

## USE OF ENTERPRISE GROWTH THEORY IN MANAGEMENT OF SMALL AND MEDIUM SIZED ENTERPRISES

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**Abstract:** Article presents a proposition of using quantified model defining a level of enterprise growth according to L. E. Greiner's Enterprise Growth Stages Theory as an attempt of practical use of mentioned theory in Management Practice Discipline. This model defines critical areas of enterprise growth, defining their target condition in next stages of growth, which in turn allows to manage this process consciously.

**Key words:** enterprise's development, L. E. Greiner's Enterprise Growth Stages Theory, practical modeling of management theories, management practice

### Introduction

There are many concepts of enterprise growth stages. Most of them are derived from a classical model of social systems growth cycle, according to 'S' curve, in which there are three basic phases: emergence and growth, stability and dynamic balance and change or collapse and dissolution [1].

Even colloquial observation indicates that enterprises come into existence, develop, combine with other and terminate activity/died. This description is very similarly to living organisms' functioning, due to it we have an impression that enterprises born, grow in favorable conditions and finally die – like many other organisms. This analogy also applies to other aspects of life, in particular its phases – which have different problems and solutions logistics. Enterprise existence can be defining as succession of next stages of growth which have specific difference created by variety, internal and external forces. In this context, enterprise's growth stages describe cycles of subsequent changes, sometimes with a pre-foundation – conceptual phase, which enterprise has experienced from its foundation until its death, emphasizing relative instability of enterprise [2]. „ Among propositions that describe life cycles adopted to small and medium sized enterprises specific, it is possible to distinguish V.Lewis and N. Churchill's Small Business Growth model [3], M.Scott and R.Bruce's model [4] or Short "S" Curve Model [5]. Adizes's PAEI model [6] where growth is presented as a change of dominant functions, which threaten existence of an organization, also largely applies to small enterprises.” [7]

Despite existence of above-mentioned concepts, enterprise's growth is not a deeply explored subject. It is connected with a large variety of enterprises and varied problems related to this topic, which are difficult to generalize. L.E. Greiner, in his classical model of enterprise's growth, proposed the most interesting synthesis of

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this subject [8]. Maybe, the reason is an apparent triviality of the issue. Enterprise come into existence, exist - usually not very long, then sooner or later dies. There are many reasons, causes, forces which have an impact on this process.

The problem of information overload limits not only the field of research but also applies to enterprise management during development toward maturity. Nowadays, information overload phenomenon increasingly threatens effectiveness of enterprise activity [9].

