The Positive Effect of Motivation and International Orientation on SME Growth

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Abstract

This empirical study on SME growth investigates the relationship between motivation for growth, international orientation and subsequent performance by following 247 firms over eleven years. Using a combination of regression analysis and structural equation modeling the authors find the international orientation of the firm to be a consistent predictor of growth in revenue and exports. The authors also find the international orientation of the firm to be closely interrelated with motivation for growth: Firms with managers and owners having a strong motivation for growth tends also to have managers with high international orientation and display superior growth both domestically and abroad. While motivation seems independent of past performance, it has a profound positive influence on the growth in revenue. Moreover, the findings reveal that some firms are able to sustain high growth rates over an extended period of time. The study supports the contention that some firms are able to systematically outperform the rest.
**Introduction**

As pointed out by Wiklund and Shepherd (2003) few studies have empirically investigated the link between motivation for growth and subsequent growth in SMEs. This is surprising, as a ground premise for motivational theories within psychology is that our motivation affects our behavior and subsequently the level of effort (Kanfer 1991). Further, our assessment of the literature shows that few studies have investigated the effect of motivation on growth in revenue, employment, and exports separately. This distinction is of major interest for both business leaders and public policy makers; while business leaders are mainly focused on growth in revenue, public policy makers are also concerned with growth in employment. For SMEs, international expansion is becoming a more and more viable growth alternative due to the revolution in communication, transportation, financing and the homogenization of markets (Oviatt and McDougall 1994). Thus, from a research perspective, focus on internationalization and overall growth in SMEs seems more and more inseparable. While previous literature has focused on international orientation and motivation independently, little consideration has been given to the shared impact of these on performance. A reason for this apparent dearth of research may be the temporal separation of motivation, international orientation and subsequent performance, making data collection an extensive and time-consuming task.

Motivational studies have frequently been criticized for the use of bivariate analysis, which does not consider the moderating effect of other variables (Wiklund and Shepherd 2003). Both Baum and Locke (2004) and Shane, Locke and Collins (2003) argue that motivational traits may affect actions indirectly through other mechanisms. Similar methodological concerns is also found in the export performance literature, and Zou and Stan (1998, p. 341) claimed that “To develop better theory in export performance research, researchers need to combine regression analysis with more sophisticated approaches such as path analysis and structural equation modeling so that both direct and indirect effects can be investigated”. In addition to the use of methodologically more sophisticated analysis, McDougall and Oviatt (1996) call for more longitudinal studies in the field of internationalization. In analyzing growth this is of particular importance as growth in itself is a change process that cannot be properly evaluated by only considering a single point in time.

We seek to address the above mentioned gaps and methodological considerations with a longitudinal study of 247 Norwegian exporting SMEs. In such, the contribution of this paper is threefold: First of all we investigate the connection between motivation for growth and the subsequent growth in revenue, employment and exports. Secondly, we tie this together with the international orientation of the firm and see the comparative influence on the same factors. Thirdly, we seek to understand the
influence of past performance on future growth and motivation. While these constructs have been analyzed separately in past literature, research into their connection and comparative importance on performance is nonexistent. Longitudinally exploring these constructs and their interrelation in an SME context is important, as SMEs account for over 95 percent of businesses and generate between 60-90 percent of new jobs (OECD 1997). A better understanding of the determinants of growth should therefore be of vital interest to both business practitioners and public policy makers.

This paper proceeds along the following lines: First, we review relevant literature and develop a set of hypotheses regarding the relationships between our study constructs. We then present our results before discussing these in connection with relevant theory. The article concludes with practical implications for business practitioners and public policy makers as well as suggestions for future research.
Theoretical background and development of hypotheses

Growth motivation and subsequent firm growth

A ground premise for motivational theories is that our motivation affects our behavior, and subsequently the level of effort (Kanfer 1991). The theory of planned behavior incorporates this and predicts that as a general rule, the stronger the intention to engage in a behavior the more likely should be its performance (Ajzen 1991). Transposing this to a firm setting, we would expect a strong growth motivation among managers and owners to have a positive influence on subsequent firm growth. However, as pointed out by Wiklund and Shepherd (2003), the temporal separation of motivation and subsequent growth has resulted in relatively few empirical studies investigating this link. Nevertheless, of the limited studies, several have been conducted in a Scandinavian context. Kolvereid and Bullvåg (1996) looked at 173 Norwegian new businesses and found the entrepreneur’s growth intention to be significantly associated with subsequent growth. In an empirical investigation of 863 Swedish small firms, Delmar and Wiklund (2008) found a positive relationship between growth motivation and growth. However, the authors argued that the relationship is weakened for two reasons: first, the environment and the organization put constraints on the managers, limiting their volitional control and ability to perform the desired tasks. Secondly, the fuzzy and complex nature of firm expansion may create conflicts with other goals and limit the manager’s ability to develop suitable strategies. A similar argument is found in Davidsson, Achtenhagen and Naldi (2006) who point out that because the environment vary across dimensions such as dynamism, heterogeneity and munificence, as described by Dess and Beard (1984), external factors rather than management motivation may largely determine how much firms grow. While all these factors can be expected to reduce the strength of the relationship, most empirical studies still indicate a positive link (Wiklund and Shepherd 2003; Baum, Locke, and Smith 2001; Baum, Locke, and Kirkpatrick 1998).

Among the previously mentioned studies there are considerable differences in how motivation is defined and operationalized. While Wiklund and Shepherd (2003) define a motivational factor based on the desirability of growth, Baum, Locke, and Smith (2001) and Baum, Locke, and Kirkpatrick (1998), see motivation as a composition of vision, self-efficacy, and goal. However, none of these studies incorporate the growth motivation of owners. Their inclusion is of particular importance in an SME setting as owners to a larger degree may be involved in the daily running of the firm. Additionally, previous studies have failed to incorporate the fact that growth motivation might be survival oriented, as pointed out by Carsrud and Brännback (2011). This means that management sometimes considers growth as a necessity for firm survival, rather than a goal in itself. Incorporating these considerations, this study see motivation for growth as a group level construct that involves the shared ambition of
managers and owners, while taking both expansion and survival oriented aspects into account. Even though the measures of motivation have differed, both the psychology literature and empirical findings suggest a positive link between motivation and subsequent firm growth. We therefore propose:

