academicJournals

Vol. 9(7), pp. 354-368, 28 April, 2015
DOI: 10.5897/AJBM2014.7630
Article Number: 8DB1C3152637
ISSN 1993-8233
Copyright © 2015
Author(s) retain the copyright of this article
http://www.academicjournals.org/AJBM

African Journal of Business Management

Full Length Research Paper

Managing firm growth: Lessons of success

Marius Ungerer*, Charlene Gerber and Suzette Volschenk

University of Stellenbosch Business School, Bellville, South Africa.

Received 10 November 2014; Accepted 27 April, 2015

Firms that are both sustainable and able to grow rapidly are an important stimulus to any economy and essential for increasing employment opportunities. Theory and case studies describing high growth firms in the developed economies are vast. However, much less is known about high firm growth firms within developing economies. By identifying profitable high growth firms within a developing economy context and beginning to understand why and/or how these firms survive and even prosper will hopefully provide insights for other firms that would want to emulate their success. In the present study, the researchers aimed to gain insight into possible key considerations that should be taken into account by academics and practitioners alike in effectively managing firm growth, by specifically focusing on companies that have proven themselves successful in terms of growth management. For purposes of this present study qualitative research by means of observation was conducted. Annual reports of purposefully selected listed companies were analysed by observing the official views and reflections of the executive managers of the selected companies, within a specified time frame. Findings revealed that the most common attributes of the directors are extensive industry experience, followed by being highly qualified (having a masters or doctoral degree) and lastly, entrepreneurial experience. Firms in the information, communication and technology (ICT) sector significantly outperformed the other sectors in terms of profitability. Most successful high growth firms followed a combined growth strategy, which included organic growth, acquisitions and expansion into Africa.

Key words: AltX, attributes, characteristics, entrepreneur, experiences, firm growth, SME.

INTRODUCTION

Firms that grow rapidly are an important stimulus to the economy (Barringer et al., 2005: 665) and are essential for increasing employment and productivity (Foster et al., 2011: 4). Birch (1981in Brown and Mawson, 2013), an American economist in the early 1980s, described how a relatively small number of so-called high growth firms contribute disproportionally to economic growth and new job creation. Stimulating economic growth and decreasing unemployment are vital for any successful economy, but arguably even more so for developing economies such as the BRICS nations (Brazil, Russia, India, China and South Africa).

Unemployment in developing countries is a major socio-economic problem and necessitates urgent attention, especially when considering the impact on poverty, crime, productivity and economic growth (Herrington, 2011: 115; Roux, 2011: 53).

According to Mohr et al. (2008:88), South Africa's poor performance in entrepreneurship is one of the fundamental problems jeopardising the South African

*Corresponding author. E-mail: mariusu@usb.ac.za, Tel: 021 918 4218.

Authors agree that this article remain permanently open access under the terms of the Creative Commons Attribution License 4.0 International License

economy. This is evident by the small percentage of firms in South Africa that manage to grow into established firms. According to the Global Entrepreneurship Monitor (GEM) 2011 report, South Africa’s established business ownership rate in 2011 was the second lowest in its category at two per cent. In comparison, the average established business ownership rate in the efficiency driven category was seven per cent, whilst both China and Brazil achieved in excess of 12 per cent (Simrie et al., 2012, Kellyet al., 2011).

Despite strong interest from academics, policy-makers and firm owners surprisingly little is known about the internal growth dynamics of profitable high growth firms (Leitch, 2010in Brown and Mawson, 2013). This assertion is even more relevant when considering the context of a developing economy. The present study is an exploratory attempt to isolate listed profitable high growth firms that operate within a developing economy and to identify within them attributes and/or characteristics that are common to them. Describing these firms and highlighting common characteristics will hopefully explain to some extent why they have been successful and that these practices, attributes and/or characteristics could be adopted by other firms in their quest to become more profitable and sustainable.

THEORETICAL BACKGROUND

Research on firm growth is vast (Colombelli, 2015; Brown and Mawson, 2013; Kirkwood, 2009).The attributes that are likely to have the biggest impact on a firm’s ability to achieve and maintain rapid growth are the characteristics of the business owner, firm attributes, business practices and human resources practices (Barringer et al., 2005: 664). Merson (2011: 69) found that the most important internal barriers to firm growth were personal barriers, that is, the founders and their role in the business, people management barriers, cultural barriers and structural barriers. The key considerations and determinants in managing firm growth can be classified into two broad main themes:1) the characteristics of the founders or business owners; and 2) the attributes of the firm and its practices.

Characteristics of the founders and business owners

Colombelli (2015) emphasised the importance of the relationship between human capital and firm growth. The founders or owners of the firms are specifically able to influence the organisational culture and climate of firms, often even after they leave. Their legacy can often still have an impact on internal firm dynamics and continued success long after they have left (Barringer et al., 2005).In addition, investors and other stakeholders often evaluate the personal attributes of the founder(s) in assessing the potential of a business, especially when deciding whether to provide capital investments. The individual characteristics of the founder(s), for example their level of education, entrepreneurial talent and industry experience, may also be critical in dealing effectively with the many challenges that are associated with rapid growth (Barringer et al., 2005: 666). Some firms have fell victim to rapid growth and faltered when this was not managed properly.

Successful founder(s)/business owner(s) have been described as having clear goals (Gundry and Welsch 2001),higher levels of education (Barringer et al., 2005), relevant industry experience (Barringer et al., 2005) and prior entrepreneurial experience (Barringer et al., 2005). The motivation to achieve growth was also deemed crucial to actually achieving growth successfully (Gundry and Welsch, 2001; Barringer et al., 2005; Davidsson, 1991). Davidsson (1991) found that growth motivation was influenced by perceptions of ability, need and opportunity.

Sapienza and Grimm (cited by Barringer et al., 2005:671) reasoned that higher levels of education enhance search skills, imagination and foresight, as well as communication and computational skills. Relevant industry experience is considered important as it provides business owners with a better understanding of the intricacies of the specific industry and the opportunity to build a more mature network of contacts, which in turn result in increased access to expertise, funding and customer referrals (Barringer et al., 2005). Entrepreneurs with prior entrepreneurial experience are further more likely to succeed as they are more familiar with the entrepreneurial process and are more likely to avoid expensive mistakes (Barringer et al., 2005: 671).

Firms’ attributes and practices

Capron and Mitchell (2010) found that firms tend to rely primarily on a single growth strategy. Some firms developed resources internally, whilst other firms focused on joint venture alliances, mergers, acquisitions or licensing in terms of their growth strategies. During a merger, independent companies are combined to form a new company, while an acquisition involves the purchase of a company, or enough shares in a company to gain control of that company (Merson, 2011: 200). Capron and Mitchell (2010: 105) attributed the focus on a single growth strategy to the diverse demands of the various approaches and explained that different growth strategies require different organisational structures and cultures, selection skills and implementation capabilities. Their research also found that firms that acquire resources in various ways are significantly more likely to survive than those that focus on a single approach to secure the required resources (Capron and Mitchell 2010: 105).

Firer et al. (2008: 85) warned that firms that grow

rapidly often experience cash flow difficulties, and that it is literally possible for a firm to what they termed grow broke. Hambrick and Crozier (1985: 41) and Churchill and Mullins (2001: 135) explained that companies could experience cash flow constraints even if they are profitable, due to higher cash requirements to provide for increased working capital needs and to fund the expansion of facilities and equipment.

Merson (2011) advised firms to consider the skills that will be required during the next stage of growth, and not to focus only on the current requirements when recruiting employees. He cautioned that this may be difficult as small firms may not have the funds, profile or reputation to attract the calibre of employees that will be required in the next stage of growth. Hambrick and Crozier (1985) found that firms that deal successfully with rapid growth have invested heavily in the training and development of their managers and employees. Merson (2011) also warned that the roles of some employees often change as a business grows and that these employees should be trained well in advance. These training interventions should focus on broader and more complex managerial situations, to so equip them with the skills that they will need in their future roles.

RESEARCH METHOD

By identifying and focusing on firms that have done well in terms of growth within a developing economy in the past, it was hoped that possible key considerations could be identified that that could be taken into account by researchers and practitioners that wish to better understand firm success and/or wish to emulate it.

For the purposes of the present study an exploratory research design was employed. A qualitative approach was preferred as it supports the discovery process and provides contextual information, as suggested by Guba and Lincoln (1994: 106). Specifically, secondary qualitative data were obtained by means of observation and analysed in a descriptive manner to provide an initial understanding of "what is happening", as described by Robson (cited by Saunders et al., 2007: 133).

