination to innovate* should not only be evaluated according to the entrepreneur's attitude to create new products or to undertake new processes. In fact, also the ability to build up strategic assets, leading to a steady value generated in the long run – although for a bounded range of stakeholders – should be taken into account. The case-studies discussed in the next section demonstrate that such an ability may exist, regardless an explicit will of the entrepreneur to pursue dimensional growth. A *non-growth* firm may tacitly accumulate a significant mix of strategic assets (for example knowledge, image, brand positioning, liquidity), most of which are kept unused [4].

The entrepreneur's inclination to change the business *status quo* is another factor profiling the entrepreneurial function. If this is weak, an emerging instability in the business relevant context will be likely to provide, sooner or later, a major cause of crisis, due to the myopic behaviour of the entrepreneur. Conversely, although for several decades the firm could operate in very stable and bounded market niches and socio-geographical systems, a high propensity of the entrepreneur to detect changes in the "rules of the game" and modify the business idea, would be symptomatic of a physiological "dwarf" business behaviour.

Concerning the propensity to *undertake business risk*, which also characterises the entrepreneurial function, not only invested capital but also the perceived value of the firm for the entrepreneur and his family's life should be taken into account. The higher is this value, the higher will be the risk, which will denote a strong entrepreneurial spirit [5].

A business, rather than statistical or macro-economic, approach is needed to investigate the "dwarf" business phenomenon. Such firms could be depicted as dormant volcanoes, which might keep quiet for several decades, but could also erupt from a day to another. Although a "dwarf" firm may appear at a first sight as very similar to others, if one better analyses its own life from inside, highly peculiar structures and behaviours could be found, likewise it happens for a "dormant volcano", in terms of magma, temperature, pressure, external solicitations, etc.

3. Reframing business “dwarfism”: a dynamic resource-based and growth perspective

In order to better frame the phenomenon, a dynamic resource-based view, combined with the perspective of growth depicted above, is adopted in this paper. To this end, processes affecting the current endowment of business strategic assets have been analysed through a feedback approach.

According to this view, strategic assets are seen as *stocks* of available factors which are scarce, not easily tradable, difficult to imitate, industry and firm-specific. They are gradually built through an *inflow* driven by current management routines (Nelson & Winter, 1982), and the interaction between the firm and its relevant environment. They are also subject to an *outflow* associated to inertial depletion, resulting from either physical/technical aspects or shifts in the industry *dominant logic* (Prahalad & Bettis, 1986; Morecroft, 1998).

The use of influence diagrams in our specific problem context will support us to discover similarities and differences between “dwarf” firms.

3.1. Reframing business “dwarfism” (continued): hypothesis of stability in the relevant context

Figure 1 shows main feedback loops (Forrester, 1961) associated to “dwarf” business strategic assets accumulation and depletion processes, in the hypothesis of stability in the relevant context.

If one observes a “dwarf” firm as an institution operating into a very bounded and stable environment, it is possible to map its strategy according to two basic loops.

--- FIGURE 1 ABOUT HERE ---

The balancing [6] loop A portrays a recurring strategic orientation of a “dwarf” business entrepreneur. In fact, given a pool of strategic assets which are currently used by the firm, the entrepreneur is inclined to restore the desired level of strategic assets (*implicit goal*), when its actual perceived level is below the desired one. Hence, a *quasi-mechanical* response is given in order to fill a gap in available resources and insure company stability.

Another balancing feedback is shown by the loop B. When it is dominant over the loop A, business strategic assets are gradually affected by an inertial depletion process, for example due to obsolescence. If loop B is weak or dominant for only a short time (which is the case of stable business environments), the frequent shifts in dominance between the two feedback loops commented above cause structural oscillations into the business strategic resource endowment. Quite often, such oscillations are not perceived by policy makers. Sometimes entrepreneurs might also be unable to promptly and effectively overcome them, because of perceived constraints.

The *Calzificio Vitrano* case-study provides an interesting example (see appendix).

Concerning this case, as far as loop B is dominant, the level of machinery reliability (strategic asset) gradually drops. This will be likely to determine – although after several decades (provided the high local customer loyalty on which the firm can rely) – a decay and possibly a crisis of the firm. A re-acquisition of the lost strategic assets, that is a policy aimed to foster loop A, would allow the firm to restore the strategic asset to the normal desired level.

Another example of misperceived inertial effects produced by loop B is provided by the *Terranova* case-study. (see appendix)

The *Pustorino* case provides an example of a “dwarf” business which seems to promptly and effectively counteract the effects generated by the loop B (see appendix).

If we frame the phenomena illustrated in the above cases in the normal perspective of stability in the relevant context, we may expect that – although the effects produced by loop B may be significant –

the absence of immediate threats to the company's stability may portray to the external observer an apparent condition of a "dynamic steady state". Such a condition shows smooth oscillations in the business endowment of strategic resources, which can be related to a short-term inclination of the firm to fill the gap between desired and actual levels. According to this view, all "dwarf" firms are likely to show a similar behaviour in their strategic assets' dynamic profile.

Figure 2 sketches a synthetic picture of this phenomenon. It shows four different typologies of "dwarf" firms, which are classified according to the entrepreneur's inclination to change the business *status quo*, and strategic assets' consistency. The above two factors according to which firms are categorised determine a different time for policy makers to respond to sudden changes in the "rules of the game" characterising the business relevant context, which could take place in the long term. The lower are the owner's inclination to change the *status quo* and consistency in strategic assets, the higher will be the time the company would be able to overcome sudden environmental shifts in the long run, and vice-versa.

--- FIGURE 2 ABOUT HERE ---

If we cross the above two factors, we can obtain four different categories of "dwarf" firms, that is: *bonsai*, *rickety*, *conservative*, and *marginal*.

We can define as *bonsai* those "dwarf" firms showing a harmonic profile, implying a balanced and homogeneous setting of different subsystems [7].

In *rickety* firms the entrepreneur's inclination to change the business *status quo* is not supported by a consistent set of strategic assets – both concerning their level and mix – to foster the undertaking of new growth paths.

