Stage Models of SME Growth Reconsidered

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Abstract

This paper reviews the literature, seeking for a theoretically sound and empirically validated explanation of small and medium-sized enterprise (SME) growth to serve as a broad framework for research and policy-making regarding the business growth phenomenon. After a critical appraisal of recent research in the field, the paper argues that reconsideration should be given to a conceptual framework that represents SME growth as a series of stages of development through which the business may pass in an enterprise lifecycle. In particular, it is believed that some reliance can be placed on the Hanks et al. (1993) stages-of-growth model. As well as overcoming concerns that such models are frequently not empirically based, it can also be claimed to at least partially answer the most prevalent objections to this type of model that have appeared in the relevant literature.

Introduction

Over the last two decades in particular, growth SMEs have received considerable attention from researchers and policymakers around the world for reasons identified by Turok (1991, p. 29) as follows:

There is considerable interest within the field of small firms policy and research in the identification of features that distinguish firms which grow from those that stand still or fail. This is thought important if more selective small firms policies are to be developed. Identifying distinctive features of more and less successful firms may also provide insights into the factors influencing small firm development and hence improve understanding of the growth process.


An extensive literature search has revealed this to be a frequently investigated domain for researchers in a variety of business-related fields. However, in many respects, knowledge acquisition has not been cumulative and there is much that is yet to be settled. In their review of the relevant literature, O’Farrell & Hitchens (1988, p. 1380) conclude that ‘At present an adequate explanatory framework within which to analyse the growth of the small owner-managed manufacturing enterprise has not been developed’. On the basis of their review, Gibb & Davies (1990, p. 26) are of the opinion that ‘The production of such a theory and explanation in the near future is unlikely’. The review of Holmes & Zimmer (1994, p. 97) expresses the belief that ‘an operational framework that distinguishes growth from non-growth small businesses does not exist’. Thus, in order to inform their deliberations, researchers and policy-makers are still compelled to choose, with less than full confidence, amongst imperfect means for describing or characterising SME growth.

The intention in this paper is to once again seek for a theoretically sound and empirically validated explanation of SME growth to serve as a broad conceptual framework for research and policy-making regarding the business growth phenomenon. Ideally, such a framework would need to capture, in a rigorous and consensual manner, the current state of scholarly understanding of the dynamics of SME growth, including the distinguishing characteristics, problems and requirements
of growing SMEs. The paper proceeds by first overviewing and briefly evaluating alternate paradigms employed by researchers in the field to describe and explain business growth processes amongst SMEs. Attention is subsequently focused upon recent attempts to develop and validate stage models of SME growth – an approach to the issue with a long but somewhat contentious history in the relevant literature. One stages-of-growth model in particular is described in some detail, and is then carefully evaluated in the light of contemporary scholarship to discern whether it appears to overcome key weaknesses of its forebears. The model is also compared and contrasted with an alternate gestalts of SME growth perspective which has recently received support in the literature. The paper closes with a summary and conclusions arising from the review.

Explaining SME Growth

Wider scholarly thought on business growth in the literature of economics may be found in works by Marris & Ward (1971), Lindgren & Aislabie (1976), Casson (1982), Brock & Evans (1986), Johns et al. (1989), Acs & Audretsch (1990), Keasey & Watson (1993), McMahon et al. (1993), Reid (1993) and Acs (1995). The most useful recent review articles found on the growth process of SMEs are those of Chell & Haworth (1988), O’Farrell & Hitchens (1988), Gibb & Davies (1989, 1990, 1991), Hanks & Chandler (1992) and Holmes & Zimmer (1994). These are all substantial and critical published reviews of prior research which has attempted to explain the dynamics of growth in SMEs. In addition, Birley & Westhead (1990) provide a general review of the relevant literature as a precursor to reporting empirical findings on growth and performance contrasts in SMEs. Importantly, these reviews are broad in scope and comprehensive; and, by and large, they are not confined to the perspective of a particular academic discipline or to a single explanatory paradigm for growth. The most significant conclusions of the general reviews are summarised below.

