

THE GROWTH PERFORMANCE OF SMALL BUSINESS UNDER THE VIEW OF LIFE-CYCLE MODEL

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Abstract

This paper observes empirically the approach and application of growth and firm life-cycle stages model in the Albanian reality. It describes the deviations or convergences of Albanian firms by adding and completing the number of studies, as well as by expanding the study sample of this issue mainly in developing countries like Albania. Its focus is to explore the validity of evolution theory of firms during the development of Albanian SMEs, explaining in this way a potential tendency of firm development. It has been mainly centered on the description of the variables behavior selected for study by means of descriptive statistics.

Keywords: Life-Cycle Firm, Firm Growth, Turnover Growth, Financing Patterns, SMEs.

1. INTRODUCTION

According to many theoretical and empirical studies, as well as the vast academic literature of different disciplines and perspectives, theory of the business life-cycle means that business evolution goes through some stages of development or growth. In the economics literature this definition appears earlier (Penrose, 1952, 1959; Rostow, 1960; Marshall, 1890), however in terms of stages of development of SMEs this concept belongs mostly to the Steinmetz study (1969; as cited in McMahon, 1988). Theory of the firm's life-cycle is used to study various aspects of the business, including the development and growth of the firm (Fitzsimmons, Steffens & Douglas, 2005; Steffens, Fitzsimmons & Davidsson, 2006) which has been precisely the main focus of this study. Different models of stages of the firm growth presented by many researchers represent some differences among them in relation to many aspects such as subdivisions in the process of SMEs development (Hanks et al., 1993) etc. The general outline of this study is based on the five-staged model of the firm life-cycle which is considered to be a suitable model for SMEs, as well as on the questionnaire used in the empirical study of Lester, Parnell, and Carraher (2003), which is also based on a previous group of studies (Penrose 1952; Greiner 1972; Quinn & Cameron 1983; Miller & Friesen 1984, as cited in Lester, et al., 2003). The

organization of this study based on Lester et al. (2003) work, makes it suitable for all organizations including SMEs, which have been the basic unit of analysis especially in terms of the instrument of data collection, regarding the SMEs life-stages that were part of the study sample.

2. REVIEW OF THE LITERATURE

Many life cycle models have already been presented by different researchers, suggesting that the organization is developed by a number of life-cycle stages during its life (Adizes, 1979; Aldrich & Reuf, 2006; Churchill & Lewis, 1983; Greiner, 1972; Flynn & Forman, 2001; Tsoukas, 1991). As is shown in Table 1 this number varies mainly from 3 to 10 stages. But despite the diversity in the number of studied stages, some researchers have fragmented them and some others have fused them in less development periods.

TABLE1 - TAXONOMY OF LIFE-CYCLE MODELS - NUMBER OF STAGES

Numbers of Stages	Authors
3	Lippitt and Schmidt (1967); Smith, Mitchell and Summer (1985)
4	Kazanjian and Drazin (1989); Kimberly (1979); Lyden (1975); Quinn and Cameron (1983); Steinmetz (1969)
5	Greiner (1972); Hanks; Miller and Friesen (1984); Penrose (1952); Watson, Scott and Bruce (1987); Jansen and Chandler (1993)
6	Churchill and Lewis (1983)
10	Adizes (1979)

Source: From "Investigating the firm life-cycle theory on Australia SMEs in the ICT Sector," by Pereneyi, A., Selvarajah, C., and Muthaly, S., 2011, Journal of Asia Entrepreneurship and Sustainability, 7 (2), p. 13-41.

They have also discerned not only the number of different life- cycle stages of the organization but also the units of analysis which means the types and sizes of organizations. So life-cycle model in some studies is focused only on certain categories of organizations (see Table 2).

TABLE 2 - TAXONOMY OF FIRM LIFE-CYCLE MODELS - UNITS OF ANALYSIS

Units of analysis	Authors
Organizations	Adizes (1979); Greiner (1972); Hanks, Watson, Jansen and Chandler (1993); Kimberly (1979); Quinn and Cameron (1983); Smith, Mitchell and Summer (1985)
Public Organizations	Lyden (1975)
Firms, Companies	Lippitt and Schmidt (1967); Miller and Friesen (1984); Penrose (1952)
SMEs	Churchill and Lewis (1983); Kazanjian and Drazin (1989); Scott and Bruce (1987); Steinmetz (1969)

Source: From "Investigating the firm life-cycle theory on Australia SMEs in the ICT Sector," by Pereneyi, A., Selvarajah, C., and Muthaly, S., 2011, Journal of Asia Entrepreneurship and Sustainability, 7 (2), p. 13-41.