While the first two kinds of "dwarf" firms are characterised by an entrepreneurial spirit that is opened to possible future changes in the business *status quo* – which could be kept silent even for a long time, because of a stable relevant context – the other two business categories indicate a lack of inclination to change, regardless opportunities or threats that might arise in the future.

In particular, *conservative* firms are likely to keep a relatively stable and consolidated equilibrium condition in their current strategic assets' profile.

Marginal firms are usually in the market because of their ability to exploit contingent favourable conditions, for example associated to public financial aids, lack of competition in very tight market niches, or loyal customers who well know them since a very long time. If one would expect a change in the "rules of the game" profiling the business relevant context in the long term, the structural weakness of such firms would appear much stronger than the one shown by *conservative* companies.

3.2. Reframing business "dwarfism" (continued): hypothesis of discontinuity in the relevant context

If we remove the hypothesis of stability in the relevant context, we can appreciate the different aptitudes of the above four categories to deal with change, foster growth and value creation in the long run.

Figure 3 shows how the capability of the firm to build up an endowment of *basic* strategic assets, providing the foundations for its long-term survival and continuity, is a means to gradually build up a given set of other *collateral* strategic resources. Such a process spontaneously emerges from the fulfilment of current business routines, which may allow the firm to accumulate experience, know how, image, financial resources, etc.. *Collateral resources* can be kept unexploited for a very long time; however they provide the company with an endowment of additional assets on which it can rely, if a discontinuity in the relevant context will challenge its own steady state.

Both the level and mix of *basic* and *collateral* assets a firm is able to accumulate over time determine the consistency of its own strategic resource endowment. If a firm is focused on a too bounded set of *basic* assets and its endowment of *collateral* resources is weak, it would be likely to find difficulties in responding to fundamental changes that might occur in the future.

The business strategic resource endowment is good measure of value generated by the firm. In fact, part of this value (for example income, learning, personal contacts, image, training) fosters further accumulation of such resources, and the other portion of value that is transferred to external stakeholders (for example product quality, salaries, timely payments to suppliers) is a product of a capability to exploit the available endowment of strategic assets.

Therefore, understanding the dynamics of business strategic assets accumulation and depletion processes allows one to evaluate a firm's capability to create value in the long run.

--- FIGURE 3 ABOUT HERE ---

An example of low strategic assets consistency is provided by *Pensabene Conserve* (see appendix).

Figure 4 shows main factors impacting on the entrepreneur's inclination to change business *status quo* [8].

--- FIGURE 4 ABOUT HERE ---

The *Scatolificio Mineo* and *Antica Focacceria San Francesco* case-studies provide useful insights on how entrepreneurial mental models are likely to affect the inclination to change the business *status quo* (see appendix).

--- FIGURE 5 ABOUT HERE ---

Figure 5 illustrates how the higher are the inclination to change *status quo* and the perceived loss in strategic assets, the shorter will be the time the firm will take to respond to environmental changes claiming for deliberate or emergent (Mintzberg & Waters,1985) action. The shorter the time to respond to environmental changes, the stronger will be action oriented towards the acquisition of new strategic assets that will enable the firm to enter new markets.

After the entrepreneur has decided to undertake a new project, the process fostering the accumulation of a first endowment of new strategic assets starts [9]. The higher is the flow of new strategic assets the firm will be able to build, the stronger the new strategic assets stock will be. This will empower the firm to well perform in the new business. A better performance will give rise to new management routines [10], which will further develop the process of accumulating new strategic assets, thereby giving rise to an exponential growth of them (reinforcing loop C).

The dominance of loop C is not endless, however. In fact, a number of limits to growth could emerge because of several reasons. Figure 6 gives two examples.

--- FIGURE 6 ABOUT HERE ---

A possible limit could be related to the attitude of business strategic assets' consistency to keep the same pace of business growth. In this case, the higher is the new strategic assets acquisition rate, the lower the change in this rate will be, which will increase less the rate itself (balancing loop D-1).

A similar behaviour is produced by the dominance of loop D-2. In this case, if the entrepreneur considers as satisfactory the results achieved from the new business, he will be likely to limit his own action to a "quasi-mechanical" response aimed to restore the strategic resource to the desired level, in order to tackle its obsolescence. This will lead the firm to consolidate the position gained in the new field, and to disengage from growth, possibly for a very long time again [11].

The effects produced by the above balancing loops are depicted in the graph in figure 6.

The *Tutone* case-study will be useful to give a deeper look inside this issue (see appendix).

If the firm undertakes new business routines before the appropriated time, this could trigger a vicious reinforcing loop, which would deplete the endowment of new strategic assets, thereby weakening the business capability to generate value in the long run. In fact, if the *gap in time* increases, the quality of new business routines drops. A lower quality in business routines will, in turn, erode the new strategic assets acquisition rate, and will lead to a gradual depletion in the stock of accumulated new strategic assets. A lower new strategic assets stock will give rise – other conditions being equal – to an even worse quality of current management routines, thereby reinforcing the vicious loop E illustrated in figure 7. Usually, such a process is not easy to perceive, as it is inertial and related to intangible factors, which are difficult to measure at a given time.

--- FIGURE 7 ABOUT HERE ---

The *gap in time* to enter the new business is related to two main factors:

- the *minimum time* that is appropriated to undertake routines related to the new business, as a function of available strategic assets' consistency;
- the actual time the entrepreneur takes to enter the new business, depending on his inclination to change the *status quo*.

Both factors are a measure of the *new project gestation period.*

The analysis conducted so far suggests two important issues for evaluating "dwarf" business aptitude to generate value, that is:

1. a prompt and proper perception of an emerging loss in strategic assets could not be easy to happen, as most micro-business entrepreneurs are fully involved in current activities and do not have enough time to spend in strategic thinking (Bianchi C., 2002). This could make too long the time to respond to environmental changes, leading to lost business opportunities or a too late action aimed to counterbalance the loss of strategic resources;
2. the perception of the proper time to start new activities to foster the loop C can be difficult to perceive for a "dwarf" business entrepreneur. In fact, beyond the problems mentioned above, the entrepreneur can be emotionally tempted to anticipate the period for starting new activities, or could overestimate the consistency of available strategic assets. This behaviour would generate a short *gestation of the new project*, which is likely to give rise to a waste of new strategic resources.