_Hypothesis one: The growth motivation of managers and owners positively affect the subsequent revenue growth of the firm_

Based on the same argumentation, we would expect the same to be true for growth in employment, and propose:

_Hypothesis two: The growth motivation of managers and owners positively affect the subsequent employment growth of the firm_

The increasing globalization of markets has accentuated the importance of international activities for overall firm performance. Maturing domestic markets, increased competition at home, and limited domestic opportunities increasingly force firms with an ambition for growth to look toward international markets. As pointed out by Oviatt and McDougall (1994) the opportunity to compete on a global stage is no longer reserved large MNCs due to the revolution in communication, transportation, financing, and the homogenization of markets. Thus from a research perspective, focus on internationalization and overall growth in SMEs seems more and more inseparable. We therefore want to investigate the connection between the motivation for firm growth and revenue generated from international activities. In a sample of firms from Poland, Cieslik et al (2012) presented results that indicate that concentration of export sales in one market reduced the export growth rates while Zahra et al (2000) present factors which may explain a direct positive relationship between international diversification and export performance. It is reasonable to assume that when managers have high growth ambitions, they will follow an export strategy not limiting the expansion to one or few markets, and we propose that:

_Hypothesis three: The growth motivation of managers and owners positively affect the firm’s subsequent growth in export revenue_

**International orientation, motivation and export performance**

Exporting SMEs is by no means a homogenous group (Nummela, Puumalainen, and Saarenketo 2005). While some firms primarily have a domestic scope with exports as a secondary focus, others operate mainly abroad and have a high international orientation. We define a high international orientation as firms that actively seek international opportunities, see the world as their market, adapt their products to international operations, communicate their international ambitions throughout the
organization and develop the resources required for international activities. According to Knight (2001) the international entrepreneurial orientation of SMEs strongly contributes to their international performance, and is one of the most important success factors of international ventures. In a review of the determinants for export performance, Zou and Stan (1998) found the international orientation of the firm to be a consistent predictor of export performance. They concluded by stating that an internationally oriented firm better identify and benefit from emerging international opportunities. Consequently, it can be expected that a high international orientation positively influence the firm’s export sales:

_Hypothesis four: Firms with a high international orientation display higher growth in export sales_

As pointed out by Lu and Beamish (2001), growth through international diversification is an important strategic option for small firms as it broadens the customer base and enables the firm to achieve economies of scope and scale. Further, they note that the difference in market conditions across countries allow internationalized firms to capitalize on market imperfections and achieve higher returns on their resources. This would imply that a high international orientation would lead to increased overall performance. However, international activities also increase the environmental complexity faced by managers of SMEs and hence sets additional challenges for the firm and introduce more risk (Reuber and Fischer 2002). The resource demand of internationalization may put additional strain on the domestic activities of the business and can have adverse effects on the total growth of the firm even though sales from international activities are increasing. This is noted by McDougall and Oviatt (1996) who point out that empirical findings on the benefits of internationalization are mixed and claim that foreign expansion does not necessarily contribute positively to overall company growth. Similarly, in a large study on SME growth, Westhead, Wright, and Ucbasaran (2001) found the propensity of exporting not to be significantly related to employment growth, sales growth or even firm survival. This underlines the importance of considering growth in foreign sales in conjunction with total growth and firm survival. Despite the possible challenges connected to international activities, we still expect an international orientation to have a positive influence on overall firm growth in the long run, and propose that:

_Hypothesis five: Firms with a high international orientation display higher growth in total revenue_

As noted earlier, it is reasonable to expect that firms with managers or owners with a strong motivation for growth want to obtain some of this in export markets. Similarly, it is likely that firms who have a strong international orientation also exhibit a desire for overall growth. We therefore expect a connection between the international orientation of the firm and motivation for growth, and hypothesize that:
Hypothesis six: Firms with managers/owners with a strong motivation for growth also exhibit a higher international orientation

Past growth and the effect on future growth and motivation

A firm accumulates resources when it grows. In principle, this increases the number of potential resource combinations (Lockett, Wiklund, Davidsson, and Girma 2011). As the system accumulates varied resources, the number of possible combinations will expand naturally at a combinatorial rate (Weitzman 1996). From a resource based view (Wernerfelt 1984; Barney 1991; Barney 2001) it is therefore reasonable to expect that firms who have grown and acquired resources in the past will continue to grow at an accelerating pace. However, as pointed out by Penrose (1959) the rate at which the firm can develop its managerial capabilities sets an ultimate limit to its growth. This is further elaborated by Dierickx and Cool (1989) who claim that the quicker a firm tries to grow, the more costly and less effective growth becomes. They argue that this is due to the time compression diseconomies which build on strictly convex adjustment costs. Moran and Ghoshal (1999) considers it from a slightly different perspective and argue that even though growth provides the firm with an increasing number of opportunities over time, the managers are not able or willing to access, deploy and combine them. This is echoed by Vermeulen and Barkema (2001) who claim that organic growth leads to the repeated exploitation of existing resources leading firms to be simple and inert. Thus, from a theoretical view point, past growth could have both positive and negative influences on subsequent growth rates.

Considering the empirical evidence, Baum and Locke (2004) found a significant positive correlation between past and subsequent venture growth in a study of 229 North American architectural woodworking firms. However, in a related study Baum, Locke, and Kirkpatrick (1998) found no significant correlation. Decomposing growth into organic and acquisitional, Lockett, Wiklund, Davidsson, and Girma, (2011) found a direct and negative relationship between previous and current organic growth in a longitudinal study of 11525 Swedish manufacturing firms. They concluded by supporting Penrose, claiming that firms that have expanded organically in the past will find it more difficult to expand organically in the current period. However, they also found that previous aquisitional growth could have a positive impact on future organic growth. Thus, empirical evidence seems contradictory. To investigate the relationship between past and current growth we propose:

Hypothesis seven: Above average growth in the past will lead to below average growth in the future

Previous growth may also have an influence on the motivation for further growth. Wiklund and Shepherd (2003) point out that it appears plausible that the experience of realized growth could affect future firm growth aspirations. In the psychology literature, Bagozzi and Kimmel (1995) noted that the
connection between past performance and future motivation is positive and reinforcing on the personal level. They claimed that motivational theories often fail to take this into account even though it has profound effects. Assuming that this also hold for firm managers and owners, we would expect a positive reinforcement of motivation for firms which in the past have experienced substantial growth. However, simply aggregating these results to a firm environment may not be entirely valid. These studies are limited to personal motivation and the external validity does not necessarily hold for firm growth as managers’ motivation is affected by a variety of internal and external factors.

