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Measuring Enterprise Growth: Pitfalls and Implications

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Abstract : Enterprise growth is generally considered as a key driver of competitiveness, employment, economic development and social inclusion. As such, it is perceived to be a highly desirable outcome of entrepreneurship for scholars and decision makers. The huge academic debate resulted in the multitude of theoretical frameworks focused on explaining growth stages, determinants and future prospects. It has been widely accepted that enterprise growth is most likely nonlinear, temporal and related to the variety of factors which reflect the individual, firm, organizational, industry or environmental determinants of growth. However, factors that affect growth are not easily captured, instruments to measure those factors are often arbitrary, causality between variables and growth is elusive, indicating that growth is not easily modeled. Furthermore, in line with heterogeneous nature of the growth phenomenon, there is a vast number of measurement constructs assessing growth which are used interchangeably. Differences among various growth measures, at conceptual as well as at operationalization level, can hinder theory development which emphasizes the need for more empirically robust studies. In line with these highlights, the main purpose of this paper is twofold. Firstly, to compare structure and performance of three growth prediction models based on the main growth measures: Revenues, employment and assets growth. Secondly, to explore the prospects of financial indicators, set as exact, visible, standardized and accessible variables, to serve as determinants of enterprise growth. Finally, to contribute to the understanding of the implications on research results and recommendations for growth caused by different growth measures. The models include a range of financial indicators as lag determinants of the enterprises’ performances during the 2008-2013, extracted from the national register of the financial statements of SMEs in Croatia. The design and testing stage of the modeling used the logistic regression procedures. Findings confirm that growth prediction models based on different measures of growth have different set of predictors. Moreover, the relationship between particular predictors and growth measure is inconsistent, namely the same predictor positively related to one growth measure may exert negative effect on a different growth measure. Overall, financial indicators alone can serve as good proxy of growth and yield adequate predictive power of the models. The paper sheds light on both methodology and conceptual framework of enterprise growth by using a range of variables which serve as a proxy for the multitude of internal and external determinants, but are unlike them, accessible, available, exact and free of perceptual nuances in building up the model. Selection of the growth measure seems to have significant impact on the implications and recommendations related to growth. Furthermore, the paper points out to potential pitfalls of measuring and predicting growth. Overall, the results and the implications of the study are relevant for advancing academic debates on growth-related methodology, and can contribute to evidence-based decisions of policy makers.

Keywords : growth measurement constructs, logistic regression, prediction of growth potential, small and medium-sized enterprises

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