3.3. Reframing business "dwarfism" (continued): critical paths in quitting the "dwarfism" state

A high entrepreneur's inclination to quit "dwarfism" would foster new reinforcing growth-oriented loops, focused around other new strategic assets (loop F in figure 8).

--- FIGURE 8 ABOUT HERE ---

Salerno Packaging provides an example (see appendix), which allows one to argue that a strategy aiming to consolidate the position gained in new business fields, to disengage from growth for a long time, and hold the firm in a "dwarfism" state, cannot not be *a priori* considered as a pathology. In fact, business success, long term growth, value creation and continuity are a function of the attitude of the owner-entrepreneur to:

- foster a continuous accumulation of *basic* and *collateral* strategic resources which would make the firm flexible, if major shifts in the relevant context will take place;
- timely perceive the need to restore the inertial depletion process of *basic* strategic assets;
- timely perceive the need to undertake activities in new business fields in order to respond to environmental changes originating major shifts in the relevant context;
- properly perceive the time to start on a larger scale activities in a new business to respond to environmental changes;

- outline a self-consistent system producing satisfactory results for the different (though bounded) scope of "actors" pertaining to the competitive and social system shaping the business relevant context.

3.4. Reframing business "dwarfism" (continued): crisis and success patterns

Based on the above considerations, we are now able to sketch a synthesis of effects produced on survival and growth by the behaviour of different "dwarf" business categories, in the hypothesis of discontinuity in the relevant context.

As figures 9-a and 10-a show, discontinuity implies that the four "dwarf" business categories show different patterns of behaviour, both in case of crisis and success.

If we refer to figure 9-a, both *marginal* and *conservative* firms are likely to undertake crisis patterns of behaviour, at least in the long term, if the entrepreneur does not timely perceive the need to restore the inertial depletion process of *basic* strategic assets. This policy gives rise to a strategic resource dissipation, leading to the final collapse of the firm [12].

Concerning *bonsai* and *rickety* firms, their strategies are also likely to generate a crisis, at least in the long run, if the entrepreneur does not perceive in due time the need to undertake activities in new business fields, in order to respond to environmental changes originating major shifts in the relevant context. A crisis could also be an outcome if the entrepreneur starts too early in undertaking new activities on a larger scale.

Figure 9-b summarises a number of alternative paths characterising the above regression process of a "dwarf" firm.

Conversely, figure 10-a shows different success patterns. If the relevant context of a "dwarf" firm starts to show major shifts, a company can be considered as successful if the owner-entrepreneur is able to foster a continuous learning process implying an accumulation of *basic* and *collateral* strategic resources aimed to foster loop A and to counteract effects produced by loop B. Such resources will provide the firm with flexibility, that will be later useful to undertake new fields of activity, in order to face major shifts in the relevant context. To this end, the entrepreneur will have to gradually shift his inclination to change the *status quo*, thereby moving the company stage from the one of *marginal* to those of *conservative* (or *rickety*) to *bonsai* (see figure 10-b).

--- FIGURE 9-a; 9-b;10-a;10-b ABOUT HERE ---

4. Some common features concerning analysed "dwarf" businesses

At the end of the above discussion we can summarise some common features profiling "dwarf" firms, as follows:

- an old age since business foundation (at least three generations);
- a growth disengagement strategy, based on an autocratic and short-term oriented entrepreneurial style;
- an unchanging set of structures, processes and relational system;
- a bounded and local market and limited network of contacts.

Our problem context refers to *family-owned* firms. The firm is usually seen as a part of the family, and the owner-entrepreneur is not prone to accept managers from outside. When the family remains small or there is a rule according to which a small number of its people can be involved into the company, then the business can remain "dwarf" for a long time. This implies that "dwarf" businesses are usually *micro-family businesses*.

In such contexts, the absence of conflicts among main "actors" is a predominant factor. However, growth in the number of family members involved into the company and the progressive introduction of managers from outside the family may generate rising conflicts, if this process is not properly managed. In particular, a too small firm could be at the same time a limit to the growth and consensus of the family and a factor of crisis, due to an inclination to split the firm into several *fiefs*, aimed to satisfy the leadership expectations of different family branches.

Being a family-owned firm, that is usually run by a very bounded number of people belonging to the same equity-owning family, an *autocratic entrepreneurial style* is very common in such context. In particular, the owner-entrepreneur is usually unwilling to develop stable relations with external stakeholders, except from those with whom the firm and family have been successfully cooperating since several decades before in the past. Such a behaviour is often due to a lack of confidence, which may be, in turn, related to an entrepreneur's worry to protect the firm from possible takeovers from outside. An explanation of such an emotional behaviour is due to two main factors: 1) the fact that the company is, usually, the major (or only) source of income, personal development, and tradition for family members; 2) a low management education of the entrepreneur, who can either be a *gut-feeling* or technocrat decision maker.

Another outcome of such an approach is a bounded resort to communication policies.

The entrepreneurial style in such firms is also characterised by a short-term orientation, leading to a major strategy aimed to restore those *basic* strategic assets around which the long-term survival of the firm has been based. However, those "dwarf" firms who are more inclined to pursue their own life-long existence, have been demonstrating to be able to combine such an orientation with a longer view [13].

5. Conclusions and implications for further research

The analysis conducted in this paper has tried to demonstrate how "dwarf" businesses cannot be studied as a *monolithic* subject. From our initial fieldwork and further conceptualisation of findings, it has been possible to outline pathological and physiological profiles associated to the "dwarfism" phenomenon.

Although there are a number of features which are common to the vast majority of such businesses, we have identified four categories of "dwarf" firms, according to: the level of entrepreneur's inclination to change business *status quo*, and business strategic assets' consistency. In relation to such factors, and through a feedback analysis of business strategic assets dynamics, in the hypothesis of change in the relevant context, we have distinguished: *marginal*, *conservative*, *rickety*, and *bonsai* firms.