Another possible factor affecting the motivation for future growth is that growth adds complexity which can be difficult to manage (Covin and Slevin 1997). This was noted by Penrose (1959) who claimed that the development of managerial resources takes time and sets a limit to how fast firms can grow. Thus it seems plausible that periods of high past growth can lead to a lower motivation for growth in order to enable the organization to catch up.

Regarding the empirical evidence, few studies have investigated the effect of past growth on the motivation for future growth in SMEs. One notable exception is a study by Delmar and Wiklund (2008), which found that past growth positively affects growth motivation, proposing the existence of “feedback-loops”. This may be seen in conjunction with Wiklund and Shepherd’s (2003) suggestion of growth motivation as an “acquired taste”, meaning that managers who have experienced considerable growth may have seen the benefits of expansion and have higher motivation for future growth. These findings support the notion of past performance as a positive and reinforcing influence on motivation, as noted in the psychology literature. We therefore propose:

**Hypothesis eight: Past growth positively affects the motivation for growth for managers and owners**

**Hypothesis relationships**

Throughout this chapter we have developed eight hypotheses. Figure one shows the hypothesized relationships among the study constructs. While all of these have been analyzed separately in the past, they have not been seen directly in conjunction with each other as our model enables us to do. Among the eight proposed hypotheses, two hypotheses regard past growth, and its effect on motivation and future growth. One hypothesis describe the relationship between the international orientation and growth motivation, while five hypotheses regard the connection between international orientation, growth motivation, and growth in revenue, employment, and exports.
Methodology

The hypothesized relationships will be investigated in a quantitative manner by using time series data for Norwegian SMEs covering the period 1999-2009. The data is centered on a survey distributed to managers in 2004, enabling us to see motivational variables in conjunction with financial performance data, both preceding and antecedent the survey. As a result cause and effect chains between a firm’s past, its current situation, and its future performance can be investigated. In analyzing the data we follow the recommendations of Zou and Stan (1998) and apply both regression analysis and structural equation modeling (SEM) to understand both direct and moderating effects. As SEM assumes linearity, combining it with regression analysis enables us to investigate possible non-linear relationships.

The dataset

The recipients of the survey were senior managers of Norwegian small and medium sized exporting manufacturers. The firms were identified from the Kompass Norway database, a commercial address list supplier. We adopted the classification of manufacturers from the Statistics Norway definition including in example textiles, wood, chemicals, metals, computer equipment, furniture and machinery companies. With did one adjustment from the standard Statistics Norway definition of manufacturing industries, one group within food products was excluded: firms selling fish/fish farming related products. The reason for this was the observation that some of these firms basically were distribution organizations.
Following in example Morgan-Thomas and Jones (2009), we use the standard EU definition of a small and medium sized firm as having less than 250 employees. Most of the questions in the survey were based on a seven point Likert Scale, and developed from internationally published scales. In total 2415 questionnaires were distributed, out of which 205 were returned due to address error. Of the remaining 2210, 308 surveys were returned yielding a response rate of 13.94 percent. In 2011 accounting and employment figures were retrieved from Statistics Norway, covering the period from 1999 to 2009. To ensure validity, the data was manually inspected. Some firms had merged in the period, and these were deleted. The same was also done with firms where the financial figures could not be verified against publicly available sources. We then checked if the removed firms (due to mergers or invalid public data) was different than the rest of the sample using a t-test of the year of establishment, mean firm revenue in 2004, mean number of employees in 2004, and growth rate 2004-09 was conducted. No significant differences between the two groups were found. We therefore conclude that among these variables, the removed firms do not differ in a systematic manner from the rest. The existence of outliers may have a large influence on regression coefficients and significance levels. In order to control for the impact of this, an outlier detection test in SPSS was used for the relative growth in revenue, employment and exports. The limit was set at 1.5 interquartile range (IQR), as described by Kinnear and Gray (2009). This revealed the existence of 17 outliers in the relative growth rates in exports, constituting 95 percent of the variance. A closer inspection of these cases revealed that all had a relatively moderate absolute growth in exports, but due to their very low initial exports they exhibited an extreme relative growth rate. Thus, firms who had barely increased their exports in absolute terms had a large impact on the mean and variance of the sample. When these growth rates were removed, the standard deviation of export growth was reduced from 1463.75 percent to 79.01 percent. The removal also reduced the skewness in the sample bringing the mean closer to the median. In total, this left 247 valid responses used in the analysis.

The characteristics of the remaining firms are presented in table one. As the table shows the sample has a distribution of both new and old firms, with a skewness toward newer firms. The export figures show considerable variations in the degree of internationalization, with the export share ranging from marginally above zero percent to 98 percent, with a mean of 31 percent.
Table 1

Descriptive statistics of firms in the sample

<table>
<thead>
<tr>
<th>Factor</th>
<th>Mean</th>
<th>Median</th>
<th>Max</th>
<th>Min</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year of establishment</td>
<td>1968.74</td>
<td>1980</td>
<td>2004</td>
<td>1853</td>
<td>28.00</td>
</tr>
<tr>
<td>Revenue 2004*</td>
<td>85.78</td>
<td>35.97</td>
<td>1309.83</td>
<td>0.71</td>
<td>144.61</td>
</tr>
<tr>
<td>Employment 2004</td>
<td>50.78</td>
<td>28.00</td>
<td>351.00</td>
<td>1.00</td>
<td>60.30</td>
</tr>
<tr>
<td>Exports 2004*</td>
<td>33.24</td>
<td>7.39</td>
<td>668.16</td>
<td>0.01</td>
<td>71.84</td>
</tr>
<tr>
<td>Export share of revenue 2004 [%]</td>
<td>31.27</td>
<td>22.90</td>
<td>98.00</td>
<td>0.10</td>
<td>29.23</td>
</tr>
<tr>
<td>Growth Revenue 04-09 [%]</td>
<td>44.69</td>
<td>20.07</td>
<td>971.62</td>
<td>*-91.64</td>
<td>117.85</td>
</tr>
<tr>
<td>Growth Employment 04-09 [%]</td>
<td>7.51</td>
<td>0.00</td>
<td>269.57</td>
<td>*-91.30</td>
<td>53.37</td>
</tr>
<tr>
<td>Growth Export 04-09 [%]</td>
<td>3.00</td>
<td>-12.06</td>
<td>221.80</td>
<td>*-99.49</td>
<td>78.71</td>
</tr>
</tbody>
</table>