In their review of alternative conceptual frameworks for explaining SME growth, O’Farrell & Hitchens (1988) classify available business growth theories into four main groups:

- Mostly static equilibrium theories derived from the field of industrial economics that are insufficiently concerned with the dynamics of growth, and which tend to be preoccupied with attainment of economies of scale and minimisation of long-run unit costs. Many are considered to overemphasise the large firm as the ultimate stable outcome of growth, there being no perceived limit to the size that a business might achieve (Perry, 1982; O’Farrell & Hitchens, 1988). In this context, Penrose’s (1959) views on the availability of managerial time and expertise, and its impact on the achievable growth rate for a business, are most significant.

- Stochastic models of firm growth, developed mainly in the field of economics, which, in summary, suggest that ‘many factors affect growth and, therefore, there is no dominant theory’ (O’Farrell & Hitchens, 1988, p. 1370). In this context, it is important to be aware of Gibrat’s (1931) law of proportionate effect which proposes that business growth rates are independent of enterprise size. O’Farrell & Hitchens (1988) cite empirical evidence which upholds Gibrat’s law for manufacturing SMEs; and they also allude to empirical support for the proposition that the variability of growth rate decreases with increasing enterprise size.
• What are referred to as strategic management perspectives on SME growth which, according to O’Farrell & Hitchens (1988, p. 1373), have:

... focused attention upon the strategic dimension of achieving sustained growth and the way in which the owner-manager responds to business and personal environmental indicators. Hence, they concentrate upon the identification of the owner-manager’s policies and strategies for the conduct and development of the business and their subsequent translation into managerial action that will lead to sustained business development. These business strategies are thought to be determined by perceptions of what the owner-manager wishes to, or thinks he can, achieve through his business, in the light of the opportunities and constraints he sees. In turn, these aspirations and perceptions will be partly determined by personal characteristics.

An important message emanating from the strategic management literature is that not all SME owner-managers have the desire, or indeed the capability in terms of resources and expertise, to grow their business (Stanworth & Curran, 1976; Perry, 1982; Perry et al., 1986; Stanworth & Curran, 1986; O’Farrell & Hitchens 1988; Perry et al., 1988; Storey et al., 1988; Davidsson, 1989; Birley & Westhead, 1990; Frank et al., 1991; Turok, 1991; Hanks & Chandler, 1992; Hay & Kamshad, 1994). Marginal to comfortable survival at the present enterprise size, rather than growth, is most often the overriding strategic objective. The reasons for this are many, ranging from personal wishes regarding life-style to a disinclination to surrender control and/or be accountable to others within and without the business in order that it may grow (McKenna & Oritt, 1981; O’Farrell & Hitchens (1988); Davidsson, 1989; Osteryoung et al., 1992; Hay & Kamshad, 1994; Holmes & Zimmer, 1994; McMahon & Stanger, 1995; LeCornu et al., 1996). Of course, the prerogative to make such personal choices and have them dictate business goals and activities is, for many, what is most attractive about SME owner-managership as an occupation (Bolton, 1971; Stanworth & Curran, 1976; Carland et al., 1984; Gibb & Dyson, 1984; Gibb & Scott, 1985; 1986; Stanworth & Curran, 1986; Chell & Haworth, 1988; O’Farrell & Hitchens 1988; Gibb & Davies, 1989; Birley & Westhead, 1990; Gibb & Davies, 1990, 1991; Bygrave & Petty, 1991; McMahon et al., 1993a; Petty & Bygrave, 1993).

• Theories that have their origins in the field of economics according to which SME growth is viewed as a series of phases or stages of development through which the business may pass in an enterprise life-cycle. As the literature cited later in this paper indicates, these are the most prevalent explanatory devices employed by researchers and policy-makers for explaining growth in SMEs. Unfortunately, over time there have been a great many stage models of growth proposed in the literature, and there is a wide range from which to choose for the purposes of research and policy-making. The number and nature of growth or development stages in these models vary widely from author to author, as do their emphases. For reasons which will soon become apparent, this broad approach to explaining growth of SMEs is subject to further critical examination in the following sections of the paper.