Although these categories can be considered as sequential stages into an ideal "dwarf" business life-cycle, both crisis and success patterns can be envisaged in all of them. In order to assess "dwarf" business physiology (that is its attitude to pursue a life-long existence and long-term ability to create value), it is necessary to understand to what extent the entrepreneur is able to build a consistent endowment of strategic assets and timely perceive their own accumulation and depletion processes. Another factor according to which it is possible to assess such a physiological profile is related to the entrepreneur' aptitude to timely perceive new business ideas and to evaluate the proper *gestation time* of new entrepreneurial projects, in the hypothesis of discontinuity in the business relevant context.

Based on our initial field analysis and conceptualisation of related findings in the perspective of the above framework, the thesis proposed in this paper has been that the implicit assumption according to which "dwarf" businesses are affected by a pathological state, and hence are destined to marginality or failure, is false, at least if seen as an *a priori* statement. On the contrary, success is related to the owner-entrepreneur's aptitude to set a self-consistent system of strategic assets, providing a sustainable value in the long term, to meet the expectations of stakeholders. "Dwarf" business success also depends on the entrepreneur's capability to timely and properly perceive the structure and behaviour of the relevant business system, that is to act or react when fundamental change might threaten future business survival.

If seen in this perspective, "dwarf" business success or crisis can be studied as two sides of a same coin, that is business growth. If one considers growth, not only on the dimensional point of view, but also on a qualitative perspective, development patterns can be envisaged in those "dwarf" businesses who are able to effectively manage the accumulation and depletion processes of their own strategic assets.

From the above analysis, it also emerges that – in order to help "dwarf" business entrepreneurs to preserve, and possibly increase, the capability of their business to generate value – a tailored approach is necessary.

In this respect, various external "actors", such as Universities and other research institutions, consultants, banks, Science Parks and other entities supporting entrepreneurship (Bianchi C., 2002), are likely to play a crucial role.

Further research, aimed to better understand how to support "dwarf" businesses to preserve or increase their value creation capabilities in the long run, and to learn more about their behaviour, problems, weaknesses or strengths will be necessary. In particular, case-study analysis will help us to better evaluate the consistency of our first attempt taxonomy, and related patterns of behaviour referred to "dwarf" business crisis and success.

FIGURES

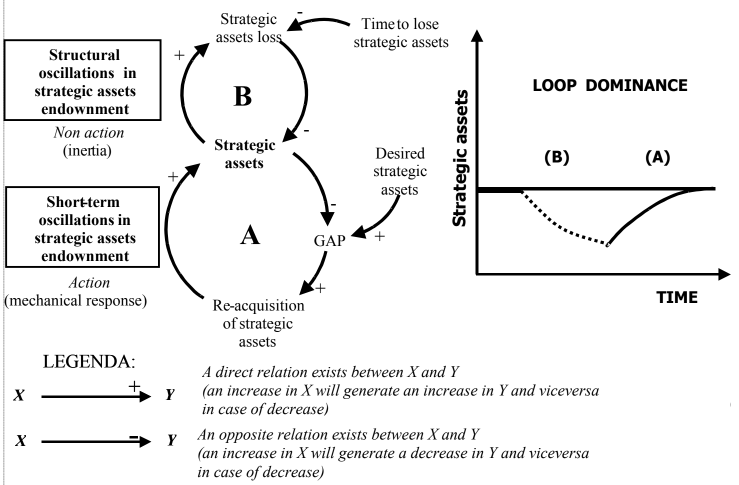

Figure 1 - Strategic assets' accumulation and depletion feedback loops in "dwarf" businesses
(*hypothesis of stability in the relevant context*)

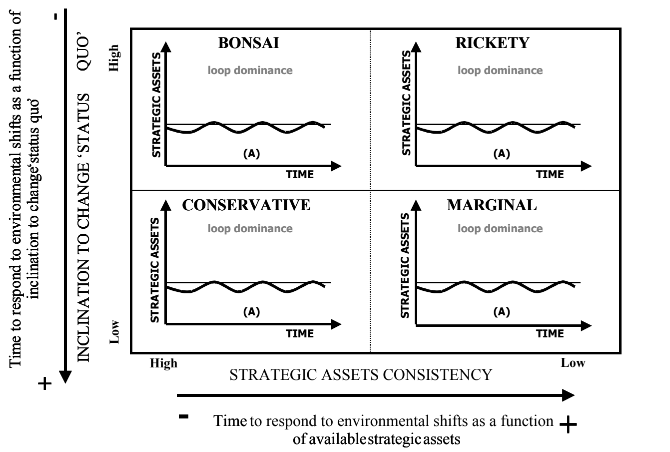

Figure 2 – Strategic assets' dynamics in different "dwarfism" stages
(*hypothesis of stability in the relevant context*)

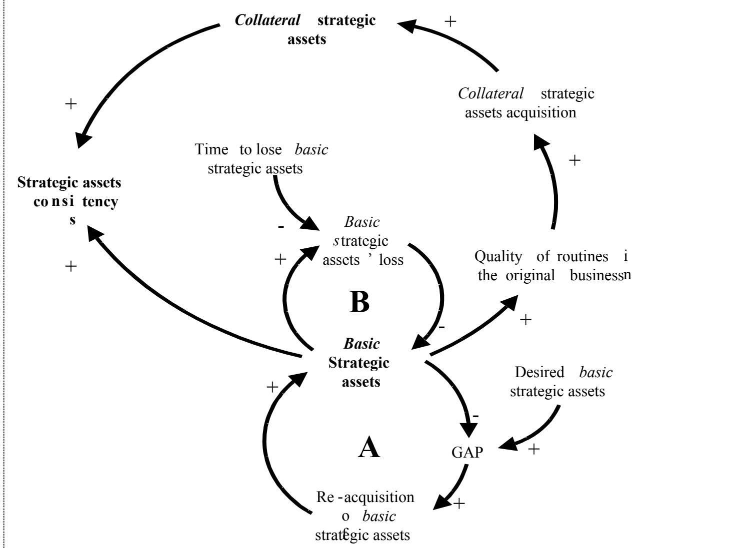

Figure 3 – Factors influencing strategic assets' consistency as a pre-requisite for "dwarf" business growth

