

# **EXTENDING PENROSE'S GROWTH THEORY**

TOWARDS AN APPLICATION

Chen Zheng

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TOWARDS AN APPLICATION**

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*To My Father and Mother*

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# LIST OF ABBREVIATIONS

RBV	Resource-Based View
SBV	Subjectivism-Based View
MMS	Managerial Mental Space
IMR	Inherited Managerial Resources
TotB	Theory of the Business
AMD	Adult Mental Development
S-O	Subject-Object

## PREFACE

**E**dith Penrose is considered one of the most significant theorists in business economics. Her seminal work *The Theory of the Growth of the Firm* (1959) provides an orderly method of thinking for managers to theorize about their firms and environment. My previous research, *Reinterpreting Penrose: A Subjectivism-Based View* (2013), provides a re-reading of Penrose's Theory through a Subjectivism lens. It identifies that the growth of the firm can be driven and achieved through advancing the scope of the 'Managerial Mental Space' of the firm, which is implicit in Penrose's Theory and throughout her argument.

Following this track, this book proceeds to enrich Penrose's Theory through dealing with further questions related to the operation and development of the 'Managerial Mental Space' of the firm. Robert Kegan, the founder of the Theory of Adult Mental Development, advocates that in a complex world, a complex mind is not a luxury, but increasingly, a requirement. Entrepreneurial managers should be able to adaptively choose how to respond to expectations on them during the growth of the firm. An advanced meaning-making capability of individual entrepreneurial managers leads to increased awareness of their own 'Theory of the Business' (Peter Drucker, 1994), and therefore, a transformation of their whole 'Managerial Mental Space'.

With ‘economic thinking’, the theoretical extension of this book demonstrates how to develop a complex mind to function in today’s business world full of uncertainty, and how to engage in other people’s mental expectations to build up an effective and harmonious management team. Towards an applied level, this research explores further how managers, as theorists, can take advantage of productive opportunities through the awareness of their own thinking rather than holding it as a set of known assumptions unconsciously. We all have assumptions about how the world works and our place in it. They are deep wells of ideas from which our responses to issues spring. Mostly we do not explore their role and effect on our positions about issues. This research assists entrepreneurial managers to embark on their individual mental development journey and, therefore, to enhance the effectiveness of their practices in the context of their business and organizations.

I hope readers will be inspired and enlightened by the generous gifts of wisdoms and intellectual energy of the great thinkers referenced in this book. To help readers’ understanding of Penrose’s Theory a collection of key passages from Penrose’s *The Theory of the Growth of the Firm* (1995) from a Subjectivism-Based View is provided in appendix. Such a collection is of more value for those Chinese readers who haven’t had the opportunity to read Penrose’s original work, given the limited Chinese translation so far.

Chen Zheng

Zhengzhou, China

Mid-Autumn Festival, 2015



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# PART I

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INTRODUCTION TO TWO-ESSAY  
THEORETICAL EXTENSION OF  
PENROSE'S THEORY OF THE  
GROWTH OF THE FIRM



## INTRODUCTION

**E**dith Penrose is regarded as one of the most significant theorists of the postwar period. Her contribution to the theory of the growth of the firm has reinvented and productively developed the classical tradition in economics. This book offers a theoretical extension of Penrose's *The Theory of the Growth of the Firm* as the basis for working towards a practical tool to bring 'Penrose' closer to practicing managers.

### **Orientation of the Study**

This study extends my doctoral research<sup>1</sup> on a re-reading of Penrose's *The Theory of the Growth of the Firm* (1995 [1959]) through a subjectivism lens and an international perspective. Specifically, the discovery reported in my doctoral research is making explicit the previously implicit concept of the 'Managerial Mental Space' which is the central to Penrose's argument on the growth of the firm. It

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<sup>1</sup> See my previous book Chen (2013).



creates a new mode of discovery for the fundamental source of firm behavior.

Structured over two Essays, this study:

- Extends Penrose's Theory by exploring the implication of the 'Managerial Mental Space' in terms of identifying and examining the mental development processes of individual entrepreneurial managers as the fundamental orientation of the growth of the firm.
- Points beyond theoretical analysis towards an applied level for managers by exploring how individual entrepreneurial managers map out and update their theories of business to predict and control the future that is uncertain.

The analytical approach follows and develops Penrose's approach to theorizing the process of the growth of the firm. This study demonstrates the value of 'theory as apparatus of thought'<sup>1</sup> not only for scientific study, but also for entrepreneurial managers to theorize and guide operations within their business world.

## **Principle Approach of the Study**

My research on Penrose sets out by using Hayek as the authority to maintain that economic theorizing progresses through the constant application of a subjectivism-based approach. Hayek highlights the

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<sup>1</sup> Theory as "an apparatus of the mind" is the statement of Keynes (1981). For further elaboration and relevant quotations from Keynes, see Fanning and O Mahony (2000 [1998]).