According to Lester et al. (2003) the five stages of the organization life-cycle model are briefly described as follows:

- Stage I: Existence This stage marks the birth of the organization development. In this stage, the organization simply aims to create a number of customers just to survive or simply to start. During this stage, decision-making and ownership are concentrated and the environment cannot be analyzed (Daft & Weick, 1984; as cited in Lester, et al., 2003), because at this stage, organizations are trying to build (Bedeian, 1990; as cited in Lester, et al., 2003) their environments.
- Stage II: Survival During this stage, firms tend to grow (Adizes, 1979; Downs, 1967, as cited in Lester, et al., 2003) and formalize somewhat their structure (Quinn & Cameron, 1983), as well as create their competitive ability (Miller & Friesen, 1984). The goals are common and the main goal is a sufficient income to finance growth (Churchill & Lewis, 1983; as cited in Lester, et al., 2003). During this stage, organizations display different trend towards growth and evolution for the next stage, or may fail due to lack of sufficient income to survive (p.342).
- Stage III: Success As Lester, et al. (2003) has summarized, this stage is also termed maturity and represents a bureaucratic structure of organization (Quinn & Cameron, 1983), and the environment is also considered analyzable at this stage (Daft & Weick, 1984). According to Miller and Friesen (1984), the problem of this stage is the bureaucratization of organizational practices of work. Lester, et al. (2003) state that:
 - Job description, policies and procedures, and hierarchical reporting relationships have become much more formal. Such organizations have passed the survival test, growing to a point that they may seek to protect what they have gained instead of targeting new territory (p. 343).
- Stage IV: Renewal In 1984, Miller and Friesen (as cited in Lester, et al., 2003) emphasized that at this stage the organization is oriented towards collaborative organization to bring innovation and creativity. Therefore, the decentralized decision making via a matrix structure supports even better the firm creativity. However at this stage the company is oriented more towards its customers than its employees (p.343).
- Stage V: Decline This stage is more likely to bring the company's failure, despite the firm's inclination to withdraw even during the previous four stages (Lester, et al., 2003). During this stage, members of the company are focused on their own interests and so powerful political actions tend to prevail (Mintzberg, 1984; as cited in Lester, et al., 2003). As Miller and Friesen

have argued (1984), lack of ability to fulfill the outer requirements of previous stages will bring the firm decline as a result of the lack of profit due to reduction of the firm market share. Lester, et al. (2003) explains that during this stage, management and decision-making are concentrated again only in a handful of people, and it is precisely this kind of tendency which was also present during the previous stages that threatens the firm performance (p.343).

According to Lester, et al. (2003), various studies on the organization of the company have suggested different models about organization life stages (Adizes, 1979; Churchill & Lewis, 1983; Greiner, 1972; Lyden, 1975; Miller & Friesen, 1984; Mintzberg, 1984; Scott, 1972; Torbert, 1974). According to these models, the suggested organizational development stages range from 3 to 10, but their description is more or less similar. Therefore, models with many stages have shown fragmented but important development stages towards models with fewer stages that have been merged in more general over-passing. Additionally, some researchers (Churchill & Lewis, 1983; Stein-Metz, 1963, Scott & Bruce, 1987) have drawn distinctions between small and general enterprises (Kimberly & Miles, 1980; Quinn & Cameron, 1983, as cited in Lester, et al., 2003).

