Good example of must firms constantly grow to be considered successful argumentat...

Business, Company

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Must Firms Constantly Grow to Be Considered Successful? Or can a company be at a successful plateau? Is the pursuit of steady growth counterproductive? The following paper will examine both sides of this question and conclude with my own position about the subject.

Yes Firms Must Grow to be Successful

In support of firms chasing steady growth are Clayton Christensen and Michael Raynor in " The Innovators Solution" arguing the opinion that steady strategic growth is required in order to satisfy shareholders. If the shareholders become unsatisfied the company's equity nose-dives. The Christensen and Raynor also caution firms that the wrong strategy for growth can cause the firm to crash. Once a firm stops growing and the shareholders start selling the firms go on to a downward spiral towards disaster. The article articulates the two most significant reasons companies fail to grow and strategies that can be implemented to encourage healthy growth (Christensen, & Raynor, 2005 pp. 272-283).

The two major reasons that firms fail to grow are linked to management and executive strategies. Managers in successful companies often become afraid

of risk. Executives are afraid of investing when the company is not thriving. Once a company fails to grow at the same rate as the GDP they can’t afford to implement the growth strategies they need to sustain their value. Companies need to grow in order to maintain their value alongside the economy. Firms also need to maintain the faith of their shareholders. Once shareholders begin to doubt a company’s future value they begin to sell and stock prices suffer. Strong leadership produces strategic plans that facilitate steady growth for their firm (Christensen, & Raynor, 2005 pp. 272-283).

No Firms can be at a Successful Plateau

Jim Mackey and Liisa Valikangas argue their position that unbounded growth is a myth. The writers believe that the continuous pursuit of growth can be destructive for a mature company. Their research has led them to believe that during the growth cycle of massive corporations growth stalls are the norm. As firms mature and get larger growth often slows. They encourage managers and executives to accept that limitless growth is a myth and to realistically assess their company’s innovative capabilities (Mackey, & Valikangas, 2004, pp. 284-290).

Chiang, Lee, & Anandarajan found that that innovative success relies on corporate governance. Their research report titled “ Corporate governance and innovative success: An examination of the moderating influence of a firm's life cycle stage” was the first extensive research project to examine the relationship between corporate governance and technical success. The study found a strong correlation in the relationship between corporate governance and technical success in mature companies. The study reported

that the most innovative, successful, growing firms had strong corporate governance where stagnant firms suffered under poor corporate governance (Chiang, Lee, & Anandarajan, 2013 pp. 500-514).

Soenen discussed how shareholders view corporate growth in the article " Sovereign Corporate Growth, Profitability and Shareholder Value". Investors view corporate growth as being synonymous with increased share values. Shareholders want their investments to grow in order to profit from their investment and investors hold management responsible for maximizing sales, reducing costs to increase the company's overall profits. If shareholders become unsatisfied with the value of their investment they sell their shares and find a more profitable investment. If too many investors sell their shares the company's stock value crashes. The study found that though stockholders hold dearly onto their beliefs that a company's growth equals a growth in their share value a less extreme version is true for the company's rates of return. Companies that experience moderate growth produce the highest rates of return. Whereas companies that experience maximum growth don't produce a higher stock value or overall profitability. With an abundant of examples of companies going under shortly after reporting extremely high levels of growth Soenen made a strong argument that slow steady growth offers the best value for companies and stockholders (Soenen, 2005, pp. 21-25).

In conclusion, my position on the subject is " YES" ('The Growth imperative') produces the most successful firms. In other words I'm supporting the position that firms must constantly grow to be considered successful. In reflection of the position of Christensen and Raynor a proverb comes to

mind. “ We are a product of the choices we make.” A corporation is a product of the decisions that managers and executives make. Strong corporate governance leads a firm uphill, using sound strategy for healthy growth. While companies that lack strong leadership fail to grow. Once a company stops growing the shareholders begin to sell and the value of the company’s stock drops. Once the company’s equity starts to drop it becomes hard to secure finances to turn around a deteriorating company. I have been convinced that once a company’s success starts to fade it becomes hard for the company to secure the funding they need to become successful. Everything I read about corporate growth had led me the conclusion that corporate leaders that research, plan and strategize for long term sustainable growth satisfy their investors and build the most profitable companies.

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