The Big Question

Size matters in the corporate world but Patrice Staal and Freek Vermeulen are not convinced that growing bigger and bigger automatically means more and more profit

Small is a dirty word

Have you noticed that, whether you go to Starbucks, Costa or Caffé Nero, the smallest latte or cappuccino you can buy is still huge? Why has it become the norm to drink coffee out of what resembles a soup bowl? Peruse the menu boards and you won't find the word "small".

In some quarters of the hospitality industry it seems that bigger is always better. How often do we hear a chief executive, explaining the rationale for an M&A deal, say "this merger will enable us to immediately be number one or two in the market"? How often are corporate strategies and goals worded in terms of size? It seems that size is generally considered enviable, and that it has become a goal in itself.

The case against big

Yet, the time is pertinent to consider the relative merits of size. The huge hotel conglomerates are not necessarily the most profitable. When we consider scientific research on size, evidence of a positive relationship with profitability is conspicuously absent; the fact is that size also comes at a cost.

Organisations can become too big. Research by Professor Haveman at the University of California, Berkeley, shows that medium-sized firms perform much better in terms of their ability to change and take advantage of emerging opportunities.

Obsessed with size

So where does the apparent obsession with expansion come from? Of course company size is often associated with success. The firms that feature in 'the most admired' lists are usually behemoths such as Toyota, Johnson & Johnson, IBM, 3M and Caterpillar.

Yet, striving for size for its own sake may not be beneficial at all. Executives and companies aiming for size may be confusing cause and effect. The admired companies became big because they were successful, but that doesn't mean that achieving size will make you successful too. As a matter of fact, trying obsessively to become big may be counter-productive. It is quite possible that focusing all one's resources and efforts on becoming bigger – for the sake of being big – might actually decrease a firm's chances of becoming successful.

Personal Gain

Of course, top managers often strive for size because it benefits them financially. Size may not be the most effective way to generate profitability for the company but it does usually give top managers more salary and bonuses, as well as more press coverage.

Executives motivated by their own economic wealth and stimulated to do so by their option plans may therefore be inclined to increase the size of their chain beyond what is healthy for its profits.

Therefore is bigger any better? Better for whom is the real question. Just as the coffee connoisseur might not want a latte big enough to bathe Cleopatra, firms in the hospitality industry may want to reconsider their optimal size, and not simply assume that bigger is always better. ■

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