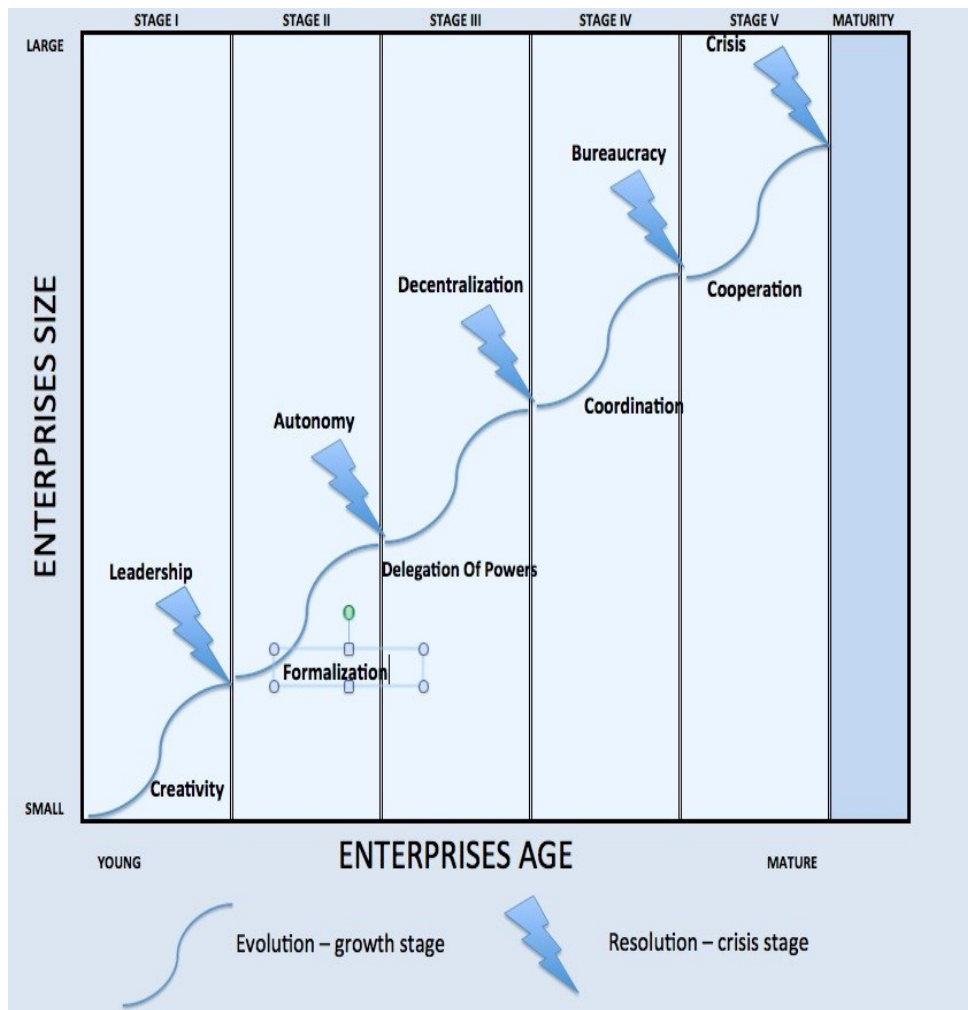
Despite this, it is worth considering whether it is possible to create a model which simplifies this complicated matter and allows using it in practice of management. A proper identification of growth stage is very important, because it enables to adapt possessed – limited enterprises resources in an efficient and optimal way. As a result it increases enterprise's chances to survive to maturity stage. To create a model, we use classical L. E. Greiner's Enterprise Growth Stages Theory.

### **Basic of L.E. Greiner's Enterprise Growth Stages Theory**

L.E. Greiner's in his Enterprise Growth Stages Theory defines 5 stages of enterprises growth, determining symptoms and reasons of crises which appear with twilight of each of them.

Greiner argues that crises are inevitable, but the way to overcome them may be an evolutionary or revolutionary. The evolutionary approach is less risky, but it requires more "precision" of management. Processes in an enterprise should be still analyzed and improved, in terms of economic and psychological aspects. The ability to diagnose a crisis allows on a better preparation for a change.

He identified five enterprises growth stages. Each of them is finished by „revolution”, which is a response to an emerging crisis. The condition for a transition to the next stage of enterprise life cycle is to overcome the crisis leading to change. It is not possible to move from one stage to another without solving basic problems. Figure 1 illustrates enterprises growth stages curve in a coordinate system. On the horizontal axis, time elapses from organization formation to its maturity, on the vertical axis the size of organization growth from small at the beginning of a cycle to large size [10].



**Figure 1. L.E. Greiner's Enterprise Growth Stages**

*Source: Author's own elaboration based on Greiner L., Evolution and Revolution as Organizations Grow, „Harvard Business Review”, July- August 1990*

On figure 1, the line which illustrates an enterprise growth curve is divided into five sections. Interferences on curve sections between the lines indicate symptoms of crisis in organization.

*Stage I – creativity*

In a newly created organization an emphasis is placed mainly on production of goods, entry into the market and viability. Management is entrepreneurial and all its energy is focused on production and marketing. Organization is non-formalized and non-bureaucratic. Crisis, which appears is a typical crisis of leadership. It occurs because management did not have a necessary organizational capacity, or it is not interested in work organization, due to preferential treatment of other activities.

*Stage II – formalization*

After dissolution of leadership crisis, a second phase is characterized by gradual and effective determination of direction of enterprise growth and precise wording of its objectives. Units that constitute a structure of organization, including their allocated principles (hierarchy of relationships: superiors-subordinates and division of labor) are determined. Communication becomes more formal than in the first case, besides the benefits of specialization, there are first signs of organization bureaucratization. Appearing crisis is a typical crisis of autonomy. It occurs because management did not want to give power and responsibility to managers of lower levels.