Population and sample

Data were obtained from records of firms that are listed on the AltX, which is the alternative exchange of the Johannesburg Stock Exchange (JSE). The AltX was established in 2003 and is intended for "good quality, small and medium-sized high growth companies" (JSE, 2012).

In line with the aim of the research, the target population was described as firms that were profitable during times of rapid growth. Judgement sampling was used to select SMEs that managed to remain profitable during the five years that preceded 2011 or 2012 (depending on when their most recent annual reports had been published at the time of the study). The population comprised 63 companies that were listed on the AltX on 21 September 2012 (the date on which the sample was selected). The first step in the selection process was to exclude companies that were not suitable for the purposes of this research. Twenty-one companies were excluded for the following reasons:

1. Companies that had been suspended from the AltX so as to ensure that only companies with valid listings and in good standing were included in the research.
2. Companies that had registered addresses in other countries, as the research focused on the experiences of South African companies.
3. Investment trusts, as the research aimed to capture the experiences of businesses that conduct commercial activities and not investment activities.
4. Companies that listed during 2012 were excluded merely because there would not have been enough information publicly available to capture the growth experiences of these companies.

Companies that had not been profitable in any of the five years preceding 2011 or 2012 were also excluded. Measuring high-growth firms vary (Kirkwood, 2009) and for purposes of the present study, the profitability of the firms was judged by calculating their return on equity (ROE). ROE is regarded as the "true bottom-line measure of performance" and allows for the profitability of companies of different sizes to be compared (Firer et al. 2008:56). ROE, according to Firer et al. (2008: 65), is calculated as follows:

Return on equity = Net profit after tax/total equity (1)

The ROEs of a few companies were found to be unrealistically high. Further investigation revealed that these companies had experienced such large losses that the equity of these companies became negative. Division of the negative return by the relatively small negative equity resulted in the (implausibly) high ROEs. These companies were consequently excluded from the sample, as they did not meet the profitability requirement. The ROEs of a number of companies were recalculated to provide assurance that they were accurate. Companies that had a negative ROE in any of the five years under scrutiny were also excluded. No further concerns were found.

The realised sampled consisted of nine companies (Table 1).

Qualitative data were collected by means of observation for each of these firms for the period from the date listed on the Johannesburg AltX until the release of their most recent annual report during or before 2012.

DATA COLLECTION

The source of data was the reflections and observations of executive management as described in the various executive reports that were included in the companies' annual reports. These reports were typically the reports of the chairperson, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). The executive reports were supplemented with more detailed information obtained elsewhere in the annual reports. Collecting data from the companies' annual reports had the following benefits:

1. The research incorporated the publicised/official views of executive management as reflected in the executive reports.
2. The information documented in the executive reports was current, as it would have been documented within a few months after each firm's financial year-end.
3. The annual reports contained the audited financial statements of the companies. Although the auditor's opinion does not include an opinion on the executive reports, it does enhance the credibility of these reports.
4. There is no danger of disclosing sensitive or confidential information, as the reports are in the public domain.
5. The annual reports are readily available on the companies' websites.

Data analysis

Template analysis was employed. The initial template consisted of

Table 1. Companies included in the final sample.

	Name of company	Sector	Period	Average ROE
1.	Telemasters Holdings Limited (Telemasters)	Telecommunications	2007 - 2011	48.5%
2.	ISA Holdings Limited (ISA)	Technology	2008 - 2012	27.7%
3.	FoneWorx Holdings Limited (FoneWorx)	Technology	2008 - 2012	23.8%
4.	OneLogix Group Limited (OneLogix)	Industrials	2008 - 2012	20.9%
5.	BSi Steel Limited (BSi)	Basic materials	2008 - 2012	17.1%
6.	RGT Smart Market Intelligence Limited (RGTS)	Industrials	2010 - 2012	12.9%
7.	Sable Holdings Limited (Sable)	Financials	2007 - 2011	12.2%
8.	Workforce Holdings Limited (Workforce)	Industrials	2007 - 2011	11.8%
9.	Gooderson Leisure Corporation Limited (Gooderson)	Consumer services	2008 - 2012	7.6%

Source: SOST (2012a–2012j).

meaningful categories that represent the themes that emerged from the literature review. These categories were reviewed and revised to ensure that they were aligned to the aim of the study. Data were collected from the annual reports according to these predetermined categories by means of observation. These categories were subsequently revised where necessary, and new categories were added, irrelevant categories were deleted and some categories were reclassified, as suggested by Saunders et al. (2007: 497).

The layout of the final template analysis is provided in Table 2. The characteristics of the board of directors' sub-category focused on the size and composition of the boards, as well as the education, industry experience and entrepreneurial experience of both the executive directors and the boards separately. The characteristics of the firm's sub-category focused on the profitability of the various sectors, the diversification and the longevity of the firms. The experiences and practices of the firms focused on growth strategies, the economic environment, financial management, human resources management and 'other' experiences.

RESULTS AND FINDINGS

As discussed in the literature review above, sustainable firm growth is largely attributed to 1) characteristics of the firms and their directors, and 2) the experiences and practices of the firms. This categorisation focused the development of the template that was used to collect and analyse the data. The results and findings are also discussed in terms of the template (Table 2).

Characteristics of the board of directors

The literature review revealed that the founders' and/or business owners' level of education, industry experience and entrepreneurial experience are some of the characteristics that differentiate rapid growth firms from slow growth firms. For the purposes of the present study the board of directors was considered and not the founders or business owners per se, as the directors have the same responsibility for firm growth as the founders and/or business owners.

The characteristics of the executive directors and the board were studied separately because the executive directors are typically responsible for the day-to-day management of the companies (Telemasters, 2011), whilst the non-executive directors provided independent judgements on various issues, including strategy (ISA, 2012). The executive directors are therefore likely to have a more direct impact on the performance of a firm than the non-executive directors. The full board was analysed to gain insight into the collective education and experience of all the directors, and the extent to which non-executive directors complement the skill set of the executive directors.

Number of directors

The majority of firms had either six or seven directors, including both executive and non-executive directors, with a minimum of five and a maximum of eleven directors. Most of the companies had three or four executive directors, with a minimum of two and a maximum of six executive directors. Six of the nine companies had executive chairpersons at some stage whilst listed on the Johannesburg AltX. Four of these companies had since separated the roles of CEO and chairperson. Figure 1 illustrates the number of executive directors (n=31) and non-executive directors (n=35) per company.

Highest level of education of the executive directors

The majority of executive directors of the high growth firms in the realised sample had a tertiary qualification. Almost half of the executive directors held a master's degree (14/31=45%), whilst only a few held other degrees; these included one doctoral degree, two honours degrees, two bachelor's degrees and two other qualifications such as a diploma. Almost a third (10/31=32%) of the executive directors did not specify that they held any tertiary qualifications. Figure 2 graphically illustrates the number of executive directors that hold different levels of qualifications.

Table 2. Final template analysis.

1. Characteristics of firms and their directors	1.1	Characteristics of the board of directors	1.1.1 Size and composition of the board of directors 1.1.2 Education of executive directors and the board 1.1.3 Industry experience of executive directors and the board 1.1.4 Entrepreneurial experience of executive directors and the board 1.1.5 Number of directors who are highly qualified, and/or have industry experience and/or entrepreneurial experience.
	1.2	Characteristics of the firms	1.2.1 Profitability of the various sectors 1.2.2 Diversification in terms of operating segments 1.2.3 Longevity of the firms
2. Experiences and practices of the firms	2.1	Growth strategies	
	2.2	Economic environment	
	2.3	Financial management	2.3.1 Debtor management 2.3.2 Fraud and crime 2.3.3 Dividends 2.3.4 Currency fluctuations 2.3.5 Listing 2.3.6 Financing
	2.4	Human resources management	2.4.1 Recruitment 2.4.2 Availability of skills 2.4.3 Training and development
	2.5	Other	2.5.1 Regulation and legislation 2.5.2 The 2010 Soccer World Cup 2.5.3 Costs and availability of supplies 2.5.4 Industry specific experiences