* All currency quoted in million Norwegian Krone

Motivational and growth measures

To ensure reliable measures for motivation for growth and international orientation, two new constructs were created using factor analysis. A large sample is needed when conducting factor analysis, and according to Comrey and Lee (1992) 200 cases is fair and 300 is good. Our sample of 247 firms is thus deemed satisfactory. Extraction of the factors was performed using principal component analysis with varimax as the rotating method. To assess the reliability of the combined factor we used Cronbach’s Alpha. A high Cronbach’s Alpha indicates reliability and the existence of a strong internal consistency within the questions (Zinbarg, Revelle, Yovel, and Li 2005). The motivation for growth variable was constructed using three questions related to the growth desire of managers and owners, as seen in table two. The international orientation of the firm variable was constructed from five questions relating to the firm’s focus on international activities. The items was selected based on previous studies by Khandwalla (1977), Covin and Slevin (1989), Moen (2002), Moen and Servais (2002) and Knight and Cavusgil (2005). Both factors have a Cronbach’s Alpha exceeding the limit of 0.700 suggested by Nunnally (1978). In some cases, motivation and international orientation was divided into three categories; ‘weak’, ‘moderate’, and ‘strong’. This was done to increase the number of elements in each subset, and thus enabled more reliable statistical analysis. From the seven point Likert scale, the strong category was classified as all firms with a motivation for growth or international orientation above 5.5. The lower limit was set at 2.5. It will be explicitly stated when this grouping is used.

In growth studies an important decision to be made is the choice of growth indicator. In his review of 55 empirical growth studies, Delmar (1997) found that the most used indicators were growth in
employment and sales revenue. These are easily available and may be seen as non-controversial from a research perspective. Sales are the most general indicator and are especially useful in cross-industrial studies. It is also the indicator that small firm owners and managers use themselves (Barkham, Gudgin, Hart, and Hanvey 1996). As pointed out by Delmar (1997), sales are a precursor of other growth indicators. While growth in employment is rarely seen as a goal in itself by management (Robson and Bennet 2000, p. 194), it might be the main point of interest for public policy makers. However, employment is not always highly correlated with sales growth as some of the growth in sales can be achieved through partnering and outsourcing. As revenue and employment clearly highlight different aspects of growth, we choose to use both indicators separately.

Table 2

Factor analysis

<table>
<thead>
<tr>
<th>Motivation for growth*</th>
<th>Load</th>
<th>Cronbach’s alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth is a strong desire for the firm’s management</td>
<td>0.943</td>
<td></td>
</tr>
<tr>
<td>Growth is a strong desire for the firm’s owners</td>
<td>0.927</td>
<td></td>
</tr>
<tr>
<td>Growth is a necessity for the firm’s survival</td>
<td>0.792</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>International orientation*</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm see the world, not just Norway, as its market</td>
<td>0.784</td>
<td></td>
</tr>
<tr>
<td>The firm’s culture is characterized by actively seeking possibilities in export markets</td>
<td>0.887</td>
<td></td>
</tr>
<tr>
<td>The firm is able to develop and adjust new and existing products and services to international markets</td>
<td>0.830</td>
<td></td>
</tr>
<tr>
<td>The importance of succeeding in exports is emphasized towards all employees</td>
<td>0.885</td>
<td></td>
</tr>
<tr>
<td>Developing human and other resources that contribute to successful export is emphasize</td>
<td>0.863</td>
<td></td>
</tr>
</tbody>
</table>

Growth can be measured both in absolute and relative terms. As Davidsson, Achtenhagen, and Naldi (2006, p. 367) state: “Relative (percentage) measures tend to “favor” small firm growth while the reverse is true for absolute growth measures”. In the case of our dataset the firm size varies considerably, demonstrated by the fact that the largest company in 2004 had the same revenue as the 104 smallest combined. Because of this we will use relative growth as our main indicator, but complement this with absolute growth to get the full picture. One additional argument for including different growth measures is possible differences between firms within different industries influencing sales versus employment growth patterns.
**Results**

**Growth motivation and subsequent firm growth**

Hypothesis one suggests a positive connection between motivation for growth and subsequent revenue growth. To investigate this, the Pearson correlation between motivation for growth and revenue growth in the period 2004-2009 was calculated. This revealed a positive significant relationship \((r(220) = 0.205, p<0.002)\), as seen in table three.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Relative growth</th>
<th></th>
<th>Absolute growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Correlation</td>
<td>(p)</td>
<td>Correlation</td>
</tr>
<tr>
<td>Growth motivation</td>
<td>Revenue growth</td>
<td>0.205 *0.002</td>
<td>0.111</td>
</tr>
<tr>
<td>Growth motivation</td>
<td>Employment growth</td>
<td>0.113 0.144</td>
<td>-0.025</td>
</tr>
<tr>
<td>Growth motivation</td>
<td>Export growth</td>
<td>0.128 0.105</td>
<td>0.143</td>
</tr>
<tr>
<td>International orientation</td>
<td>Revenue growth</td>
<td>0.227 *0.001</td>
<td>0.275 *0.000</td>
</tr>
<tr>
<td>International orientation</td>
<td>Export growth</td>
<td>0.183 *0.019</td>
<td>0.234 *0.001</td>
</tr>
<tr>
<td>International orientation</td>
<td>Export share growth</td>
<td>0.045 0.587</td>
<td></td>
</tr>
<tr>
<td>International orientation</td>
<td>Growth motivation</td>
<td>0.389 *0.000</td>
<td></td>
</tr>
<tr>
<td>Past revenue growth 99-03</td>
<td>Revenue growth 04-09</td>
<td>0.163 0.059</td>
<td>0.552 *0.000</td>
</tr>
</tbody>
</table>