*Stage III – delegation of powers*

After solving crisis of autonomy, third phase is characterized by transfer of more responsibility onto shoulders of middle management, both in terms of management of various firms, as well as market segments. It allows senior management to focus on strategic issues, leaving management of operations to managers at lower levels. Communication becomes more formal and less frequently. Crisis, which appears is a typical crisis of decentralization. It occurs, because the general management, in order to lead organization in one direction, thinks of limiting autonomy of lower level management and components units.

*Stage IV – coordination*

After solving decentralization crisis, fourth stage is characterized by an increase in activities that facilitate compliance of entities and units. Development and growth of the whole system, overwhelm a middle management after a certain time. It fails to cope with the number of cases. At this stage already difficult control of processes and entities will be more complicated due to the bureaucratization of system. Conflicts will occur and efficient management of the organization will not be possible any longer. Crisis, which appears, is a typical crisis of bureaucracy. It can be prevented by cooperation within organization.

*Stage V – cooperation*

After solving bureaucracy crisis, fifth stage is characterized by an increased sense of joint responsibility for whole organization. Attempts are being made to solve earlier conflicts between leadership of a various units, departments and levels. Formalism and bureaucracy in internal relations are being reduced. The current output of enterprises life cycle concept does not allow to answer a question: when the next crisis comes and what character it will have [11]?

Greiner's model emphasizes importance and necessity of organizational change and role of overcoming problems for organization's survive [12]. While organization goes through different stages, the following conditions arise: management should pay attention to accurate diagnosis of a stage, in which organization currently is; adopted solutions contribute to the emergence of new problems; current efforts will determined organization growth in the future [10]. The ability to diagnose the crisis allows preparing better on a change. So – how should we diagnose it? Is it possible to predict? To get the answer, it is necessary to build a verification model.

**Building a verification model for L.E. Greiner's Growth Theory**

Building an effective verification model will allow to specify enterprise's growth theory. It also gives enterprise's management a tool to diagnose the state of development and analytical picture of enterprises development problems (assuming that selected features of a model are adequate (critical) components of the enterprise.

Procedure of a verification model construction requires a definition of its components, such as:

1. Identification of model's features.
2. Model normalization – specification of simplified states for particular features.
3. Making measurements.
4. Aggregating data in visualized form.
5. Analysis of results and subordination of specific types to next growth stages of Greiner's model with simultaneous indicating the main "incompetence" that require a revolutionary removal. A properly constructed model should accurately determine the stage of enterprise development (according to L.E. Greiner's assumptions), and present specific weaknesses of examined organization, that cause crisis.

Model's features

The most important element of a model construction is a selection of appropriate features that allow to create a description of organization growth stage, which would be simplified and closest to reality. In Table 1 first five features, which had been proposed by L.E. Greiner in his model, are presented.

**Table 1. Organizational practices in five growth stages**

Category	Phase I	Phase II	Phase III	Phase IV	Phase V
Management focused on	Manufacture and sale	Efficiency of operation	Breaking into a new market	Organizational consolidation	Problems solving and innovation
Organizational	Informal	Centralized and	Centralized and	Linear based on groups of	Team

structure		functional	geographical	products	matrix
Management style	Individualistic and entrepreneurial	directive	delegating	Bureaucratic and control	participative
Control system based on	Market results	Standards and cost centres	Reports and profit centres	Planning and design centres	Binding targets
Base of Management Board remuneration	Property	Increase in salaries and prestige	Individual bonuses	Share of profit and share option	Team bonus

Source: author's own elaboration based on: Greiner L., *Evolution and Revolution as Organizations Grow*, „Harvard Business Review”, July- August 1990

The set of features for initial model of first iteration was proposed in Table 2 (category).

#### Model normalization

Another important element of model construction is a suitable allocation of normalized values to various attributes. Basing on L.A. Garner's analysis of features and expert panel discussion a normalized set for model was chosen. It must be verified in target researches.