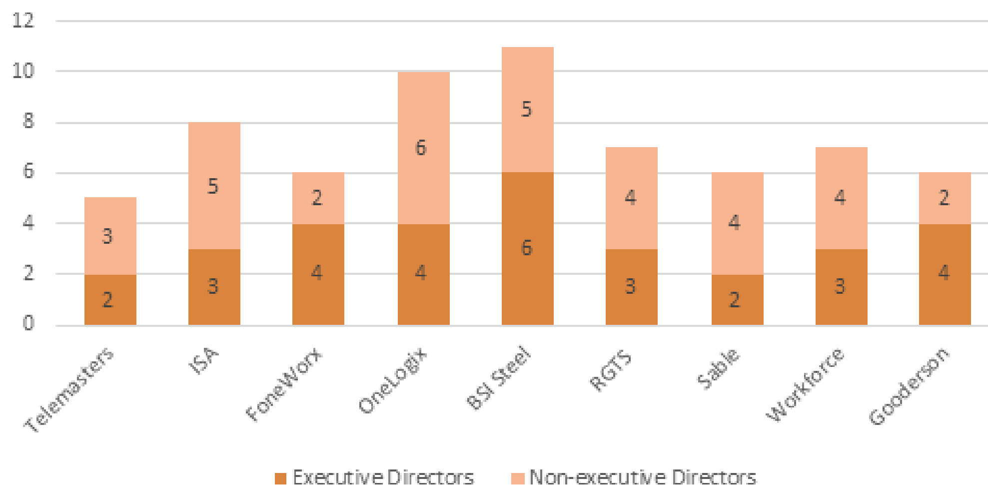

Figure 1. Number of executive and non-executive directors per company.ROE in parenthesis.

Highest qualifications of the board of directors

Almost half of all the directors of the firms in the sample had master's degrees (32/66=49%), a fifth (13/66=20%) held bachelor degrees and only a few directors held other degrees and qualifications. These included two doctoral degrees and three honours degrees, while two had other qualifications A further 14 directors did not stipulate whether or not they held tertiary qualifications. Figure 3 illustrates the number of directors (n=66), both executive and non-executive, that hold different levels of qualifications.

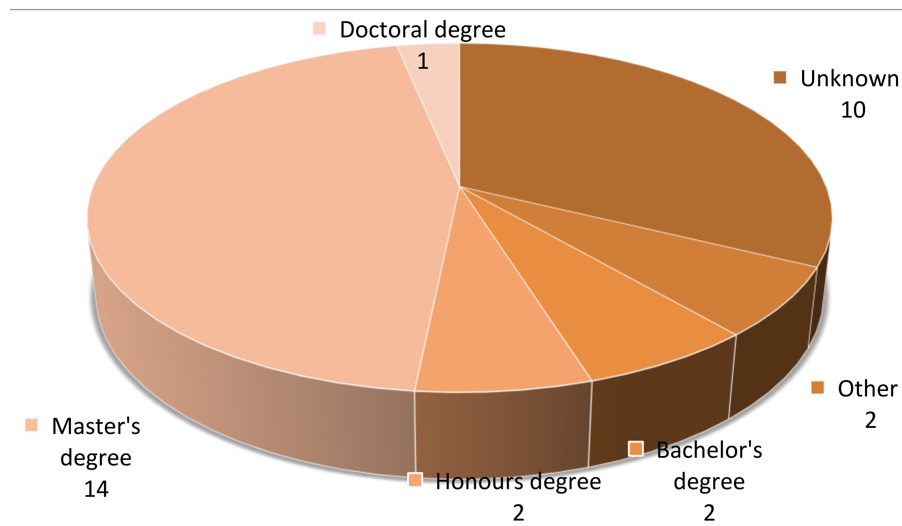

Figure 2. Highest qualifications of executive directors.

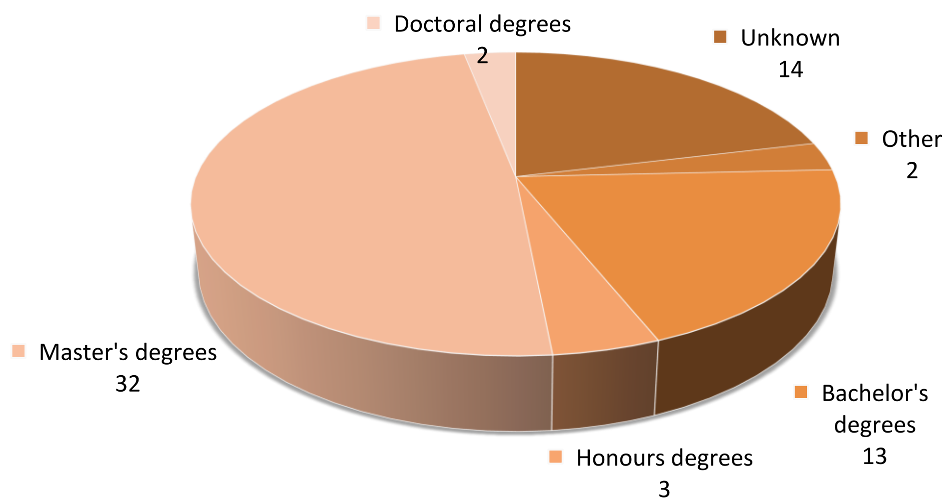

Figure 3. Highest qualifications of the board of directors.

Qualifications and experience of the executive directors

Industry experience was the most common attribute amongst the executive directors (81%); followed by being considered highly qualified, in other words had Masters and/or Doctoral degrees (48%); and finally having entrepreneurial experience (42%).

Figure 4 graphically illustrates the total number of executive directors per company that were highly qualified, and/or had industry and/or entrepreneurial experience. Some directors had more than one qualifying attribute and were accordingly allocated to more than one category. The total number of directors with qualifying attributes in Figure 4 will therefore not align to the total number of directors in Figure 1. As an example, Telemasters had two executive directors (Figure 1) who both had a master's or doctoral degree, one had prior industry experience, and both had entrepreneurial experience (Figure 4).

Considering Figure 4 it is noted that firms that reported higher levels of ROE (>17%) had more executive directors that were reported to have entrepreneurial experience and also prior industry experience. Two of the organisations did not report to have executive directors with entrepreneurial experience, while posting the lowest and third lowest ROEs (<12%). The firm with the lowest ROE also did not indicate that the executive directors

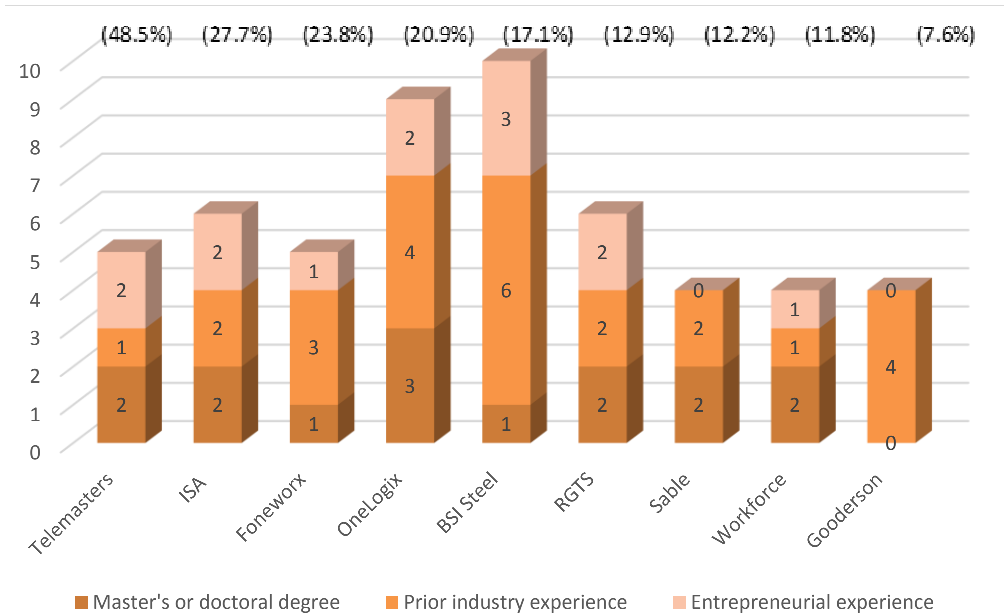

Figure 4. Number of executive directors who are either highly qualified, and/or have industry and/or entrepreneurial experience. ROE in parenthesis.