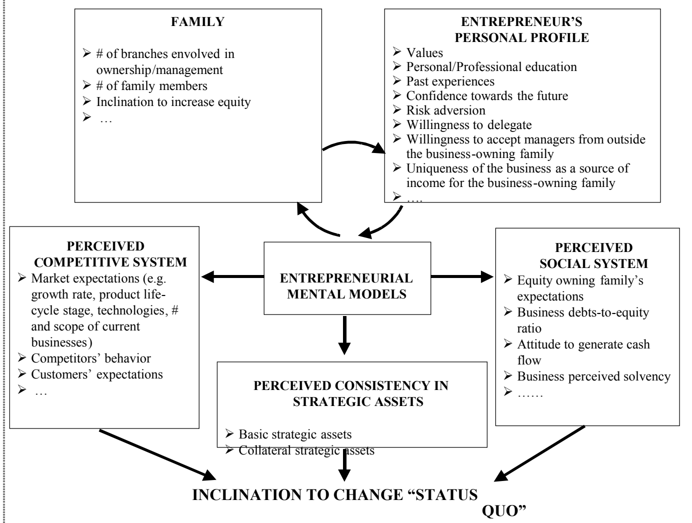

Figure 4 – Main factors impacting on inclination to change *status quo*

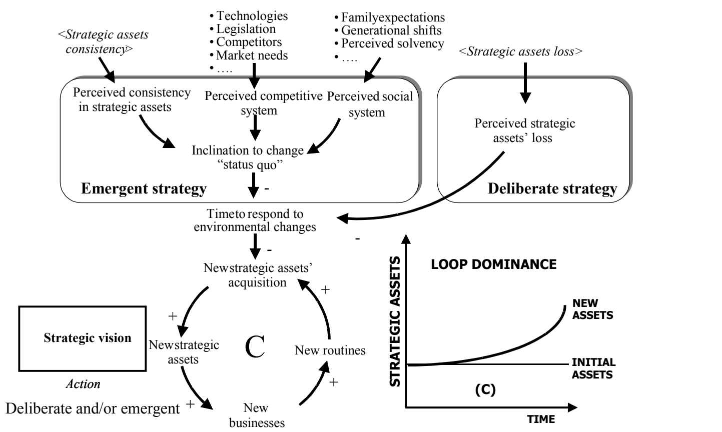

Figure 5 – Feedback loops underlying the accumulation of new strategic assets in "dwarf" business growth
(*hypothesis of discontinuity in the relevant context*)

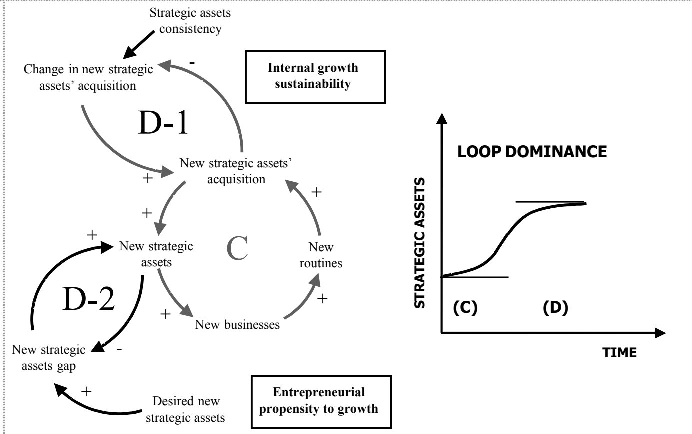

Figure 6 – Limits to "dwarf" business growth underlying new strategic assets' acquisition

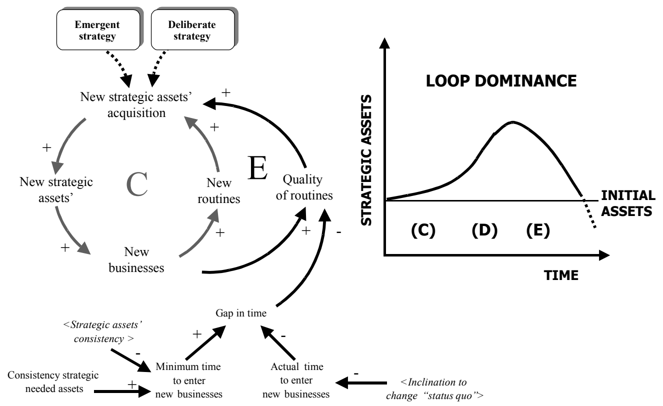

Figure 7 – Feedback loops underlying new strategic assets' depletion in "dwarf" business growth
(*hypothesis of discontinuity in the relevant context*)

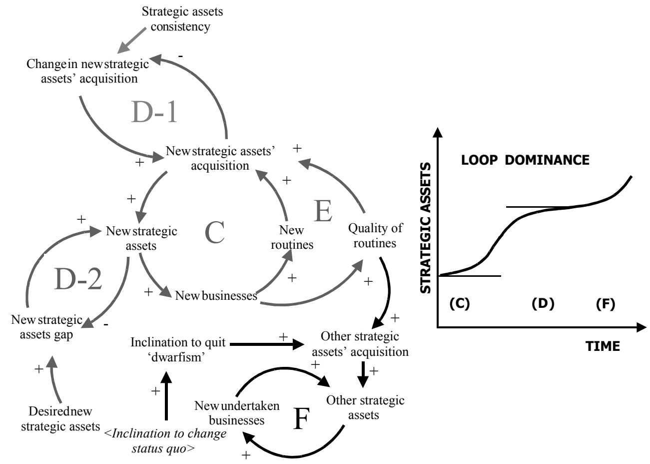

Figure 8 – Critical paths in quitting the "dwarfism" state

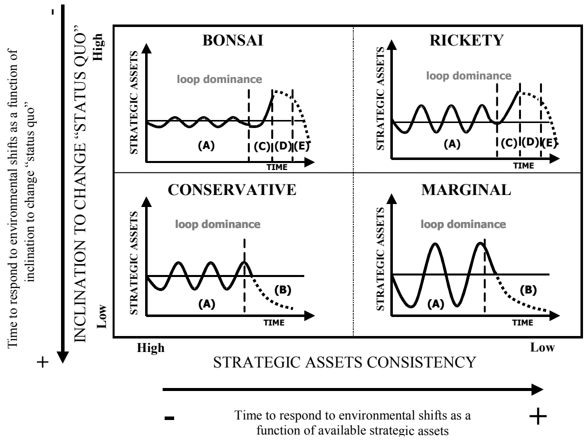

Figure 9-a – Strategic assets' dynamics in different "dwarfism" stages
(*hypothesis of discontinuity in the relevant context: crisis patterns*)