**Table 2. Normalized table of initial model features**

Category	Phase I	Phase II	Phase III	Phase IV	Phase V
Management focused on	Manufacture and sale	Efficiency of operation	Breaking into a new market	Organizational consolidation	Problems solving and innovation
Organizational structure	Informal	Centralized and functional	Centralized and geographical	Linear based on groups of products	Team matrix
Management style	Individualistic and entrepreneur	directive	delegating	Bureaucratic and control	participative

	ial				
Control system based on	Market results	Standards and cost centers	Reports and profit centres	Planning and design centres	Binding targets
Base of Management Board remuneration	Property	Increase in salaries and prestige	Individual bonuses	Share of profits and share option	Team bonus
Number of training days	-	to 2	to 5	to 10	more than 10
Internal financial reports	-	Financial statement	Resulting budget	Ivestment budget	Project budgets
Sale's level (annual)	to 1 mln	1-3 mln	3-10 mln	10-50 mln	more than 50 mln
Sale's growth rate,	to 3%	to 5%	5-10%	10-20%	more than 20%
Number of customers,	to 10	10-100	100-1000	1-10 thousand	more than 10 thousand
Customer's number growth rate,	to 3%	to 5%	5-10%	10-20%	more than 20%
Organization of logistisc,	-	independently	specialist	department	outsourcing
Organization of records (accounting)	-	independently	specjalist	department	outsourcing

Organization of finances,	-	independently	specjalist	department	outsourcing
Organization of procedures	-	independently	specjalist	department	outsourcing
Relations with cooperators	nonformalized	agreement	coordinati on	integration	participation

*Source: author's own elaboration based on: Greiner L., Evolution and Revolution as Organizations Grow, „Harvard Business Review”, July- August 1990 i panelu dyskusyjnego*

#### Making measurement for a selected enterprise

Below, a description of selected enterprises is presented. It allows for an initial verification of the examined model. Enterprise X operating on market, from 8 years in hi-tech sector. The measurement was obtained from a survey in which respondent – Chairman of the Management Board - selected one of five states defined for a particular category in Table 2 for each category. Then, particular responses are assigned a number indicating a phase to which the given answer is assigned. Normalized results, contained in Table 3, were obtained in this way.

**Table 3. Normalized results for enterprise X**

Category	Growth phase
Management focused on	2
Organizational structure	2
Management style	2
Control system based on	3
Base of Management Board remuneration	2
Number of training days	2
Internal financial reports	2

