

# **To what extent are different obstacles connected to the transition between the life cycle stages of the firm?**

**Master's thesis**

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## **Preface**

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## **Abstract**

Small and medium-sized enterprises stand at the core of our economy. Their growth and survival is therefore vital for a flourishing economy. However, not all SMEs are able to survive let alone grow in today's fast paced business world.. This study investigates which obstacles have to be overcome by businesses to realize growth, mitigate decline and thus transition into the next life cycle stage. Obstacles considered in this research are related to the four life cycle stages: start-up, scale-up, maturity and decline. 1230 SMEs in the Dutch graphical media and printing industry were researched by way of an online questionnaire to obtain data. A total of 87 complete questionnaires were returned. The data does not lend support to any of the hypothesised obstacles linked to the life cycle stages. This is a surprising finding as previous literature has shown a clear link between obstacles and life cycle stages. The findings may help SME entrepreneurs who are seeking to grow in a declining sector. Because this thesis shows that the importance of obstacles does not increase or decrease over the course of the growth process. Thus, it is important to keep an active attitude in finding new opportunities as well as staying on top of other organizational issues.

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## 1. Introduction

Small and medium-sized enterprises (SMEs) businesses represent a significant portion of the global economy, employing one-half of the entire workforce. (Headd, 2000) SMEs and entrepreneurs will always be considered important for the growth of developing economies. (Baumol, 2004) Hence, it is critical to pay attention to the growth of SMEs. Firm growth has been the focus of many studies. It can be studied from multiple perspectives. The most popular is the configuration theory on firm growth which is also known as the 'life-cycle' perspective (Muhos et al. 2010) Its popularity is due to its relevance to both academic and pragmatic audiences. (Muhos, 2017). Throughout the growth process, SMEs encounter a number of challenges as they grow from start-up to mature organizations.

Various researchers sought to find a model that systematically maps the different stages of a company, which they refer to as the 'life cycle' of the firm. (Lippitt & Schmidt, 1967; Greiner, 1972; Adizes, 1979; Kimberly, 1979; Galbraith, 1982; Churchill & Lewis, 1983; Quinn & Cameron; 1983; Miller and Friesen, 1984; Smith et al., 1985; Scott & Bruce, 1987) However, criticism on the organismic metaphor caused the characteristics of growth to change. Life cycles of the firm were no longer perceived to follow a fixed linear sequence based on number of employees, increased revenues, or market share. It became evident that in the development of a firm, overcoming obstacles plays a crucial role. The characteristics of growth were no longer centered by the life cycle stages, but by the manner of coping with challenges and management behavior at key transition points. Its impact had in fact grown so much that it had changed the way researchers perceive the life cycles of the firm.

As a result, many studies applied this 'problems perspective' in order to link the life cycle stages to the obstacles encountered during the development of the firm. A significant amount of empirical studies followed this trend and tried to provide proof for the connection between the two concepts. (Kazanjian, 1988; Kazanjian & Drazin, 1990; Beatty & Ulrich, 1991; Dodge & Robbins, 1992; Terpstra & Olson; 1993; Dodge et al., 1994; Shim et al., 2000; Abetti, 2000; Rutherford et al., 2003) Previous literature on life cycles focused on finding empirical proof for the stages of the firm by looking at factors such as: age, resources, corporate legal structure, key performance indicators, entrepreneurial role, sales, labor force, labor productivity, management control systems and location, (Shim et al., 2000; Masurel & Van Montfort, 2006; Auzair, 2010; Stam, 2007) They incorporated key issues or crisis in their surveys but it was not the main subject being studied. Previous literature on obstacles, looks primarily at the barriers to innovation, strategy and growth (Madrid-Guijarro, Garcia, & Van Auken, 2009; Hrebiniak, 2006; Geenhuizen & Soetanto, 2009) Here the focus is on the endpoint that needs to be achieved, for example achieving innovation.

So there is a significant amount of research that studies the connection between the obstacles and the firm's life cycles. (Lippitt & Schmidt, 1967; Greiner, 1972; Churchill & Lewis, 1983; Scott & Bruce; 1987; Kazanjian, 1988; Teeter & Whelan-Berry, 2008) However, there has been no empirical research done that studies the role obstacles play in the transition between