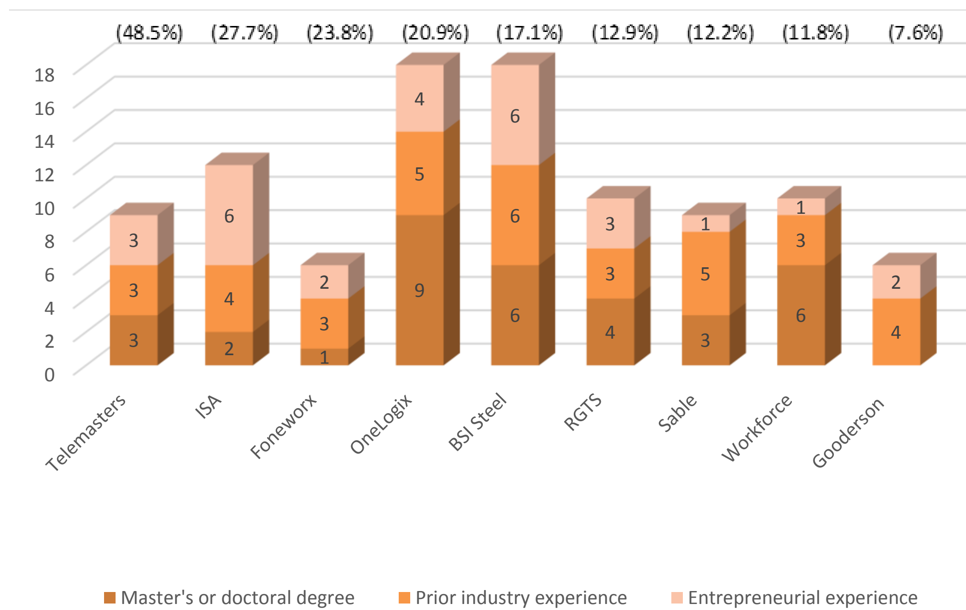

Figure 5. Number of directors who are either highly qualified, or have industry or entrepreneurial experience.

held an advanced degree.

Qualifications and experience of all the directors

The non-executive directors' skills often complemented those of the executive directors. Figure 5 illustrates the total number of all the directors per company that were highly qualified, and/or had industry and/or entrepreneurial experience. The majority of the directors (55%) had industry experience, followed by being highly qualified (52%) and having entrepreneurial experience (42%). Similar to the previous section, directors with more than one qualifying attribute were allocated to more

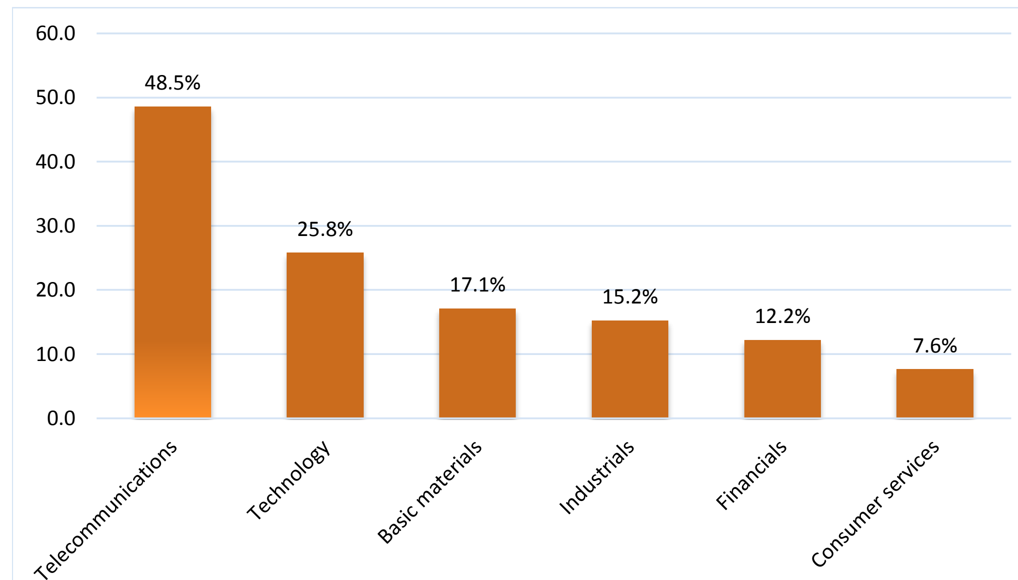

Figure 6. Average return on equity (% ROE) per sector.

than one category.

Similarly, it was noted that firms that reported higher levels of ROE (>17%) had more executive directors that were reported to have entrepreneurial experience (Figure 5). The firm with the lowest ROE also did not indicate that the directors held an advanced degree.

Characteristics of the firms

The study on the firm's characteristics focused on the profitability of the different sectors the firms operated in, the diversification of the firms as reflected by their operating segments and the longevity of the companies.

Profitability of the various sectors

The nine companies represented six sectors, including telecommunications, technology, industrial, basic materials, financial, and consumer services. The combined ICT sector significantly outperformed the other sectors in terms of their average ROE. Figure 6 illustrates the average ROE of the companies per sector since listing, but limited to the five years preceding 2012, except for Telemasters (Telecommunications), Sable (Financials) and Workforce (Industrials) that were limited to the five years preceding 2011.

Diversification

The diversification of the various companies was studied by analysing the different operating segments, as described in the companies' financial statements. According to ISA (2012: 25), an operating segment is a distinct section of a group, which earns revenues and incurs expenses from its business activities. It also has discrete financial information.

Five of the nine companies had two or three segments each. The company with the highest number of segments had five different segments, whilst two companies did not have segments that were separately identifiable (Telemasters 2011: 47; ISA, 2012: 25). The number of segments and ROE per company is illustrated in Figure 7. The two companies that did not have segments that were separately identifiable were also the two companies with the highest average ROE, followed by the two companies with three segments each.

Considering Figure 7, it would seem as if there is an inverse relationship between the number of segments and ROE.

Longevity of the firms

Given the focus on SMEs the firms were surprisingly old. The two oldest companies, Gooderson and Sable, were established in 1957 (Gooderson and Leisure, 2007: 4) and 1968 (Sable Holdings, 2011: 87) respectively. At least one company had been established in each decade since 1950, with the most companies (4) having been founded between 1990 and 1999. Only one of the companies, RGTS, was founded between 2000 and 2010. Although Telemasters was only registered in 2006, it is stated in its 2007 report that it was already 11 years old (Telemasters 2007: i).

The age and profitability of each company are illustrated in Figure 8.