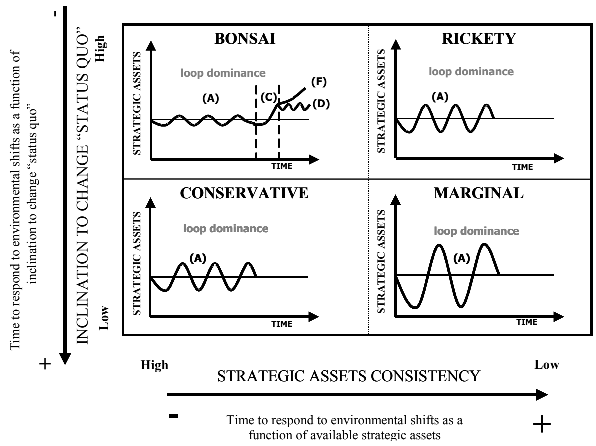

Figure 10-a – Strategic assets' dynamics in different "dwarfism" stages
(*hypothesis of discontinuity in the relevant context: success patterns*)

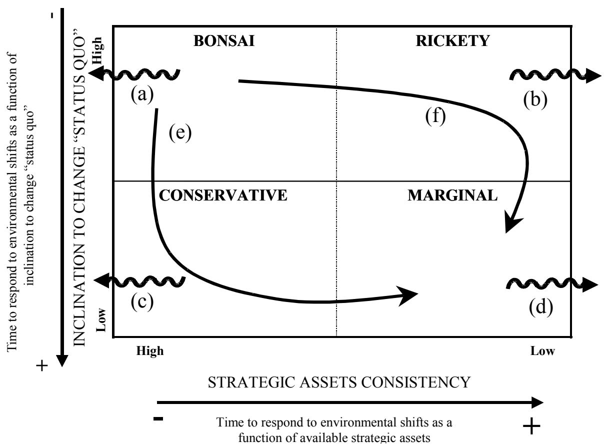

Figure 9-b – Different patterns leading to "dwarf" business crisis
(*hypothesis of discontinuity in the relevant context*)

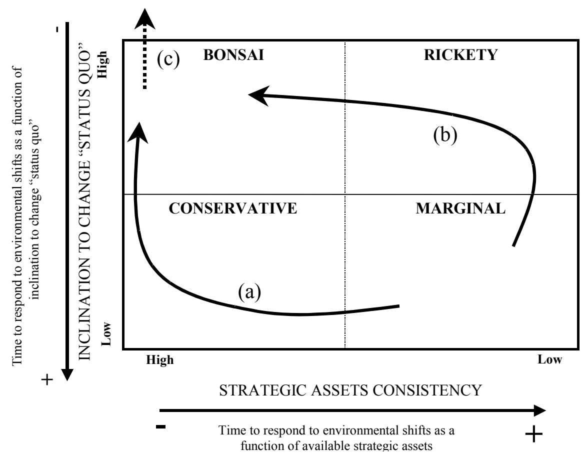

Figure 10-b – Different patterns leading to "dwarf" business success
(*hypothesis of discontinuity in the relevant context*)

NOTES

[1] In Italian *nanismo aziendale*.
[2] e.g. (for example) product portfolio, strategic product positioning, organisation, number of employees, production capacity, geographical markets.
[3] e.g. SME start-up and take-off or even in business units operating in larger firms.
[4] Such assets can be defined as *collateral*, while those which are currently used could be named as *basic*.
[5] In other words, although invested capital may be bounded, the human capital, the emotional and personal stake into the firm is often significant. For instance, an entrepreneur may considerably value the firm as part of a cultural and economic wealth of the business-owning family, or a means to help his or her sons (once involved in the business administration) to practice cultural important values and beliefs.
[6] Loop polarity – i.e. (that is) positive or negative, implying a reinforcing or balancing feedback respectively – is detected by multiplying the algebraic signs of each arrow, symbolizing a direct or opposite relationship between variables. In the case of loop A it is possible to determine a negative polarity (i.e. one negative and two positive signs), which denotes a balancing feedback, implying a policy aimed to restore the actual level of strategic asset to the desired one.
[7]e.g., production, distribution, R&D, finance, human resources.
[8] Such inclination depends on the entrepreneur's perceptions on the structure and future behaviour of both competitive and social systems. They are a result of the entrepreneur's mental models. Mental models are affected by the business owner's personal profile and, in turn, influence, the equity-owning family behaviour towards the firm. Furthermore, this behaviour is a factor influencing the entrepreneur's personal profile.
[9] This implies the undertaking of product tests, conventions with potential customers or distributors, trial sales on a very bounded scale, aimed to build knowledge, image, contacts, products and other relevant new strategic assets that will foster future growth.
[10] E.g. contacts with customers or suppliers, product development processes.
[11] In other words, the D-2 feedback has the same characteristics of the loop A, previously illustrated in figure 3. The meaning of this concept is that, once achieved a satisfactory level of "new" strategic assets, the company policy will be only aimed to restore their level, i.e. to consider them as *basic* resources.
[12] It is work remarking that the dominance of loops C, D, E and F is not taken into account by the graphs related to *conservative* and *marginal* "dwarf" firms as such businesses are characterized by a low inclination of the entrepreneur to change the *status quo*, i.e. to undertake new fields of activity.
[13] Other implications of such short-term orientation are related to: *a)* a lacking R&D investment policy; *b)* an inclination to operate into traditional and very stable industries (although within very small market niches), implying very simple products and processes; *c)* a direct involvement in the fulfilment of tasks related to main operating areas which the entrepreneur is not prone to delegate, leading to a lack of time for strategic thinking; *d)* a lack of planning and control tools to support decision making.