*significant relationship at the 0.05 level

However, performing the same calculations using absolute growth yielded no significant connection. To further explore the relationship we divided the firms into three groups, ‘weak’, ‘moderate’, and ‘strong motivation’, as described in the methodology chapter. Figure two display the growth rate in the different motivational groups. An independent sample t-tests yielded a significant difference in mean growth of 61.48 percent \((p<0.036)\) between the ‘weak’ and ‘strong motivation’ categories. The same was true for absolute growth (difference: 42.94MNOK, \(p<0.001\)). Investigating the difference between the ‘moderate’ and ‘high-motivation’ category a Welch’s had to be used due to homoscedasticity. This yielded a significant difference of 30.60 percent \((p<0.045)\). In total, the significant positive correlation and the fact that the firms in the ‘strong motivation’ group performed significantly better than the rest indicate the existence of a connection between motivation and subsequent growth. Thus hypothesis 1 is supported: A strong motivation for growth positively affect the subsequent revenue growth of the firm.
Next, to investigate the hypothesized positive relationship between motivation for growth and subsequent growth in employment, we applied a similar approach as for revenue growth. The Pearson correlation showed a positive, but non-significant relationship \( (r(168) = 0.113, p<0.144) \) as seen in table three. We then divided the firms in three motivational groups. However, due to the low number of firms in the ‘weak motivation’ category \( (N=9) \), we combined it with the ‘moderate’ category, as seen in figure two. The two categories had almost identical mean growth in employment prior to combination (-1.42 percent and 0.54 percent). A Welch’s test yielded no significant difference in growth rates between the firms in the ‘strong motivation’ category and the rest (difference 18.95 percent, \( p<0.061 \)). However, it should be noted that the significance level was fairly close to our five percent rejection limit. As none of the results were significant, it would appear that hypothesis two should be rejected. It is worth noticing that even though no significant connection was found, all the tests pointed toward a weak positive relationship. Because of these ambiguous results we are neither able to reject nor support hypothesis two.

![Figure 2:](image)

**Figure 2:**
Growth in revenue(left) and employment(right, binned) in each growth motivational group

Hypothesis three propose that the growth motivation of managers and owners positively affect the subsequent growth in export sales. The Pearson correlation between the two was 0.128 \( (N= 163, \ p<0.105) \), as seen in table three. As in the previous tests we binned the firms into three motivational groups. Due to the low number of firms in the ‘low motivation’ category \( (N=8) \), we combined this with the ‘moderate motivation’ category. An independent sample t-test yielded no significant difference in growth rates between the two groups (difference = 14.27 percent, \( p<0.249 \)).
correlation or difference was found, we reject hypothesis three: The growth motivation of managers and owners does not contribute positively to subsequent export growth.

**International orientation, motivation and export performance**

Hypothesis four suggests a positive relationship between international orientation and growth in export sales. As seen in table three, international orientation is significantly correlated to export growth, both in relative ($r(164)=0.183$, $p<0.019$) and absolute terms($r(181)=0.234$, $p<0.001$). To further confirm this relationship we divided the firms into three categories based on their international orientation, as outlined in the methodology chapter. As the ‘weak international orientation’ category only consisted of five firms, we combined the ‘weak’ and ‘moderate’ ($N=97$) categories into one. An independent sample t-test revealed a significant difference in means between the ‘high international orientation’ category and the rest (difference 35.33 percent, $p<0.005$). Companies with a ‘high international orientation’ experienced on average a 25.14 percent growth in exports, while the companies with a weak or moderate international orientation had −10.20 percent. Thus hypothesis four is supported: Firms with a high international orientation display higher export growth.

Hypothesis five postulates that firms with a high international orientation display higher growth in total revenue. The Pearson correlation was significant both in relative ($r(219)=0.227$, $p<0.001$), and absolute terms ($r(219) = 0.275$, $p<0.000$). We then used the same grouping and combined the ‘weak’ and ‘moderate international orientation’ categories. The results showed a significant mean difference, with firms with a high international orientation experiencing a 33.52 percent ($p<0.015$) higher growth than the rest. In absolute terms companies with a high international orientation displayed on average 74.61MNOK ($p<0.001$) higher growth. Thus hypothesis five is supported: Firms with a high international orientation display higher revenue growth.

Hypothesis six suggests a positive relationship between motivation for growth and international orientation. As seen in table three, the correlation was 0.389 ($p<0.000$), and this represent the strongest relationship between our study constructs. As a result hypothesis six is supported: Firms with a strong motivation for growth also exhibit a high international orientation.

To strengthen our analysis, we further investigated the relationship between international orientation and the growth in export share. On average across all firms the mean export share declined from 33.05 percent in 2004 to 27.77 percent in 2009. There was no significant correlation between change in export share and international orientation ($r(147) = 0.045$, $p<0.587$). Testing the difference in change in export share between those with a high international orientation and the rest yielded no significant difference (mean difference 10.36 percent $p<0.271$). Finally, growth in export share had an
almost significant negative correlation with revenue growth ($r(149) = -0.138, p<0.094$). The implications of these findings will be elaborated in the discussion section.

**Past growth and the effect on future growth and motivation**

To investigate hypothesis seven regarding the effect of past growth on future growth the dataset was divided into two periods: Before the survey (1999-2003) and after the survey (2004-2009). Testing the correlation between growth in the first and second period yielded a positive, but non-significant relationship ($r(135) = 0.163, p<0.059$). Although this is not significant, it is fairly close to our five percent rejection limit. This indicates the existence of a connection, implying that firms who grew in the first period were the same who grew in the second. As the correlation gave us an indication but yielded no conclusive proof, we proceeded by dividing the firms into three equally sized groups based on their growth from 1999 to 2003. This grouping and the corresponding growth in each period can be seen in figure three. As firm growth rates may vary with age (Sousa, Martínez-López, and Coelho 1998), we used ANOVA to test whether there was a difference in age between the groups. Although the top third were slightly newer, the difference was not significant ($p<0.221$).

From figure three it is clear that the top performers in the first period also had the highest growth in the second. Examining this using a t-test revealed that the top third had a significantly higher growth in the second period as well (difference = 31.30 percent, $p<0.049$). It should be noted that the top performers did not outperform the rest to the same extent as in the first period. Further, while both the bottom and middle group had a higher growth rate in the second period the top third were the only group were growth rates decreased. However, in total it is clear that the top performers from the first period also had the highest growth rates in the second, and thus we reject hypothesis seven: Above average growth in the past will not lead to below average growth in the future.