3. METHODOLOGY

To explore the evolution of small and medium enterprises in this research is used the five-staged cycle of the organization development suggested in some researchers' findings (Miller & Friesen, 1984; Lester, et al., 2003), which is applicable and suitable for all types of organizations. The main problem of this study was to explore and describe the life cycle of Albanian SMEs and to observe the development stages and the firm growth according to expectations and findings of various studies about lifecycle of the organization and mostly of Lester et al. (2003) study. Driven by different models applied and tested in previous studies, this research paper provides a realistic view about firm's development behavior. Given the development pattern of Lester et al. (2003), where this study is based upon, the company's life cycle is identified by indicators (latent) and various questions of the questionnaire about the organizational development of the company, which have led to precisely identify the behavior and life cycle of the firm. The ways of financing these businesses in different stages of development have been studied parallel to this model to see if their funding options are an important factor for organizational development and growth of the company. Regardless the small number of the study sample (48 SMEs), research has generally been driven through a quantitative research method, mainly in terms of data type and their analysis. The survey questions regarding the company's growth and organizational development are based on Lester et al. (2003) study, as well as on Berger and Udell

(1998) study regarding the ways of financing the firm during various stages of life cycle. Data collection was obtained by questionnaires addressed to SMEs in Vlora City that joined the study by willingness. Subsequently, this study sample has a small size, but even why the main aim of this study is only the description of the characteristics of the sample, testing the analytical techniques that can be used later in a complete research and the identification of different relations that may arise by this sample. So the focus of this study has been somewhat modest due to the fact that it has been difficult to gather primary data from a random number of firms because they usually refuse to answer, especially referring to sensitive issue of business and due to the lack of trust and the culture of participation research surveys. Respondents, mainly owner-managers have been asked to answer the majority of questions in their own way of perception, especially with regard to past period data. All study data are measured on raw numerical scale or percentages, and some using Likert scales. Given that the study sample was small, the interviews were well managed in order to avoid as much subjectivism as possible because a significant part of the responses date back to the year of firm creation or four years ago with the aim of exploring the big picture of firm's evolution and its development stages. The questionnaire was primarily addressed to owner-managers or the firm's internal economists in case they resulted employed since the foundation of the company. The survey questions attempt to discover the SMEs demographic data, size and firm growth indicators, organizational development indicators and their sources of funding, in order to achieve reconciliation among them as to describe a model of development of these business units and the associated problems or inconsistencies in size, organization and funding. The sample includes only those businesses that had the will to collaborate and so a non-random sampling is used not only because of conveniences, but even given the focus of the study which contains sensitive questions such as financial ones. However, despite the limitations of the method this study can serve as a good sample for meta-analysis as well as a good pilot study for many future studies on this issue by excluding the need for a preliminary study to generate hypotheses or sub-issues about lifecycle and growth of Albanian SMEs.

4. DATA ANALYSIS

In the final study sample only 48 firms (SMEs) were evaluated, those that concluded the questionnaire with complete and reliable data. Practically, 24 firms resulted as trading businesses, 26 as private limited companies and 30 as sole proprietorships (see Figure 1).