From Figure 8 it can be seen that the four firms with the

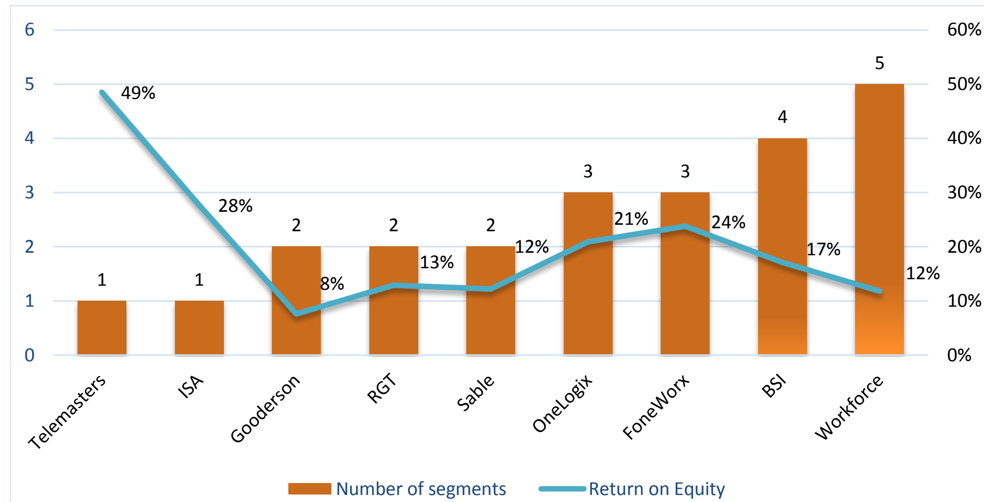

Figure 7. Number of segments per company

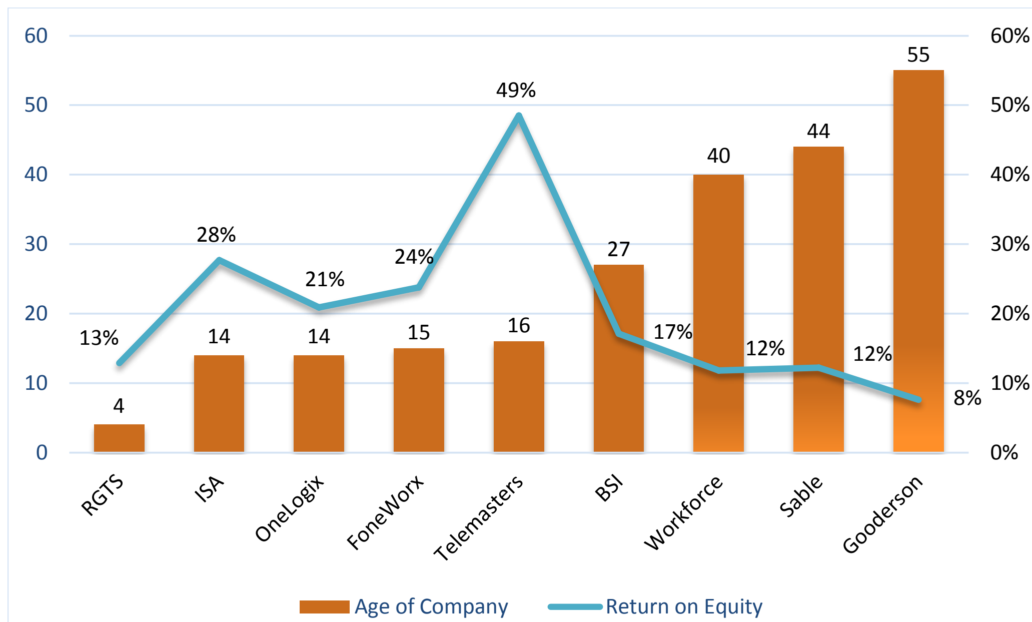

Figure 8. Age and profitability per company.

highest profitability were founded between 14 and 16 years ago, and that there is a decline in profitability as the companies got older. There seems to be an inverse relationship between the age of the firm and the ROE.

EXPERIENCES AND PRACTICES

Growth strategies

All nine firms reported to have followed organic growth strategies. Five of the companies had complemented their organic growth with acquisitions, and five had expanded into Africa. Expansion into Africa appeared to be a successful growth strategy given that four of the five companies with the highest average ROE had expanded into Africa, albeit in varying degrees. Three companies were involved in Black Economic Empowerment (BEE) transactions, whilst two companies had formed alliances that included the use of channel partners and dealer networks. However, only one joint venture, one merger and one franchising arrangement were recorded amongst the selected companies. Figure 9 illustrates the number of companies that followed the various growth strategies, since they listed on the AltX.

Eight of the nine companies followed a combination of

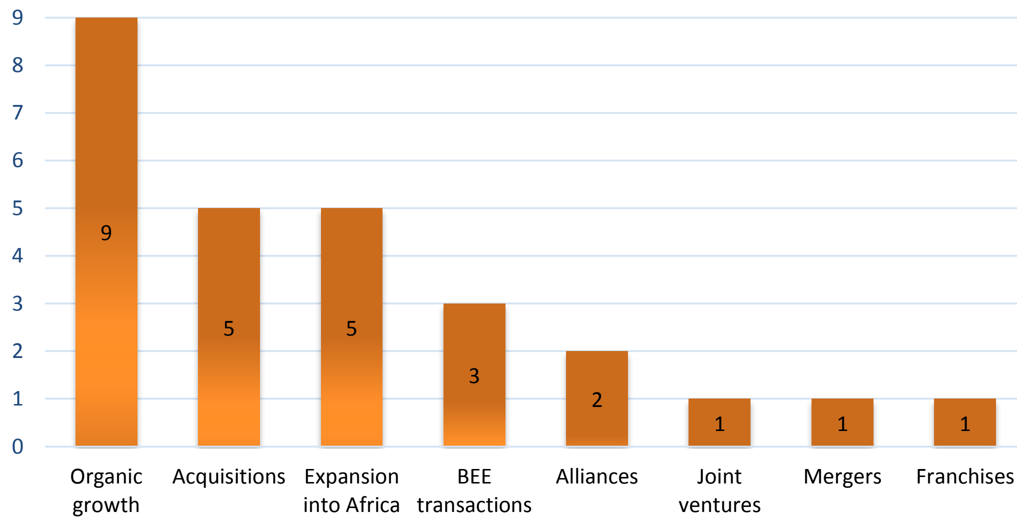

Figure 9. Number of companies following the various growth strategies.

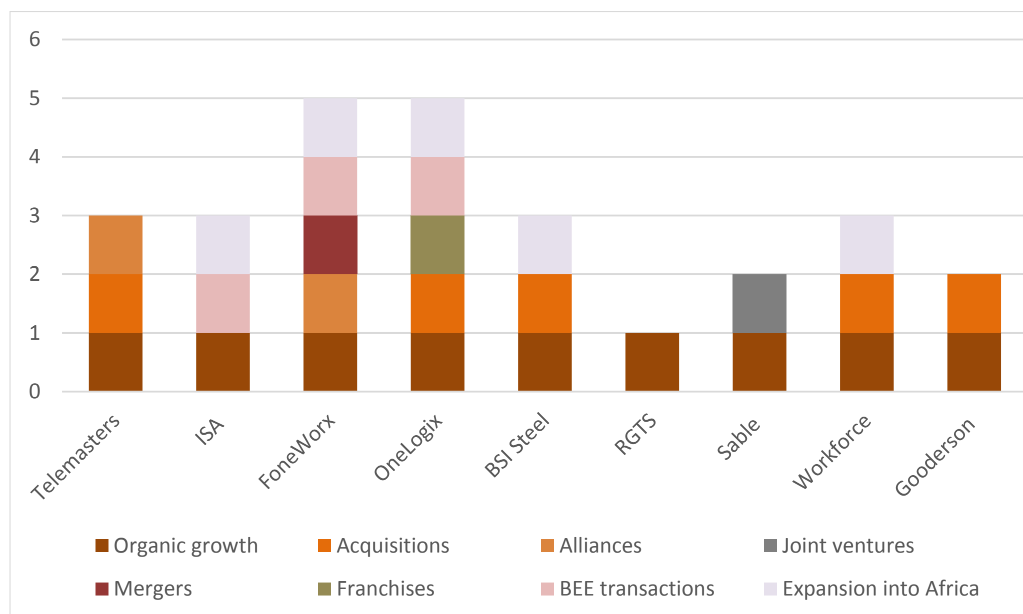

Figure 10. Combination of growth strategies followed per company.

growth strategies, which were mainly a combination of organic growth, acquisitions and expansion into Africa. Two companies followed a combination of five growth strategies, whilst the youngest company pursued only organic growth. This company had only been listed for three years, which explains why other growth strategies had not yet been documented. Figure 10 provides the combination of growth strategies that the different companies followed.

Although BSi described organic growth as their "best return and lowest risk option" (BSi 2008: 15), the company was also open for potential acquisitions as alluded to in a statement that "we remain vigilant for opportunities that are priced attractively and complement our geographic and product growth strategies" (BSi, 2011: 17).

ISA's growth strategy was similar, as reflected in their statements that "investment in organic growth, where we can build and enhance our existing capabilities. We do however continue to look for strategic activities to complement our existing business and to eliminate inefficiencies by further improving our internal systems" (ISA, 2007).

Acquisitions seem to hold various benefits for the acquiring company. They provided Telemasters with

access to licences, which enabled it to enter the broadband market and thus to diversify its offerings (Telemasters, 2010). In addition, Telemasters reported that it benefited from an assessed tax loss on one of its acquisitions (Telemasters, 2010).

The firms also highlighted the challenges that they had experienced with acquisitions. Gooderson had to disregard many potential opportunities "due to exorbitant selling prices" (Gooderson, 2009: 6). Telemasters suffered a significant impairment loss as the largest client of an acquisition closed down within a year of the acquisition (Telemasters, 2009), while OneLogix had to write off R4.4 million relating to uncollectable accounts receivable of an acquisition (OneLogix, 2009).

Although expansion into Africa was seemingly rewarding, it also had its challenges. FoneWorx's Media Worx division had expanded into 37 countries in Africa by 2011 (FoneWorx, 2011).The company had, however, experienced numerous challenges and found that it had to adapt its offering to the specific countries that it operated in, and that it could not offer the South Africa offering in its current form elsewhere in Africa (FoneWorx, 2011). The CEO elaborated: "The installations of the technical platforms came with a number of logistical, regulatory, cultural and operational challenges which required us to adapt our South African offerings of Fax2Email and Web2Fax to meet the local requirements of these territories" (FoneWorx, 2011: 7).

