Explaining Rapidly Growing Companies: The “Berlin Innovation and Growth (BIG) Model”

Matthias Tomenendal

Abstract
This article discusses organisational elements of young, fast growing companies, so called “gazelles”. Based on case studies from the Berlin-Brandenburg Energy Technology Cluster and on relevant findings from literature three dimensions of the “Berlin Innovation and Growth (BIG) Model” are suggested: fractal decision power, simple organisational rules and congruent identities. Pursuing all three of these in an integrated manner can support above-average innovation and growth in companies entering the adolescence life cycle stage.

How Do Young Companies Sustain Rapid Growth?
Young, fast growing companies contribute in an above-average manner to the economic development and job growth of countries and regions. As opposed to start-ups these companies have successfully survived their first phase of existence and proved that they have, in essence, a successful business model. Moving into the life cycle phase of adolescence these companies now face specific new challenges. One of the major challenges is to maintain the right balance between organizational stability and flexibility: While there are factors and characteristics which have made a start-up successful in its early stage of existence, and (some of) which are essential in defining the company in its sheer existence, some of these might hinder the company to grow further and sustainably. What and how to change is a typical, yet difficult and probably individual question for every company. Some of the further challenges which are frequently described in the literature on organizational life cycles with reference to the “expansion” or “growth” stage are changes in the business model, developments from a more informal to a formal structure or from an entrepreneurial to a managerial organization. It can be observed that a large number of organizations fail to meet these challenges, hence not showing and sustaining significant growth.

It is against this background that this paper aims to contribute to the literature on fast growing companies. The paper aims to explain which organisational elements can support fast growth over a sustained period of time. The paper tries to achieve this goal by building on data from five cases of young companies from the Berlin-Brandenburg Energy Technology Cluster. All of these companies have been founded roughly a decade ago and have shown successful performance over the recent years.
They are now on the edge towards the adolescence or growth and expansion stage and face the above mentioned challenges. Following the case study approach proposed by Eisenhardt, data on the case companies was collected by diverse methods. It was analysed and–together with the results from relevant literature—used for deriving a hypothetical model that strives to explain dimensions of organisation and leadership for sustained innovation and fast growth. The methods for data collection included document analyses, partly observations and interviews with key representatives from the case companies. Relevant literature dealt with innovative and growing companies with focus on so called “gazelles.”

The term “gazelles” was introduced by David Birch and denotes companies that have grown rapidly over a short period of time. Although they are relatively small in numbers, and their fast growth often proves to be temporary, gazelles have a big impact on economic growth. They share some common characteristics as has recently been shown by a comprehensive study for Germany: Gazelles often pursue high growth right from start-up. Their strategy often entails to gain economies of scale, thus minimizing cost disadvantages vis-à-vis their more mature competitors. Quite often, the founder of a new company pursues personal motivations which lead to the firm growth. It is common among gazelles that higher investment activities support growth which in turn leads to new challenges such as the alignment of the leadership and management structure. Hence, gazelles often create structures that enable growth. They also recruit and develop competent and willing personnel and build on cooperations with universities in this respect.

The gazelles analysed for this article are companies that have experienced and strive to experience fast organic growth, generated from the core businesses of the organisation, not from mergers and acquisitions. In the next section observations from these companies and interpretations are described. A more general, hypothetical model for the leadership and management of young, fast growing companies is suggested in the final section.

Observations from Young Companies and “Gazelles”

After analysing data from young companies that experienced fast growth over a short period of time, that data was grouped along three organisational dimensions. These dimensions are drawn from Anthony Giddens’ model of the “duality of structure.” Giddens regards organisations as dynamic systems which consist of social practices. These practices determine (as elements of structure) social practices in the future and are determined (as interactive actions) by previous social practices. There are three dimensions of social practices that interrelate and represent an organisation in a comprehensive manner:

1. The structural element of signification is linked to the corresponding actions of communication. For example certain words, text and symbols have certain meanings and make sense in an organisation. A specific organisational vision as well as goals and strategies denote practical applications on this dimension.

2. The structural element of domination is linked to the corresponding actions of power. For example, there is a certain distribution of control over physical and human resources in an organisation. Practical applications are organisational structures and hierarchies.