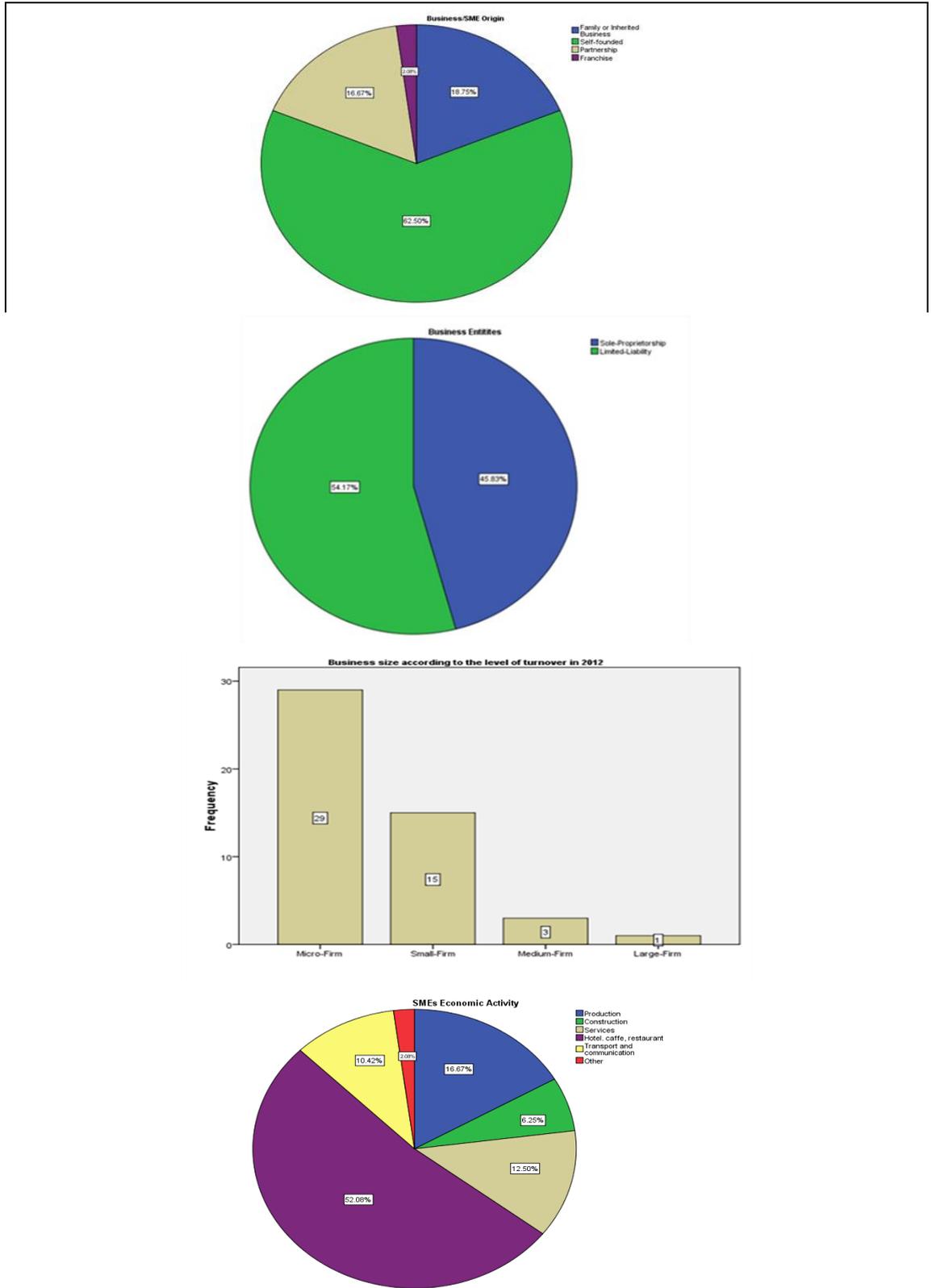


FIGURE 1 - RESEARCH SAMPLE DESCRIPTIVE STATISTICS

TABLE 3 - AVERAGE AGE OF SAMPLE FIRMS

Statistics		
Firm Age		
N	Valid	48
	Missing	0
Mean		10 years
Minimum		0 years
Maximum		22 years

In the following are presented the research data about the firm development stages under the organizational perspective, referring to the study sample from 2009 to 2012, clustered by their frequency. Therefore we can say that despite the economic growth, firms expose different stages of organizational development over the years (from 2009 to 2012) based on their turnover growth.

TABLE 4 - RESEARCH DATA ANALYSIS OF FIRM LIFE-CYCLE MODEL

Cluster	SMEs Total	Firm Stage (2009)	Firm Stage (2012)	Going-Gack	Standing in the same stage	Going-Forward
1	28	existence	existence		no evolution	
2	6	decline	decline		no evolution	
3	3	existence	renewal			3 faza
4	2	existence	decline			4 faza
5	1	success	existence	2 stages		
6	1	decline	existence	4 stages		
7	3	renewal	renewal		no evolution	
8	3	success	success		no evolution	
9	1	survival	survival		no evolution	
Total		48		2	41	5

Some of these firms have gone backward, some have moved on, but most of them about 41 sample firms are not developed and have not overcome the other development stages, but they have remained the same stage even after four years in terms of organizational view, despite their financial view which is very controversial.

The 2009-2012 firms' transition and development is particularly presented in the table below (see Table 4), including not only the firms that have not developed during 2009-2012, but also the backward developed firms and even the five firms that have gone forward.

Among the 28 firms that have remained in the existence stage till 2012, their turnover average growth is approximately 26%, whereas the growth range during this period (2009-2012) varies between -100% up to 958%. Among the six firms that have remained in the decline stage during the observation, their average turnover growth value is -11% and range -97% up to 25%.