The joint CEO of BSi justified its expansion into Africa by saying, "…the SADC countries offer consistent growth opportunities, albeit at higher risks and administrative complexities than the local businesses. Our competitive advantage lies in our experience in dealing with African customers built over ten years of trade" (BSi, 2008: 20). The CEO of BSi raised political risk in Africa as a concern, specifically in Zimbabwe, which he cited as a "potential powder keg which could destabilise the region" (BSi, 2011: 20).

Only two companies documented the use of alliances. Telemastershad used a significant number of channel partners to grow its volume, and had appointed 60 new channel partners in 2008 (Telemasters, 2008). FoneWorx had established contractual and operational relationships with 65 cellular networks in 31 countries in Africa (FoneWorx, 2008: 2).

The companies were in their annual reports optimistic that BEE transactions would provide synergy and open up new opportunities for them. ISA justified the sale of 32.5% of the company to a black owned consortium: "The members of Viewcrest have extensive experience and knowledge of the ICT market and will bring both operational and strategic synergies to the Group" (ISA, 2006a).The chairperson and CEO of OneLogix also justified the sale of 25% of a wholly-owned subsidiary to a BEE consortium: "We are confident that our BEE consortium partner will add significant value to OneLogix. Going forward, our BEE platform will assist the group in securing new trade opportunities in light of transformation charters and preferential procurement practices" (OneLogix, 2005: 3).

Only one merger was documented in the data obtained for these firms. RGTS was formed with the purpose of acquiring two successful family-owned businesses (RGTS, 2011). The chairperson justified the merger as follows: "The founders of two very different, but hugely complementary businesses determined that their potential together was far greater than their destinies apart" (RGTS, 2011: 20). The CEO described the integration of the two subsidiaries as challenging. He reflected this as follows: "Combining different corporate cultures is challenging at the best of times and in spite of keeping focus on growing and securing the business, making substantial structural and operational changes and introducing a range of new disciplines the team has gelled together rather well and RGTS is today strongly positioned going forward" (RGTS, 2011: 21).

Economic environment

The annual reports of 2008 reflected the woes of the global economic recession. The executive chairman of Telemasters predicted: "The year 2008 will possibly go down in history as the highest peak leading to the steepest decline in business history. The year ended in tears and the end is not in sight yet" (Telemasters, 2008: 1). The chairperson of ISA described the impact of the recession on the company as follows: "Set against the backdrop of current economic uncertainty concerning the risks of the United States subprime crisis spilling over into the rest of the economy, the prospect for growth levels of yesteryear is no longer a reality for our business. Reviewed together with a rising inflationary cycle as well as high commodity and energy prices, the business will continue to adopt a conservative strategy" (ISA, 2008: 3). ISA's strategy to deal with the economic crisis was "…to protect the top line business, bolster bottom line profit, realise the full potential of our internally developed computer software, focus on cash generation, retain our top people and seek out quality compatible acquisitions" (ISA, 2009: 3).

In anticipation of, and as a South African reaction to, the economic recession of 2008, Telemasters, the company with the highest ROE within this sample, doubled its number of sales managers, appointed additional business development managers (Telemasters, 2008) and increased its sales staff (Telemasters 2009).The company also changed its remuneration structure from outcome based to salary based with a performance incentive. The executive chairperson explained: "Rather than reducing sales, salary exposure during the downturn, this client-centric focus necessitated the employment of a number of high-profile sales staff to counter the expected fall in revenue and clients"

(Telemasters, 2009: 3). This strategy was highly successful as the company's revenue increased by 29%, whilst costs increased by only 1% (Telemasters, 2009).

Financial management

Several of the firms reported that they were negatively affected by an increase in bad debt, especially during the recession (Telemasters, 2009; Gooderson, 2010: 10; Workforce, 2009: 7). The firms had various ways of minimising bad debt. Telemasters had a "very strict on-going credit policy". They contacted customers if they were more than seven days overdue and cancelled their contracts immediately if they did not cooperate (Telemasters, 2009: 5). FoneWorx had introduced prepaid scratch cards in certain African countries to minimise potential bad debt (FoneWorx, 2011).

Two companies reported that they had been the victims of fraudulent activities. Criminals unlawfully transferred more than R3 million from one of FoneWorx's bank accounts (FoneWorx, 2009), while Goodersonhad been forced to find other ways to market its timeshare weeks as a result of fraud (Gooderson, 2010).

The companies had various dividend policies. Whilst some companies had not paid dividends, Telemasters paid them quarterly. The executive chairperson of Telemasters boasted: "We broke new ground in becoming the first company on the JSE to report and pay dividends every quarter" (Telemasters, 2008: 2). In contrast, Workforce had not paid dividends relating to the 2008 financial year "to preserve liquidity and assist in reducing debt" (Workforce, 2011: 7).

ISA described its challenge with exchange rate fluctuations as follows: "the Board cannot predict the effect of exchange rate fluctuations upon future operating results and there can be no assurance that exchange rate fluctuations will not have a material adverse effect on its business, operating results or financial condition" (ISA, 2012: 6). ISA hedged its currency risk by holding foreign currency (ISA, 2012), while BSi mitigated its currency risk by active hedging through foreign exchange contracts (BSi, 2012).

Although the companies were able to raise funds by listing on the AltX, some companies indicated that they found this challenging. The joint CEO of BSi reflected: "While the listing has significantly increased the workload of our key executives, it has been both a challenging and rewarding experience" (BSi, 2008: 18). In contrast, Telemasters and Sable announced their intention to delist from the AltX (Telemasters, 2010: 2; SOST, 2012k). However, Telemasters withdrew its proposed delisting during 2012 (SOST, 2012l).

In addition to listing, the companies used various methods to fund their growth. OneLogix used the cash that it had generated through operations and interest-bearing borrowings to finance infrastructure and acquisitions (OneLogix, 2005; 2008), while Telemasters used mainly finance lease agreements to acquire motor vehicles and larger telephony routers (Telemasters, 2009).

The CEO of Telemasters emphasised the importance of cash flow management and elaborated that the company "focuses on ensuring sound cash management and in all business decisions careful consideration is given to the cash flow impacts of the decision" (Telemasters, 2008: 3).

Human resources management

The availability of skilled employees was a major concern to firms. The chairperson of ISA noted his frustration: "The challenge of addressing the scarcity of skills within our sector continued to distract management throughout this reporting period. Higher staff turnover and increases in remuneration levels exceeded budget, and it is anticipated that these pressures are likely to continue for as long as the national IT skills shortage persists" (ISA, 2008: 3).OneLogix was concerned with the shortage of drivers, and had mitigated this risk with an extensive driver recruitment and training programme (OneLogix, 2005).

Several companies indicated that they were committed to training and developing their employees. The Hotels and Lodges COO of Gooderson explained: "Our staff feature highly on the list of our priorities and training and development of our team has been our core focus. One of our strengths in this regard has been the upliftment of several of our long-standing staff members into junior and middle management positions. This depth and experience within these staff has created a consistent level of quality and service in our units" (Gooderson, 2009: 9).

Other

Regulation and legislation hadeither a positive or a negative impact, depending on the specific industry. ISA had benefited from the increased focus on corporate governance. The chairperson of ISA asserted that "Positive momentum in corporate governance and related legislative frameworks as well as a general upswing in spending in the ICT market, continue to provide stimulus for above average growth" (ISA, 2006b: 4). Workforce, a provider of staff outsourcing and related services, regarded the complex labour legislation as beneficial to the company. The executive chairperson of Workforce elaborated: "The new labour legislation is so complex that the services of a staff outsourcing company will become even more essential, particularly if the staff outsourcer has the requisite intellectual know-how and systems to deal with the new laws" (Workforce, 2010: 7). Gooderson had been negatively affected by the National Credit Act,

as it had to take responsibility for ensuring that customers could afford the sales, which resulted in a considerable number of sales having to be declined (Gooderson, 2011).

The 2010 Soccer World Cup did not have as positive an impact as had been anticipated by some firms. The chairperson of Workforce expressed his disappointment. “The FIFA World Cup 2010 did not deliver the increased business for which we had both planned and contracted. On the contrary, our experience was that after the World Cup there was a decrease in activity, particularly in construction.” (Workforce, 2010: 6).The chairperson of Gooderson indicated that they expected that the 2010 Soccer World Cup would attract more international tourists for several years after the event (Gooderson, 2009). However, the large number of hotels and bed-and-breakfast establishments that had opened in anticipation of the World Cup Soccer resulted in lower tariffs and lower occupancy rates (Gooderson, 2011).