3. The structural element of legitimation is linked to the corresponding actions of sanction. For example there are certain rules and norms for organisational members and their behaviour towards all stakeholders of the organisation. Practical examples are codes of conduct or reward systems.
From the explorative interpretation of the case study data and additionally referring to findings from denoted literature there are significant found patterns among the fast growing companies along the three dimensions noted above. Details of these patterns are below.

**Signification: A Shared Mission**

Strong growth is driven by a clearly above-average motivation of organisational leaders and staff. The commitment of key personnel often exceeds the formally required extent. This extra commitment of gazelle staff is significant. Typically this phenomenon is linked to the common understanding of key personnel of what they work for. What makes them get up early in the morning and sometimes stay late at work in the evenings? A team orientation towards work and a feeling of co-destiny additionally drive commitment and finally performance. This means that fast growing companies have a clear mission, and their key members share a common interpretation of this mission. In practice the contents of the mission may be manifold. The mission of several of the case companies centred around environmentally conscious solutions for industrial businesses like energy generation, construction or production. Company members are driven by the initiative to find business customer solutions for a greener world. Other case companies demonstrated greater openness towards the content of their mission but shared a strong performance and career orientation up to the degree of a strong sense of belonging to a precious organisation, an elite. The phenomenon of an elite identity and its effects on commitment and performance has been widely researched for large professional service firms: Based on theories of organisational identity, authors describe and explain how individuals and organisations perform in a stringent manner for keeping up the perceived elite status in opposition to others. In this context, organisational identity comprises those elements which organisational members deem central, distinctive and enduring about their organisation. It is perceived that a certain manifestation of organisational identity can serve as a driver of innovation and growth. The organisational identity qualifies in this context as an immaterial resource that helps to create competitive advantage.

**Domination: Distribution of Power and Leadership**

One of the major challenges of rapidly growing companies is to organize the redistribution of power and leadership from the founder and/or small group of leaders of the start-up towards and among a broader group of leaders. It was clear to all of the case companies in early growth stages that a single leader or a very small group of decision takers constitutes a bottleneck for further growth. Thus, different methods for redistributing the power were taken: In several case companies, additional managing directors were hired. These managers were chosen due to their skills and background in business administrative and finance related areas, and they were given major responsibilities for planning, organising and managing financial resources. Not always did this prove to reduce the number of important decisions that the founder had to take. This sometimes increased the number of interfaces and led to longer and more complex decision processes. Planning sometimes even became a rather bureaucratic, sometimes theoretical exercise. The right balance between formal planning and flexible arrangements for pursuing unforeseen opportunities was not always easy to find. It turned out among the case companies that divisional structures, sometimes spin-offs of profit centres supported continued fast growth quite well. In addition, fast development of internal management and leadership competences was advantageous. A more decentralized leadership model with fractal structures combined with elements of transformational leadership could be considered as supportive for growth. Fractal structures means that power and leadership is distributed throughout the organisation and rests with groups and teams which share identical principles of formation, e.g. always mixing the same set of competences, be it in the management board as well as in the leadership group of a business unit as well as in operative work.
teams. The organisational structure is self-similar on all levels. Transformational leadership means leadership by individualized consideration, intellectual stimulation, inspirational motivation and idealized influence. This leadership style has for instance shown to support the successful development of German “hidden champions,” many of which could also be considered as gazelles.

**Legitimation: Development of Organisational Rules**

All observed case companies began to formalise their rules and created general regulations. For some companies this was also driven by external audits and certifications that were required by customers to qualify as a supplier. Several companies created staff positions for strategic planning and organising. While this was always regarded as a necessary step towards professionalization most of the firms also regarded this step as a dilemma: Too strict adherence to formal rules could prevent the company from flexibly reacting to promising opportunities which in most cases was one of the origins of success in the marketplace. In this context there is evidence in literature that simple rules, followed in a consistent and disciplinary manner, are supportive for growth. In combination with a substantial room for flexible self-organisation this can lead to the so called “edge of chaos” which is often found to benefit successful young companies.