Hypothesis eight suggests that past growth positively affect the motivation for future growth. To investigate this we calculated the Pearson correlation between past growth in the period 1999-2003 and the motivation for growth at the time of survey in 2004, as seen in table three. The correlation between these indicates no significant connection ($r(140)=-0.011, p<0.893$), implying that motivation is independent from past growth. To verify these findings we wanted to test whether there was a difference between the extreme cases. Two groups were therefore created: Those with more than 50 percent growth, and those with less than zero percent growth in the period 1999-2003. An independent sample t-test revealed no significant difference in motivation between these two groups (mean difference: 0.12, NGrowth>50 percent=55, NGrowth<0 percent=31, $p<0.739$). Given that there is no correlation between the two, and no difference between the extremes, hypothesis eight is rejected: Past growth does not seem to affect subsequent motivation.
Structural equation modeling

To better understand the interaction between past growth, international orientation, motivation for growth and subsequent growth, a structural equation model (SEM) was developed using AMOS 20. In doing so we follow the recommendation of Zou and Stan (1998) to use a combination of regression analysis and SEM to reap the benefits of both approaches. Our model was estimated by applying maximum likelihood. The model fit was evaluated using Bentler’s comparative fit index (CFI), root mean square error of approximation (RMSEA) and $\chi^2$. According to Hu and Bentler (1999) a CFI above 0.95 indicate a relatively good fit between the hypothesized model and the observed data. Regarding RMSEA, Byrne (1998, p. 112) state that “…values less than 0.05 indicate good fit, and values as high as 0.08 represent reasonable error of approximation in the population”. In this model $\chi^2$ equals 77.96 ($df = 33$, $p<0.000$), $CFI = 0.965$, and $RMSEA = 0.074$. We can therefore conclude that the model is a reasonable representation of the data.
The resulting model can be found in figure four, which also report the corresponding standardized regression weights and significance levels. Firm size and age was included in the original model, but as the impact was not significant they were dropped. From the model it is evident that both motivation and the international orientation of the firm affect its subsequent performance. This strengthens hypothesis one and five regarding the influence of motivation and international orientation on subsequent growth. It is also clear that international orientation and motivation is interrelated, as seen by the strong standardized regression weight (0.353, $p<0.000$), supporting hypothesis six. Further, their comparative influence on future growth is nearly equivalent. Past growth positively influenced future growth, but was unrelated to international orientation and motivation. This strengthens the rejection of both hypotheses seven and eight. Table four summarizes the results of each individual hypothesis.
### Table 4

**Summary of results**

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 The growth motivation of managers and owners positively affect the subsequent revenue growth of the firm</td>
<td>Supported</td>
</tr>
<tr>
<td>2 The growth motivation of managers and owners positively affect the subsequent employment growth of the firm</td>
<td>Inconclusive</td>
</tr>
<tr>
<td>3 The growth motivation of managers and owners positively affect the firm’s subsequent growth in export revenue</td>
<td>Rejected</td>
</tr>
<tr>
<td>4 Firms where managers have a high international orientation display higher growth in export sales</td>
<td>Supported</td>
</tr>
<tr>
<td>5 Firms where managers have a high international orientation display higher growth in total revenue</td>
<td>Supported</td>
</tr>
<tr>
<td>6 Managers/owners with a strong motivation for growth also exhibit a higher international orientation</td>
<td>Supported</td>
</tr>
<tr>
<td>7 Above average growth in the past will lead to below average growth in the future</td>
<td>Rejected</td>
</tr>
<tr>
<td>8 Past growth positively affects the motivation for growth for managers and owners</td>
<td>Rejected</td>
</tr>
</tbody>
</table>

**Discussion**

**Growth motivation, international orientation and subsequent performance**

In this study we have unified several constructs related to growth motivation, international orientation, and actual growth to better understand the determinants of SME performance. Our most significant finding is that firms were managers and owners have a strong motivation for growth tend to have a high international orientation and display superior growth both domestically and abroad. We build this conclusion on three key findings:

Firstly, our results revealed a positive and significant relationship between growth motivation and the subsequent growth in revenue. This is concurrent with previous empirical findings by Wiklund and Shepherd (2003), who revealed a positive connection between motivation and subsequent revenue growth. However, we found no significant relationship between motivation for growth and subsequent growth in employment. Although all results pointed in the same direction, and several were close to the 5 percent rejection limit, none were significant. This meant we were not able to conclude whether motivation for growth had an influence on employment growth. Comparing our results to the findings of Delmar and Wiklund (2008), they found only partial support in examining the relationship between motivation and growth in sales, but full support when considering employment. Although their results...
differ from ours when it comes to the comparative strength of the relationship, both studies agree to motivation having an effect on growth.

Secondly, the results revealed a positive connection between international orientation and growth in both revenue and exports. Considering these findings in relation to previous empirical studies, the positive influence of an international orientation on subsequent export growth is congruent with Zou and Stan (1998), who in a thorough review of the export performance literature found the international orientation of the firm to be a consistent predictor of export performance. One consequence of a high international orientation may be targeting more markets, as presented by Cieslik et al (2012) a single export market strategy reduced export growth rates. This is also consistent with the conclusions of Aaby and Slater (1989), and Chetty and Hamilton (1993) that factors related to management’s attitudes and perceptions are potent determinants of export performance. Cavusgil and Zou (1994) pointed out that high management commitment allows the firm to aggressively go after opportunities in export markets. Similar conclusions have also been reached by Leonidou, Katsikeas, and Piercy (1998), and Knight (2001), who found that an international entrepreneurial orientation in SMEs strongly contributes to the export performance of the firm. The positive connection between the international orientation of the firm and revenue growth shows that even though international activities may be resource demanding and put additional strain on the domestic activities, a high international orientation is positive for overall firm growth. This seems to contradict the findings of Westhead, Wright, and Ucbasaran (2001), who in an empirical study of SME growth found the propensity of exporting to be unrelated to sales growth. However, it should be noted that their sample size was very low, consisting of 116 firms of which only 30 were exporters. Our results show that firms who actively seek international opportunities, see the world as their market, adapt their products to international operations, communicate their international ambitions throughout the organization, and develop the resources required for international activities experience higher overall firm growth than firms with a low international orientation.