On the third cluster the average value of turnover growth is 12% and range -125 up to 25%, in the fourth cluster the growth average is 87% and range 42% up to 131%. On the fifth cluster the turnover growth or the measure growth is 12.5%.

TABLE 5 - FIRM FINANCING SOURCES IN THE START-UP

Alternatives	Start-up Financing	Frequency
1	Personal Savings	84%
2	New Business-Partners	6%
3	Trade Credit	8%
4	Retained Earnings	6%
5	Governmental Grants	0%
6	Short-Run Loan	12%
7	Leasing	2%
8	Long-Run Bank Loan	18%
9	New Stock	0%
10	Public Debt	2%
11	Trade Letter	0%
12	Other	0%

On the sixth cluster the growth measure is equal to 25%, the seventh -4.5%, the eighth 6.8% and on the ninth cluster the turnover growth is about 25%.

Consequently, none of the sample firms has experienced a smooth transition of consecutive growth, but they may have overcome stages in advance or back during their performance. If we refer to the growth measures of the firm (turnover growth 2009-2012) versus organizational development there are major objections, e.g. on the eighth and ninth cluster even though firms have not evolved from the organizational point of view they are grown, and surprisingly on the survival stage the growth was greater than the success stage.

So these contradictions make it clear that there must be other factors which affect this lack of convergence between organizational and economic development or performance of the firm (firm growth), where one of them can be the small number of firms studied especially in these clusters which will have a big impact.

We can also assume that despite the organizational increase there is a financial performance increase, too, therefore following studies should simplify the link between organizational growth and firm age, size and indicators of growth and financing resources as well. These can be a set of factors that best explain firm organizational development course in a large sample of study. However simple indicators of this study shed light on this phenomenon, which cannot be proved statistically due to the size of the study sample.

Theoretically it is assumed that the firm's growth (explored in this study through growth indicators) like any other entity is accompanied by a kind of organizational development, but it may also be prevented and stimulated by many other economic or non-economic, quantitative or qualitative, internal or external factors. One of these very important factors for the firm's fate ever since by the birth of business idea and moreover during firm's development are its funding sources. With the help of a simple exploration of this small non-random sample, firms financing has been objectively explored in two periods of time, at start-up and currently (see Table 5 & 6).

TABLE 6 - FIRM FINANCING SOURCES, 2012

Alternatives	2012 Financing Sources	Frequency
1	Personal Savings	73%
2	New Business-Partners	6%
3	Trade Credit	11%
4	Retained Earnings	23%
5	Governmental Grants	0%
6	Short-Run Bank Loan	11%
7	Leasing	4%
8	Long-Run Bank Loan	15%
9	New Stock	0%
10	Public Debt	0%
11	Trade Letter	0%
12	Other	0%

No major changes were noticed throughout data exploration regarding firms financing manner between these two periods despite firms' development by an organizational or organic perspective (measured by turnover growth measure).

Thereupon funding is considered as an inhibiting factor for growth and development, given that most of the sample firms that have remained in the stage of existence throughout the study period (2009-2012) were financed mainly from personal and retained savings (so by a limited funding source). On these grounds, we can consider firm financing a development factor worthwhile to be studied and tested further by scholars of finance and management, especially in developing countries where SMEs play a key role in structuring the economy.

5. CONCLUSIONS

This research paper has intended to identify, to measure and describe the SME growth during the development stages of its life under the view of the firm life-cycle model in a small Albanian region in relation to the definitions of literature and the findings of earlier studies about this issue for SMEs in other countries. Although the study results in a small final sample (about 48 firms) and resembles most to a pilot study, it can still be used for further meta-analysis or as a preliminary research focused on the

problem of Albanian SMEs growth and development, and the financial impact on their growth and development. The study observed that despite the firm growth by financial performance perspective, firms had not made any great progress by the organizational perspective and that their stages of development were not successive but they were characterized by going back and forward and even standings in the same stage. Maybe this unsystematic organizational development and other factors as well such as financial resources can cause the unsustainable and predictable growth of the company during its life cycle. However other quantitative studies are needed to prove statistically this phenomenon as well as other related to, in consideration of the importance of sustainable development of SMEs and their financial performance in their own progress and of the economy in general.

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