Some companies raised their concerns about the availability of supplies and rising costs. BSi had suffered from disruptive steel supply and steel shortages from local suppliers (BSi, 2008). Meanwhile, OneLogix mitigated the negative impact of the fluctuating fuel price by restructuring the rates charged to clients (OneLogix, 2005).

The hospitality industry, specifically in Durban, had its own unique challenges. The chairperson of indicated that the drop in room occupancies at its two prominent Durban beachfront hotels was due to “bad weather conditions over the holiday season and the on-going upgrade of the beachfront. Work started adjacent to our properties in October 2009 and this has had a very detrimental effect on our accommodation and conference business due to road closures and construction noise” (Gooderson, 2010).

Conclusion

The present study aimed to gain insights into the management and features of listed SMEs that have been able to sustain firm growth and profitability within the context of a developing economy. Nine firms listed on the Johannesburg AltX were identified that conformed to the high growth and probability conditions that were set for this exploratory study.

Most of the firms in the realised sample had a total of six or seven directors on their boards, with three or four executive directors. The finding that high levels of education, prior industry experience and entrepreneurial experience are paramount for firm growth and performance, as highlighted by Barringer et al. (2005) is corroborated by the results obtained from the firms that were included in the present study. The most common attribute of both the executive directors and the full board was industry experience, followed by being highly qualified (a master’s or doctoral degree) and, lastly, entrepreneurial experience. The skills of the non-executive directors often complemented those of the executive directors. Even within this relatively small sample it was noted that high levels of education, prior industry experience and entrepreneurial experience was seemingly positively related to higher levels of ROE.

The ICT sector was the most profitable sector and achieved the highest average ROE. Most companies had two or three operating segments, which provided them with different income streams. The growth companies were in existence for a relatively long period. Four companies had been established before 1990 with the oldest two being established in 1957 and 1968. However, the four companies with the highest profitability were between 14 and 16 years old.

Most of the companies in this study followed a combination of three or more growth strategies, which supports research by Capron and Mitchell (2010) that firms that acquire resources in various ways are more likely to survive. All the companies had followed an organic growth strategy, which most complemented with acquisitive growth. Four of the five best performing companies (based on ROE) had also expanded into Africa, albeit in varying degrees. Only a few instances of companies working in alliances or participating in BEE transactions were documented. Mergers, joint ventures and franchising were the least used growth strategies.

Although all the companies included in this research remained profitable during the recession, they also felt the impact of the global financial crisisof2008. The companies had various strategies for dealing with the recession, ranging from reducing costs to adapting inventory levels to doubling the sales force in support of the advice of Merson (2011) to invest in the future capability of the business. The increase in bad debts was often raised as a concern, while other concerns included currency fluctuations and fraud.

Firms addressed the lack of skills by enhancing their ability to attract, retain and engage skilled employees and also by providing specific training programmes for their employees, which support the skilled investment approach as suggested by Hambrick and Crozier (1985).

Regulation and legislation were seen as either positive or negative depending on the type of industry. A few firms also reflected on the disappointing economic effects of the 2010 Soccer World Cup.

LIMITATIONS AND FURTHER AREAS OF RESEARCH

The present study focused on companies that had been profitable since they had listed on the Johannesburg AltX. According to Lee (2011), it is not enough to focus on actual high-growth firms only, as they would have overcome the most significant obstacles. He advised that underperforming high-growth firms should also be

Table 3. Possible characteristics of directors and practices of firms.

Characteristics of directors	Practices of firms
Highly qualified	Focus on specific market segment(s)
Industry experience	Combination of growth strategies
Entrepreneurial experience	Talent management focus

investigated. Other areas of research could include research on specific industries, which would allow for more comparable information. A similar study could be supplemented with interviews or questionnaires to 'fill in the gaps'. Also, as little research has been conducted in emerging markets on firm growth, quantitative research could be conducted to assess the possible relationships as depicted in Table 3.

THEORETICAL AND PRACTICAL IMPLICATIONS OF RESEARCH

As little is known about the internal growth dynamics of profitable high growth firms, specifically in emerging markets, the present study was exploratory in nature. An attempt was made to identify and describe the characteristics of directors and experiences of firms. Possible characteristics of directors and practices of firms have been identified, as summarised in Table 3.

Firms that are currently finding it difficult to operate profitably and/or not realising levels of the growth they would like to achieve within a similar developing economy context could consider their current characteristics and experience against these presented here and see to what extent adopting these would allow them to emulate the successes of the firms included in this study. Academics and researchers are also encouraged to further investigate these aspects of firms in terms of building and validating more robust and more importantly contextualised theories that are able to explain firm growth within a developing economies context.

REFERENCES

Barringer BR, Jones FF, Neubam DO (2005). 'A quantitative content analysis of the characteristics of rapid-growth firms and their founders', Journal of Business Venturing, 20: 663-687.

Brown R, Mawson S (2013). Trigger points and high-growth firms. Journal of Small Business and Enterprise Development, 20(2):279-295.

BSi (BSi Steel Limited) (2012). Integrated Report: Pietermaritzburg. [Online] Available: http://www.bsisteel.com/images/pdf/SENS-2012/BSI-Steel-AR-WEB.pdf. Accessed: 6 October 2012.

BSi (BSi Steel Limited) (2011). Integrated Report: Pietermaritzburg. [Online] Available: http://www.bsisteel.com/images/pdf/BSi-Annual-Report-Ending-032011.pdf. Accessed: 6 October 2012.

BSi (BSi Steel Limited) (2008).Annual Report: Pietermaritzburg. [Online] Available:https://securities.standardbank.co.za/pv_obj_cache/pv_obj_id_807EA-8962753DD9BCFB29AAA07B80E61C7BB2500/filename/BSI%20STEEL_ar_mar08.pdf. Accessed: 6 October 2012.

Capron L, Mitchell W (2010). 'Finding the right path', Harvard Business Review, 88(7–8), July–August: 102–107.

Churchill NC, Mullins JW (2001). 'How fast can your company afford to grow?' Harvard Business Review, 79(5), May: 135-142.

Colombelli A (2015). Top management team characteristics and firm growth: Evidence from a sample of listed companies. International Journal of Entrepreneurial Behaviour and Research, 21(1): 107-127.

Davidsson P (1991). 'Continued entrepreneurship: Ability, need and opportunity as determinants of small firm growth', Journal of Business Venturing, 6(6), November: 405–429.

Firer C, Ross S, Westerfield RW, Jordan BD (2008). Fundamentals of corporate finance.4th South African edition. Berkshire: McGraw-Hill.

FoneWorx (2011).Annual Report: Randburg. [Online] Available: http://www.foneworx.co.za/home/downloads/Foneworx%20Annual%20Report%202011.pdf. Accessed: 21 September 2012.

FoneWorx (2009). Annual Report: Randburg. [Online] Available: http://www.foneworx.co.za/home/downloads/FoneworxAR09.pdf. Accessed: 21 September 2012.

FoneWorx G (2008). Audited Results for the year ended 30 June 2008 and dividend declaration: Randburg. [Online] Available: http://www.foneworx.co.za/home/downloads/-FoneWorx%20%20Audited%20Results%202008.pdf. Accessed: 21 September 2012.

Foster G, Davila A, Haemmig M, He X, Jia N, Von Bismarck M, Wellman K (2011). Global entrepreneurship and the successful growth strategies of early-stage companies. [Online] Available: http://www3.weforum.org/docs/WEF_Entrepreneurship_Report_2011.pdf Accessed: 12 May 2012.

Gooderson L (2011). Annual Report: La Lucia. [Online] Available: https://securities.standardbank.co.za/pv_obj_cache/pv_obj_id_AB02F188A811518DABD688F041B1513750A01400/filename/GOODERSON_ar_feb11.pdf. Accessed: 8 October 2012.

Gooderson L (2010). Annual Report: La Lucia. [Online] Available: https://securities.standardbank.co.za/pv_obj_cache/pv_obj_id_41F0C0B084D951C8E0D11C1E5DABC56E0CAC0A00/filename/GOODERSON_ar_feb10.pdf. Accessed: 8 October 2012.

Gooderson L (2009). Annual Report: La Lucia. [Online] Available: http://goodersonleisure.co.za.50-57-81-167.diyosdns.net/wp-content/uploads/2012/05/ANNUAL+REPORT+FINAL+SENT+OUT+TO+SHAREHOLDERS.pdf. Accessed: 8 October 2012.