**The “Berlin Innovation and Growth (BIG) Model” for Rapidly Growing Companies**

From the above observations along with the findings from relevant literature I will suggest a three-dimensional leadership and organisational model for rapidly growing companies. As it was developed from studying Berlin based companies and during a research project at Berlin School of Economics and Law I call this model the “Berlin Innovation and Growth (BIG) Model” (see Figure 1). This does not mean however that it is to describe and explain supportive factors for innovation and growth for companies in Berlin only. It is rather a general hypothetical framework of supportive factors in leading and organising all kinds of young companies for innovation and growth. Next steps in theory development and practical application are the operationalization and specification of the dimensions and factors on a larger scale.

**Congruent Identities**

Young, fast growing companies are characterized by a clear mission. This mission serves as a unifying theme for the employees and stakeholders of the organisation. The legitimation for the common work is clear. The organisation possesses a strong organisational identity that is congruent with the individual identity projects of key personnel. This means that employees fulfil their personal motivations to a large extent by and while working for the organisation. There is an extra commitment for performance by key employees. The company or the relevant entity of the fractal organisation is understood as a common identity project by responsible staff members. Pure working-to-rule or pursuing purely egocentric motivations harm the identity project of the organisation and will be sanctified. Innovation and growth are supported further when the common identity project is extended towards external stakeholders such as customers, suppliers or other cooperation partners. The latter is often the case in clusters. A cluster is “a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities”. Clusters are generally supposed to have positive effects on participating companies as they lower the barriers to enter a market and enable better access to resources, especially human resources and know-how. To fully reap those potential benefits young fast growing companies have a certain lateral cluster competence which shall be defined
as the ability of companies and their employees to think out of the box, develop ideas for common diversification with potential partners and to commercially realise this by a common identity project.

The Berlin Innovation and Growth (BIG) Model

Fractal Decision Power

Rapidly growing, innovative companies, especially those who continue to grow in complex and dynamic environments, are characterized by a decentralized structure of taking decisions. There are many powerful deciders. These are simultaneously the top performers of the organisation. To further benefit from the advantages of a small entity, as in the start-up phase, structural smallness is continuously pursued further. This is generally supported by a divisional structure and a fractal organisation. In this way the growing flow of information with external stakeholders is being coped with. Self-similarity in building teams on different levels and in different areas of the organisation is applied as an organisational principle. Elements of transformational leadership complement the ideas of fractal decision power and congruent identities well. Future leaders are being developed in-house. A significant amount of effort is undertaken to develop junior personnel on the job and by further education methods. Even in times of high pressure and short deadlines for customer deliveries senior staff take enough time to continuously develop junior staff. Thus, a clear “apprenticeship model” of human resource (HR) development is implemented.

Figure 1: The “BIG” Model

Fractal Decision Power
Simple Organisational Rules

Rapidly growing, young companies continuously face unprecedented challenges with a natural lack of general rules how to handle these. Instead of developing overly ambitious formal rules for too many potential future situations, rapidly growing companies rely on simple general rules. These are followed consistently and with full discipline, and they constitute a clear organisational framework. The rule how to build fractal teams can be one of these simple rules. Within this framework a high degree of flexible self-organisation is emerging. This leads to an optimal balance between organisational stability and flexibility. There is no central leader who steers the whole organisation, but leadership is dispersed throughout the organisation. Simple rules along with a fractal organisational structure, bound together by congruent identities bring along self-organisational dynamics of innovation and growth in young “gazelles.”

About the Author

Matthias Tomenendal is Professor of Management and Consulting at Berlin School of Economics and Law and the Director of the school’s IMB Institute of Management Berlin. He holds business degrees from the Universities of Bielefeld, Georgia (USA) and Saarland and has worked as a strategy consultant for The Boston Consulting Group.

References

4 The data was generated in the course of the project “Berliner Innovations- und Wachstums-Cockpit für junge Unternehmen des Energietechnik-Clusters” which lasted from October 2012 until December 2013 and was funded by the European Social Fund (ESF) and the Senate of Berlin.
7 Ramböll Management/Creditreform (2012), Studie über schnell wachsende Jungunternehmen (Gazellen), Final study report by Ramböll Management GmbH and Verband der Vereine Creditreform e.V. on behalf of the Federal German Ministry of Economics and Technology, February