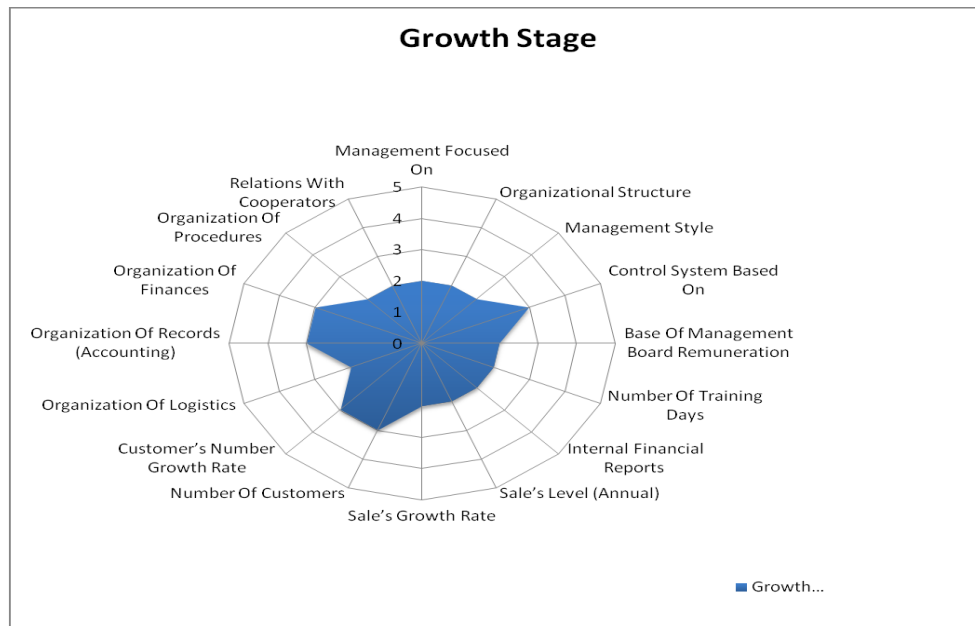


Sale's level (annual),	2
Sale's growth rate,	2
Number of customers,	3
Customer's number growth rate,	3
Organization of logistics,	2
Organization of records (accounting),	3
Organization of finances,	3
Organization of procedures	2
Relations with cooperators	2

*Source: author's own elaboration based on a survey*

#### Aggregating data in visualized form

The next stage in construction of verification model is to create a visualization of results, which facilitates understanding of a multidimensional model. For these purposes, radar chart was selected, because it illustrates information contained in model, in the best way (figure 2).



**Figure 2. Visualization of normative results for enterprises X in radar chart**

*Source: authors own elaboration based on survey's results*

The studies confirmed enterprises' X growth stage. Respondent's task was to define concepts unknown to him - which indicates the level of awareness of management associated with the level of enterprises X growth.

#### Analysis of results for enterprise X

Typologization of results is based on analysis of answers on following questions:

- a) what growth stage enterprise represents
- b) what analytical features, underdevelopment indicates, or what features indicate growth at the next stage.

In case of enterprises X - among 16 analyzed features of a model - growth stage II dominates (11 responses), next is growth stage III (5 responses). It is easy to notice that model indicated enterprise X entering in crisis associated with transition between stage of formalization (Stage II) and stage of power delegation (Stage III). The model also indicted areas of underdevelopment, which are potentially, places of the greatest threats in coming (or current) crisis resulting from development. (in case of enterprises X, there are all analytical features, which indicate growth stage II). This analysis greatly facilitates the implementation of practical solutions in this area. The advantage of this model can be simplicity, which allows using this model by small and medium sized enterprises (enterprises in growth stage). As a result of conducted survey, a managing director of enterprise familiarized himself with enterprises growth stages theory and became aware of his enterprise level of development.

Understanding of this theory allows management to focus on solving problems of development, which are contained in particular criteria in a systematic and sustainable way, appropriate to the growth stage which was determined in examination.

### Summary

Article presents a proposition of quantified model, which indicates enterprise growth stages in accordance with L.E. Greiner's Enterprise Growth Stages Theory as an attempt of practical application of theory in management practice. It affects on enterprise sustainable development and through an analysis improves efficiency of enterprise, synthesizing developmental problems identified in the model as critical.

Practical and effective modeling requires research work, which verify the model of a larger sample and provide information about necessary (critical) features and their typologization.

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### WYKORZYSTANIE TEORII WZROSTU PRZEDSIĘBIORSTWA W ZARZĄDZANIU MAŁYMI I ŚREDNIMI PRZEDSIĘBIORSTWAMI

**Streszczenie:** W pracy przedstawiono propozycję kwantyfikacji modelu określającego poziom rozwoju przedsiębiorstwa zgodnie z teorią etapów rozwoju przedsiębiorstwa L.E.Greiner jako próby praktycznego wykorzystania teorii w praktyce zarządczej. Model określa krytyczne dla rozwoju przedsiębiorstwa obszary działalności definiując ich docelowy stan w kolejnych etapach rozwojowych, co w konsekwencji pozwala na objęcie ich procesem świadomego zarządzania.

**Słowa kluczowe:** rozwój przedsiębiorstwa, teoria rozwoju przedsiębiorstwa, praktyka zarządcza.

### 使用的理論，創業管理中小企業

**摘要：**本文提出了一種量化模型確定公司的發展按照公司發展階段的理論作為企圖L.E.Greiner的實際應用理論到實踐管理。這將定義定義目標狀態，在下一階段的發展，這反過來又使他們能夠採取明智的管理過程中的關鍵領域的業務發展活動