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APPENDIX: Case-studies

Calzificio Vitrano was established in 1906 to manufacture and sell on the regional market cotton socks. It has always been run by the equity-owning family and currently employs five people, all family members. It is mainly conceived by the owner-entrepreneur as a means to provide the family with a main source of income. In the last twenty years the firm has found rising difficulties to sell its product beyond the regional market. This has caused a gradual reduction in both activity volumes and employees. Among the characteristics of the business product system are a reasonable quality and a premium price, as well as a retail-only sale policy. Such policy implies that – in order to keep the "quality/price" ratio stable – the firm must rely on an effective machinery. However, the business suffers of chronic financial shortages, due to a lacking capability to generate cash flows large enough to both feed the current family needs and finance periodical machinery investments. Such problem is amplified by the entrepreneur's reluctance to recur to financial leverage as a policy to increase sales turnover, or reduce purchase costs, or even provide liquidity to finance the renewal of fixed assets. According to the entrepreneur, recurring to credit or granting it *is a policy contrasting with the honour of a person*. Such a belief is a major cause for not renewing machinery.

Terranova was founded in 1890. It has always been producing carob flavoured candies. The company has now reached the fourth generation. The owner-entrepreneur's great-grandfather started it in order to find a job. Since ever, it has been established in the basement of the Terranova family's flat. It consists of a single 120 square meters room, where all administrative, production, packaging and (the very rare) public relation activities are fulfilled. Mr. Terranova and his family (six people altogether) spend most of their time in fulfilling operating tasks, mainly related to candies production and packaging. Family members have been accumulating a large experience, which has been transmitted from a generation to another. This allows them to manufacture candies *as an handcraft, rather than an industrial product.* The product is sold in the local market through pharmacies and tobacconists. In the last decades, the firm has been suffering a gradual loss of customers, due to: 1) lack of communication with potential customers, and 2) product obsolescence, caused by the introduction on the market of similar candies by larger competitors. Such phenomenon has been till now underestimated by the business-owner, who believes that his *handcraft candies* will never be replaced by any industrial product. The firm has structural difficulties in overcoming such problems, due to lack of available entrepreneurial time to devote to external activities, and the unwillingness of the owner to delegate power to other people outside the family. The firm also lacks financial resources to sustain a commercial policy. However, the business owner-entrepreneur is quite satisfied about the company's performance, which has allowed the family to gain marginal improvements in its quality of life, although most of time is spent working in the firm.

Pustorino was started in 1895. Mr. Pietro Pustorino who felt the opportunity to start an entrepreneurial venture in Palermo, by selling *Old England* style cloths and related accessories. His shop soon became well famous among the European nobles. The company also became the official supplier of the Italian royal family. In the year 1925, the founder's son Mr. Natale Pustorino succeeded his father, after his death. After the Word War II, the progressive improvement of consumptions and the effects of industrialisation, gave rise to an increase in the business volumes. However, this phenomenon did not lead to a significant change in the dimension of the firm and style. Conversely, some changes have been gradually made to the product system, according to the evolution of customer tastes and needs. For instance, since the '50s-'60s the demand of top-hats has been significantly dropping. This required a deep product portfolio refocusing. Other changes have been done, in the later decades, to the product portfolio of the firm, e.g. relating the sale of shirts and shoes. The style and location of the shop have been, however, always the same.

In 1996, Mr. Natale Pustorino died. Since he did not have sons and there were not any other people from his family to whom to entrust the firm, he felt that selling it to his three employees would have been the best choice. The new owners-entrepreneurs feel that the success of the firm is related to its capability to provide customers with high quality *Old England* fashion style cloths. According to them, the well known name of the shop, the consolidated network of contacts that the founder and his son were able to create, together with the courtesy of people, will always sell the product, without any additional effort. Likewise when Mr. Natale Pustorino gradually decided to replace old articles with new ones, in order to counterbalance effects produced by product obsolescence, they also recognise the need to periodically verify the opportunity to review the product mix, according to the *Old England* fashion market evolution.

Pensabene Conserve was founded in 1869 and since always has been making sauces, dressings and salads, based on old Sicilian recipes. The *basic* strategic assets on which it has been established are a stable product portfolio and a knowledge base in cooking Sicilian recipes, which was transmitted from a generation of cooks to another. A very loyal (though bounded) customer base is another important *basic* strategic asset. *Pensabene Conserve* is a family-owned business. It currently employs ten people whose families have been working in the firm for several generations. All administrative tasks are carried out by members of the business-owning family. The owner-entrepreneur has a very low propensity to delegate. Actually the company's sales turnover is about 2 millions Euros.

Emerging problems have been coming up in the last decades, and have been generating growing difficulties and dysfunctions in the management of the firm. Among the most important are the rising bargaining power of larger competitors. Another significant problem has been generated by the purchase of raw materials, whose quality and price have becoming unpredictable. The above problems and the difficulties to enlarge sales on a geographical base have been reducing the capability to generate liquidity in the last years. In the future such conditions could even worsen, if the marginality of the business would become stronger, e.g. due to a reduction in the local potential market, leading to a lower customer base.

If such scenario would take place, the company survival should be seriously threatened, as it could be significantly difficult to enter new markets, although related to the same industry. In fact, the firm lacks contacts with potential partners, know how that could be re-used in different market segments, human capital, and other *collateral assets*. In order to face such a "locked" state, the main worry of the entrepreneur is now to find public funds to improve business operations.

The *Scatolificio Mineo* is a family-owned business that was started in 1918 to manufacture cardboard boxes for different products (e.g. shoes), which are sold in the regional area to other companies. Actually the firm employs 13 people and 4 members of the family, who are involved in both strategic and operating management. Lack of human resources and factory space are main problems for the company, and significantly provide a limit to its growth potential. Likewise the *Calzificio Vitrano*, the firm is starting to face problems concerning machinery obsolescence. However, it has been able since always to keep a steady state in local market, where it holds a 25% market share. Nevertheless, like *Pensabene Conserve*, the company shows structural difficulties in building a consistent set of strategic assets.