Gooderson L (2007) Annual Report: La Lucia. [Online] Available: https://securities.standardbank.co.za/pv_obj_cache/pv_obj_id_F06708DA3277D8CB1D66ED60D223633EB3EB1200/filename/GOODERSON_ar_07.pdf. Accessed: 8 October 2012.

Guba EG, Lincoln YS (1994). 'Competing paradigms in qualitative research', In Denzin NK, Lincoln YS (Eds), Handbook of qualitative research. Thousand Oaks, CA: Sage, 105-117.

Gundry LK, Welsch HP (2001). 'The ambitious entrepreneur: High growth strategies of women-owned enterprises', J. Bus. Venturing, 16(5), September: 453–470.

Hambrick DC, Crozier LM (1985). 'Stumblers and stars in the management of rapid growth', J. Bus. Venturing, 1: 31–45.

Herrington M (2011) 'Entrepreneurship: How can obstacles be overcome?' In Mbeki, M. (Ed), Advocates for change: How to overcome Africa's challenges. Johannesburg: Picador, 115–135.

ISA H (2012). Annual Report: Randburg. [Online] Available: http://www.isaholdings.co.za/#. Accessed: 1 October 2012.

ISA H (2009) Annual Report: Randburg. [Online] Available: http://www.isaholdings.co.za/#. Accessed: 21 September 2012.

ISA H (2008). Annual Report: Randburg. [Online] Available:

http://www.isaholdings.co.za/#. Accessed: 21 September 2012.
ISA H (2006a). Announcement of BEE partners. Randburg. [Online] Available: http://www.isaholdings.co.za/# Accessed: 19 November 2012.
ISA H (2006b). Annual Report 2006: Randburg. [Online] Available: http://www.isaholdings.co.za/#. Accessed: 1 October 2012.
JSE (Johannesburg Stock Exchange) (2012). AltX. [Online] Available: http://www.jse.co.za/How-To-List/AltX.aspx. Accessed: 23 August 2012.
Kelly DJ, Singer S, Herrington M (2011). Global Entrepreneurship Monitor. [Online] Available: http://www.gemconsortium.org/docs/download/2409. Accessed: 21 April 2015.
Kirkwood J (2009). To grow or not? Growing small service firms. Journal of Small Business and Enterprise Development, 16(3): 485-503.
Lee N (2011). Free to grow? Assessing the obstacles faced by actual and potential high growth firms. [Online] Available: http://www.nesta.org.uk/library/documents/Freetogrownew3.pdf. Accessed: 19 February 2012.
Merson R (2011). Guide to managing growth: Turning success into even bigger success. The Economist. London: Profile Books.
Mohr P, Fourie L, Associates (2008). Economics for South African student. 4th edition. Pretoria: Van Schaik.
OneLogix (2009). Annual Report: Kempton Park. [Online] Available: http://www.onelogix.com/images/pdf/AnnualReports/Annual%20Report%202009.pdf. Accessed: 21 September 2012.
OneLogix (2008). Annual Report: Kempton Park. [Online] Available: http://www.onelogix.com/images/pdf/AnnualReports/Annual%20Report%202008.pdf. Accessed: 21 September 2012.
OneLogix (2005). Annual Report: Kempton Park. [Online] Available: https://securities.standardbank.co.za/pv_obj_cache/pv_obj_id_58DACCDEB8D461F769C6E89A92A7AD574E310300/filename/ONELOGIX_ar_05.pdf. Accessed: 21 September 2012.
Smart RGT (2011). Annual Report: Johannesburg. [Online] Available: http://www.rgtsmart.co.za/downloads/Circulars/Circulas_RGTS_2011_Annual_Report_(2011).pdf. Accessed: 7 October 2012.
Roux A.(2011)Everyone's guide to the South African economy.10th edition. Cape Town: Zebra Press.
Saunders M, Lewis P, Thornhill A (2007). Research methods for business students. Harlow: Pearson Education Limited.
Simrie M, Herrington M, Kew J, Turton N (2012) Global entrepreneurship monitor 2011: South Africa. [Online] Available: http://www.gemconsortium.org/docs/-download/2313. Accessed: 5 June 2012.
SOST (Standard Online Share Trading) (2012a). Financial formulae for industrial model. [Online] Available: https://securities.standardbank.co.za/ost/. Accessed: 21 September 2012.
SOST (Standard Online Share Trading) (2012b). TeleMasters Holdings Ltd. [Online] Available: https://securities.standardbank.co.za/ost/. Accessed: 21 September 2012.
SOST (Standard Online Share Trading) (2012c). ISA Holdings Ltd. [Online] Available: https://securities.standardbank.co.za/ost/. Accessed: 21 September 2012.
SOST (Standard Online Share Trading) (2012d). FoneWorx Holdings Ltd. [Online] Available: https://securities.standardbank.co.za/ost/. Accessed: 21 September 2012.
SOST (Standard Online Share Trading) (2012e). OneLogix Group Ltd. [Online] Available: https://securities.standardbank.co.za/ost/. Accessed: 21 September 2012.
SOST (Standard Online Share Trading) (2012f). BSI Steel Ltd. [Online] Available: https://securities.standardbank.co.za/ost/. Accessed: 21 September 2012.
SOST (Standard Online Share Trading) (2012g). RGT Smart Market Intelligence Ltd. [Online] Available: https://securities.standardbank.co.za/ost/. Accessed: 21 September 2012.
SOST (Standard Online Share Trading) (2012h). Sable Holdings Ltd. [Online] Available: https://securities.standardbank.co.za/ost/. Accessed: 21 September 2012.
SOST (Standard Online Share Trading) (2012i). Workforce Holdings Ltd. [Online] Available: https://securities.standardbank.co.za/ost/. Accessed: 21 September 2012.
SOST (Standard Online Share Trading) (2012j). Gooderson Leisure Corporation Ltd. [Online] Available: https://securities.standardbank.co.za/ost/. Accessed: 21 September 2012.
SOST (Standard Online Share Trading) (2012k). SBL – Cautionary announcement relating to a potential de-listing of the company (Source: Sens). [Online] Available: https://securities.standardbank.co.za/ost/. Accessed: 11 December 2012.
SOST (Standard Online Share Trading) (2012l). TLM -Telemasters Holdings Limited – Withdrawal of decision to delist (Source: Sens). [Online] Available: https://securities.standardbank.co.za/ost/. Accessed: 11 December 2012.
Telemasters (2011). Integrated Report: Centurion. [Online] Available: http://www.telemasters.co.za/downloads/TLM%202011%20Int%20Report%205.pdf. Accessed: 21 September 2012.
Telemasters (2010). Annual Report: Centurion. [Online] Available: http://www.telemasters.co.za/downloads/2010%20Annual%20Report%20TeleMasters%20Holdings%20Ltd.pdf. Accessed: 21 September 2012.
Telemasters (2009). Annual Report: Centurion. [Online] Available: http://www.telemasters.co.za/downloads/2009%20Annual%20Report%20contents%20final.pdf. Accessed: 21 September 2012.
Telemasters (2008). Annual Report: Centurion. [Online] Available: http://www.telemasters.co.za/downloads/Annual%20Report%202008.pdf. Accessed: 21 September 2012.
Telemasters (2007). Annual Report: Centurion. [Online] Available: http://www.telemasters.co.za/downloads/TeleMasters-AR-2007.pdf. Accessed: 21 September 2012.
Workforce (2011). Integrated Annual Report: Johannesburg. [Online] Available: https://securities.standardbank.co.za/pv_obj_cache/pv_obj_id_D6BDADE0B961C42631E7F169AFB8EC90DB613600/filename/WORKFORCE_ar_dec11.pdf. Accessed: 8 October 2012.
Workforce (2010). Annual Report: Johannesburg. [Online] Available: https://securities.standardbank.co.za/pv_obj_cache/pv_obj_id_682785BFCDB660E3767174E929A7AF9A01C53100/filename/WORKFORCE_ar_dec10.pdf. Accessed: 8 October 2012.
Workforce (2009). Annual Report: Johannesburg. [Online] Available: https://securities.standardbank.co.za/pv_obj_cache/pv_obj_id_311E8F9DADBF3E2CC3620656FFE9A8C0E1A22A00/filename/WORKFORCE_ar_dec09.pdf. Accessed: 8 October 2012.