Thirdly, our results revealed a strong interconnection between the motivation for growth and the international orientation of the firm. In both the regression analysis and the structural equation model, the connection between these two study constructs turned out to be the strongest. Considering the development in export share, our results somewhat surprisingly revealed that the average export share declined from 33.05 percent in 2004 to 27.77 percent in 2009. This was independent of the international orientation of the firm. As overall growth in the period was positive and international orientation exhibited a stronger correlation with growth in revenue than with exports, it implies that the internationally oriented firms outperformed the rest not only internationally but also domestically. This is further strengthened by the SEM where international orientation had a marginally stronger impact than motivation on subsequent growth. We interpret the close connection between international
orientation and motivation for growth as an indication that both factors describe an underlying aspiration for expansion. It seems that firms with a high international orientation exhibit a general desire for growth. Likewise, it indicates that firms were managers and owners have a strong motivation for growth consider success in export markets an important mean to fulfill their growth ambitions. Export share and export share change is often used as an export performance measure, the results point to weaknesses regarding how well export share measures reflect export performance.

These three arguments show that firms with managers and owners with a strong motivation for growth tend to have a high international orientation and display superior growth both domestically and abroad. There may be several explanations for this. First, it is possible that a high international orientation and comprehensive foreign operations leads to learning and acquisition of new knowledge and capabilities as foreign markets bring different challenges. This can give them an edge compared to firms that sells their products solely in the domestic market, and thus lead to a potential competitive advantage. Secondly, the Norwegian economy has experienced considerable growth in this period, which may have lessened the firms’ incentives for expansion in the more risky international markets. Thus even the internationally oriented firms may have focused their resources on capturing as much as possible of the domestic growth rather than venturing out in new markets. It is worth noting that while international orientation had a significant positive impact on both growth in exports and revenue, there was no significant relationship between motivation for growth and export performance. This could indicate that a strong motivation for growth alone is not sufficient for success in international markets. The firm also needs a high international orientation, meaning that the whole firm is committed and focused on the export activities.

Management has a certain degree of volitional control

Delmar and Wiklund (2008) claimed that the relationship between motivation and growth is weakened due to two factors: the fuzzy and complex nature of firm expansion, and the constraints put on managers by the organization and the environment. Similarly, Wiklund, and Shepherd (2003) argued that growth outcomes are not under the total volitional control of management. This implies a weakening of the effect of motivation on subsequent growth. The standardized regression weights from our SEM were 0.153 for motivation and 0.159 for international orientation indicating that both factors influence the growth path. Hence management has a certain degree of volitional control over growth outcomes. However, the moderate strength of the coefficients also shows that this volitional control is limited. This means that the behavioral intentions of management will not directly translate into growth as other factors such as macroeconomic development, access to resources and other external factors can be expected to have an influence on growth.
Davidsson, Achtenhagen, and Naldi (2006) argued that because the external environment of the firm vary across dimensions such as dynamism, heterogeneity and munificence, as described by Dess and Beard (1984), external rather than internal factors may largely determine firm growth. Our results clearly show that while external factors have an impact on the firm’s growth path, internal factors are also influential. We are not able to say anything about the comparative strength of these forces, but we can conclude that managers’ intentions influence the strategic direction of the firm, which subsequently influence performance.

**Growth in revenue does not automatically transfer into growth in employment**

From the findings in this study it is also evident that growth in revenue does not automatically transfer into growth in employment. While we found a strong and significant correlation between motivation and subsequent revenue growth, the correlation with growth in employment was both weaker and not significant. Additionally, while the firms in the sample averaged a 39.73 percent growth in revenue, the corresponding growth in employment was only 7.14 percent. This discrepancy and the non-significant relationship between motivation and growth in employment indicate that even though the firms have grown, they have not realized all of this growth through the hiring of additional employees. This may be attributed to several factors: First, it is possible that increased sales have led to the utilization of prior excess capacity, or productivity increases resulting from economies of scale. This means that the firms are able to produce more with the same resources. SME manufacturers in particular, due to their small size, may benefit considerably from economies of scale as their sales increase. Hence the increased workload due to a higher number of orders may be absorbed through more efficient production. Secondly, firms may have absorbed the growth through externalization. Several studies have shown that SMEs both seek and use strategic alliances to grow (Miles, Preece, and Baetz 1999; Freeman, Edwards, and Schroder 2006). This can help them overcome shortages of capital, equipment, and other tangible assets through resource sharing (Lu and Beamish 2001). Strategic alliances may therefore present a viable alternative for small firms in a growth phase. Externalization may also have been achieved through the use of outsourcing, enabling growth in revenue without hiring additional employees. Thirdly, as Delmar (1997) point out, the number of employees is often lagged compared to the financial development. This may be intentional as managers wait to see whether the increased activity is permanent, or non-intentional because the hiring process takes time. Hiring new employees is a long term decision that introduces additional risk and added costs. This is especially true for SMEs, as each additional employee represent a relatively large increase compared to their total work stock.
Past growth does not affect motivation

While motivation is a strong determinant for the subsequent revenue growth of the firm, motivation itself is independent of past growth. This was evident both from the non-significant correlation and the structural equation model. Even when comparing the group with the highest past growth against the group with the lowest past growth, no significant difference in motivation was found. This is contrary to the findings of Delmar and Wiklund (2008) who found that past growth positively affected growth motivation. They suggested a mutual feedback loop where realized growth in turn leads to increased motivation for further growth. Our results, however, does not find any support for this as all findings clearly point to the two constructs being independent of each other.

In developing hypothesis 8 we proposed that the findings of Bagozzi and Kimmel (1995) from the psychology literature were applicable on a firm level. They showed that the connection between past performance and future personal motivation was positive and reinforcing. However, as we found no connection between a firm’s past growth and the motivation for future growth, it seems that the findings on personal motivation from the psychology literature are not directly transferable to a firm level. This indicates that motivation for growth in a firm setting is a complex and different phenomenon than personal motivation, as it is heavily dependent on firm specific factors and the traits and experiences of the people involved.

Past growth does not limit future growth

Our results show that some firms are able to sustain high growth rates over an extended period of time: The top performers in the first period were also the top performers in the following period. Similarly, the bottom performers also did worst in the second period. This is in concordance with Baum and Locke (2004), who found a significant positive correlation between past and subsequent venture growth in a study of American manufacturing firms. As our study cover a time span of eleven years, it seems safe to conclude that some firms inhibit a fundamental set of characteristics or factors that separate them from other firms and make them able to systematically outperform the rest.