The business owner-entrepreneur is not inclined to change the *status quo*. He is satisfied about the general conditions of the firm and does not aim to build more strategic assets beyond those around which the company has been based since ever (i.e., customer base, personal contacts in the local area). He also perceives that the market is stable and will give his company possibilities to remain in the field for a long time in the future, although always on a local basis. He also feels that the currently used technology is less competitive than it could be, provided that business machinery is quite old. Concerning competition, Mr. Mineo has some difficulties to detect, at least direct, competitors as he is quite confident about the loyalty of his customers, even though one of the three main competitors is a large non-local company. The entrepreneur also believes that relationships with employees outside the business-owning family have always been based on mutual confidence. Other family members are involved in administrative and technical tasks: they are the only people to whom the entrepreneur is willing to delegate his power. Relationships with financial institutions are perceived by the entrepreneur as good, also because the firm has always been self-financing its own current needs. However, Mr. Mineo has not recurred to any financial institution to get funds to make long term investments

It will not be possible for the firm to undertake new fields in the future, provided that the owner has only a son and a daughter and only the former is recognised as the person who will succeed him. According to Mr. Mineo's values, the company could not be conceived as an institution to be managed by other people outside the business-owning family, as it is the major wealth for the family itself: at the same time it provides family members with the only source of income, self-esteem and personal education.

The *Antica Focacceria San Francesco* is a family-owned company that was established in 1834 to produce Sicilian food, ranging from cakes to salted meals. Around the World War I, it was managed by Mrs. Conticello, the founder's daughter-in-law. Being the only person of the family who was involved in the management of the company, Mrs. Conticello was not able to continue business operations with the same intensity of past decades. This decreased the number of employees from 25 to 8 people. Also the product scope was reduced. The activity was later continued by her son Antonio, who started to lead the firm in the half of the '70s. However, he was not full time involved in the business, since he was employed in Public Administration. Although he was not committed to the business growth, from the half of the '70s to the beginning of this century the company has been gradually increasing its employees, product scope, and sales turnover. This gradual, although marginal, increase in the business size was involved by the gradual improvement of local quality of life, leading to an increase in demand. The product scope of the business was well known and appreciated by local consumers.

On December 8th 2000 a dramatic event threatened the survival of the firm: the business sharply reached a negative peak in its main product sales: only 112 pieces had been sold, against the normal 1,700. This unexpected phenomenon was due to the "mad cow" crisis. A few days after, its traditional boiled cow spleen sandwiches were banished by public authorities, and the company was forced to close. Mr. Conticello was not anymore willing to take care of the company. He proposed his two sons to either sell the firm, or transfer them the entrepreneurial role. The second option was chosen. In order to reposition the firm, it would have been necessary to envisage new business areas where to operate, in order to differentiate the offer.

In January 2001, the main company store was re-opened and capital was invested to foster communication to local customers, based on an explicit message intended to transmit of confidence towards product quality. It was also opened a restaurant, and alternatives aimed to "replicate" in other cities the product system offered into the main company store (possibly through franchising chain), were analysed.

Such policies led the company to improve both its customer base and cash flows, leading to a 1.250.000 Euros sales turnover, and an increase in employees to 50 people. These changes in the business idea and performance could not have been occurred without a major shift into the entrepreneur's mental models and inclination to modify the *status quo*.

Tutone was started in 1813. Since the beginning, its main product has been an anise liqueur, used to flavour fresh water to get a refreshing soft-drink. The anise-flavoured soft-drink was initially produced and sold by Mr. Tutone in a stall where not only common people where used to go: even noblewomen stopped their horse-driven coaches to have *Tutone's* refreshing rest. During World War II, the *Tutones* decided to interrupt production activities, due to the impossibility to import raw materials from China. A few producers started to offer a low quality product, which only apparently was similar to Tutone's *anise*. However, in the post-war years, the third generation started again the liqueur production, which forced competitors to go out of the market.

In the 50s, being aware that the company was based on a single product, the entrepreneur decided to undertake new activities in related businesses. Consequently, it was launched an herb-flavoured liqueur. Six years later, one of the two brothers who took over the entrepreneurial role went out of the business and the entrepreneur was supported until 1965 by his three sons. In 1979, in order to keep formally separated the business from the family, the firm became a joint stock company.

Now the firm has reached its fifth generation. The board of directors is made up by six people, all belonging to the equity-owning family. All decisions are unanimously made in the firm, however the managing director is the real entrepreneur. He strongly believes that family members more than other people have a natural aptitude to manage the firm. The high centralisation of power has probably been a primary cause of the low motivation and creativity of some employees. He also believes in the opportunities related to product differentiation: for this reason, in the last two decades he has been promoting a policy aimed to enlarge product portfolio. His main goal is to safeguard the lifelong existence of the firm, in compliance with its original cultural roots that are focused on the full involvement of the family and the production and sale of *anise*. In producing these efforts to enter new markets, the firm has found some difficulties, which have led both to abandon the sale of some new products, and not to further increase the endowment of new developed strategic assets. The entrepreneur and the business-owning family have always been used to perceive as satisfactory business performance and to have been resistances to major change.

Salerno Packaging was started in 1903 as a tin plate printing factory. The founder had been previously a worker in a similar factory located in Genoa. In the '40s he started, together with his four sons, the production of metal cans for canned food and other kinds of products; this activity is still today the company's core business. Initially activities where mainly run on a local basis, and the firm was well known and appreciated on the market for its reliability and good quality positioning. This has allowed it to build up a loyal customer base, which has also supported the development of new contacts in the regional area. During the decades ranging from the post-World War II to today, the firm has been gradually changing its own relational system, though keeping relatively stable product portfolio and organization.

Now it has reached the third generation. In the '80s, under the direction of the founder's grand-son, it has started major technological changes, which have allowed it to enter into wider markets, mainly through contacts in the South Mediterranean African area.

Salerno Packaging is now one of the leading companies in its market segment, with a production that is traded in the national area and abroad. Its success is also related to its higher flexibility compared to other larger competitors in responding specific customer requests.

In spite of its actual form of joint stock company, it is still a family-owned business. The third generation family members hold the most important managerial roles, while the fourth generation has recently started to be introduced into the firm. The growth of the company and of the family has been a primary cause of some rising conflicts between the cousins.

The owners are aware that, in order to be able to sustain growth in the different geographical areas and business units where the firm is trying to expand its influence, the recruiting of managers from outside the family will be a necessary choice. In fact, further growth will imply a significant effort justifying the gradual introduction of managers.