However, it should be noted that the top performers in the first period did not outperform the rest to the same extent in the second. The average growth across all firms was nearly identical in the two periods, and although the top performers grew 3.5 times the average in the first period, they only grew 1.5 times the average in the latter. Both the bottom and middle third improved their growth rates between the two periods, while the top third was the only group that experienced lower growth rates in the second period. This indicates that very high growth rates are difficult to sustain over a long time.
Considering firm growth from a resource based view (Wernerfelt 1984; Barney 1991; Barney 2001), growth should lead to an increased number of resource combinations and thus also enable further growth. While this may be the case for moderate growth, our results show that extreme growth cannot be sustained over a long period. We are, however, not able to determine whether this is due to limitations of how fast managerial capacity can be developed as suggested by Penrose (1959), strictly convex adjustment costs as suggested by Dierickx and Cool (1989) or if it is because managers are not able or willing to access, deploy and combine the new resources as suggested by Moran and Ghoshal (1999).

**Implications**

**Implications for managers, owners, investors and public policy makers**

The findings presented in this study have implications for both business practitioners and public policy makers. Our results reveal that managers need to be aware of the role of motivation in achieving growth. Even though external and other internal factors reduce management’s volitional control, the growth outcome is still affected by their underlying beliefs and aspirations. Managers therefore need to ensure that growth goals are aligned with the underlying growth motivation. Further, our findings reveal that firms with a high international orientation performed better both domestically and abroad. Having an international focus may therefore serve as a good strategic option for small firms for two reasons: Firstly it broadens the firm’s scope allowing them to capitalize on potential market differences when they arise. Secondly, knowledge and capabilities from international markets may be applied in the home market, giving them a competitive advantage domestically as well. To reap these benefits managers must ensure that the entire firm see the world as their market, actively seek international opportunities, adapt their products to international markets and develop the resources required for export activity.

Owners with a strong aspiration for firm growth must keep the important influence of motivation in mind when hiring managers, and find managers who share their ambition for growth. Even though this study has not investigated the consequences of a misalignment in motivation between owners and managers, it seems plausible to assume that a disconcordance of aspirations may produce suboptimal outcomes. Investors can also benefit from our results, as it is clear that some firms are able to systematically outperform the rest. Identifying these firms should be of great interest to investors, and our findings reveal that motivation and international orientation can aid them in doing so.

For public policy makers it is important to note that there is a possibility for economic growth if managers’ growth aspirations can be increased. According to Delmar and Wiklund (2008) the importance of motivation has largely been overlooked in public policy programs, as most support
programs implicitly assume that only the limited availability of resources constraints their growth. However, it is clear from our results that not all firms have a desire to grow. Thus, growth programs should emphasize on identifying and targeting firms who exhibit a desire for growth, but are limited by their resources. By assisting the right firms both the impact and efficiency of public policy programs can be increased.

**Implications for future research**

As noted by Kolvereid and Bullvåg (1996), a common weakness in most growth models is the implicit assumption that growth is always a desired objective. The findings presented here show that not all firms want to grow and that the realized growth outcome is clearly influenced by owner and manager motivations. Growth models that ignore motivation and simply assume that all firms exhibit a general desire for growth may therefore produce biased results. In addition, this study has combined constructs that previous empirical studies have treated individually. Our results show a clear connection between motivation, international orientation, past- and future performance. Ignoring these interconnections could lead to incorrect conclusions, and future research should therefore take note of this. One particular issue is further studies should be the effect of past growth on motivation for future growth and international orientation. Based on the literature review, we identified arguments for challenges with regard to sustaining high growth on a company level, while the results showed that some firms were able to systematically achieve superior results. This suggest that past growth may be an important factor when attempting to understand firm level growth patterns.

In the discussion part, we commented that the close connection between international orientation and motivation for growth may be an indication of an underlying aspiration for expansion. In further studies, the relation between these two factors needs to be further investigated, also including possible differences between large and small home markets.

This investigation has been quantitative in nature, and supplementing this with qualitative data could triangulate our findings and increase the external validity and generalizability. Qualitative studies could also be useful for delving deeper into the underlying factors behind our study constructs. What drive managers’ and owners’ motivation? Which of the factors leading to growth does motivation primarily affect? How is management’s motivation communicated throughout the organization, and how does this directly and indirectly influence the organization?

To investigate the generalizability of our results, similar studies should be conducted in different countries and different time periods. In this regard the relationship between international orientation and performance is of special interest, to see whether this is a phenomenon found primarily in
manufacturing industries in small open export oriented economies like the Norwegian. Additionally, as sales growth is not always the main goal of the firm, future studies could also include other performance measures such as profitability, survival, or firm stability. It should be noted that the time span of this study represent one of the strongest growth periods in the Norwegian economy and it can be expected that the results are influenced by this. A similar study conducted in a recession or low growth period may supplement our results and shed more light on the study constructs. One of the surprising observations was the decreasing average export share among the firms in the sample, combined with increased total revenues. This may be explained by the strong development in the Norwegian market in the measured time period, reflecting the mentioned underlying growth aspiration among some managers with consequences both in the home market and in export markets. In further studies, the relationship between international orientation and home market firm growth should be further investigated.

Concluding remarks

This study has tried to address research gaps related to the interconnection between international orientation and motivation for growth. By examining how these factors influence each other and the subsequent growth in revenue, employment and exports, a portrait of the successful growth firm emerges: It has owners with a desire for growth which is transferred to the management team. These managers actively seek export opportunities and communicate national and international ambitions to the whole firm. Further, they adapt products to local demands and make sure the organization develops the resources required for international activities. In turn, this contributes to superior growth both domestically and abroad.

Research is often focused on explaining why things happened in retrospect. However, the value of this is limited unless it enables us to say something about the present or predict something about the future. We have found that some firms are able to systematically outperform others, and have identified a set of factors that can be of help when trying to predict the future growth direction of firms. By asking managers and owners about their motivation for growth, and mapping the international orientation of the firm, our results show that it is possible to identify firms that are more likely to outperform the rest. This may be a valuable tool for business practitioners, investors, and public policy makers.
References