In concluding their literature review on SME growth, O’Farrell & Hitchens (1988, p. 1379) acknowledge that ‘As in so many aspects of the social sciences, it is easier to provide a critique of contemporary theories than to present a definitive new conceptual framework within which to study small-firm growth’. They make
suggestions on modifications and extensions to the theories they have considered which would, they believe, make them more cognisant of the realities faced by SMEs. Gibb & Davies (1989, 1990, 1991) are similarly unable to suggest an explanatory framework that is free from the many criticisms they direct at the theories of SME growth reviewed by them. Like O’Farrell & Hitchens (1988), these authors are, however, liberal with their views on what such a theory should include, how it should be derived, and other such questions.

While industrial economics and stochastic theories account for some phenomena of interest, they are far from full explanations of the growth process in SMEs. They are useful adjuncts in the present context, but are less than adequate as broad conceptual frameworks for research and policy-making, given their somewhat rationalistic/mechanistic features. To the extent that SMEs are and must be managed in an holistic manner, and given evidence which suggests strategic awareness in owner-managers is a key factor in successful growth and development of such concerns (Gibb & Scott, 1985, 1986), a strong case can be made that strategic management perspectives on growth hold most promise as rich and context-sensitive explanatory frameworks. However, there are still serious questions about whether owner-managers are consciously or deliberatively strategic in their management style. Even casual observation would suggest that crisis management on a day-to-day basis is a fact of life in many SMEs. A possible rejoinder is that these are generally not the types of concerns which are successful in growing. However, for strategic management perspectives on growth to be sufficiently plausible to act as the main conceptual framework for SME growth, it would seem essential to be able to demonstrate more substantial longer-term vision and strategic intent amongst owner-managers.

Unfortunately, strategic management perspectives on SME growth are extremely rich in the explanations they attempt to provide. Well may Birley & Westhead (1990, p. 535), who clearly favour the strategic management paradigm, seek to provide evidence on ‘the kaleidoscope of factors which describes firms of different size’. Strategic management models of growth like those of Gibb & Dyson (1984) and Gibb & Scott (1985, 1986) tend to become so multidimensional as to cause one to lose the thread of the explanations given, overly expansive as they are. Simplicity and parsimony are qualities which seem to be overlooked in attempting to provide as comprehensive and nuance-replete an explanation as possible of growth phenomena. Sparser explanatory paradigms are dismissed as overly reductionist (Gibb & Davies, 1989, 1990, 1991).

Despite justified claims that appropriate qualitative methods involving small samples and/or case studies have been employed in their initial formulation, it is true to say that adequate empirical support for strategic management perspectives on SME growth is yet to be forthcoming. Until recently, empirical underpinnings for other explanatory frameworks have also been weak or missing; but there have been no obvious attempts to make a virtue of this fact. Strategic management explanations of SME growth tend to employ such complex and difficult to measure concepts, and are so contingent in their specifications, as to make these theories almost untestable in any practical sense. This may seem a small concession to make for rich insights. Or it could be seen as a profound weakness.

In the last decade or so, stage models of SME growth have been scrutinised with much more scholarly rigour than hitherto has been the case.
Sound attempts have been made to integrate the multiplicity of models, and to ground them with an empirical as well as an experiential base. The works of Kazanjian (1988), Kazanjian & Drazin (1989), Hanks (1990a, 1990b), Kazanjian & Drazin (1990), Hanks et al. (1991), Dodge & Robbins (1992), Hanks et al. (1993), and Hanks & Chandler (1994) are particularly useful in this respect. Relevant findings of these and some other recent studies are reviewed in the following two sections of the paper. Much of this research has the added attraction of being well grounded in strategic management thought. Thus, strategic management perspectives on growth in SMEs are not entirely disregarded.

**Stage Models of SME Growth**

As indicated earlier, it has become very common amongst writers in the area to view SME growth as a series of phases or stages of development through which the business may pass in an enterprise life-cycle. Having its origins in the literature of economics (Marshall, 1890; Penrose, 1952, 1959; Rostow, 1960), reliance on this paradigm in the SME literature is most frequently claimed to date back to Steinmetz (1969). In a book of readings on the organisational life-cycle, Kimberly & Miles (1980, p. ix) draw attention to:

... the cyclical quality of organizational existence. Organizations are born, grow, and decline. Sometimes they reawaken, and sometimes they disappear.

This quotation invokes a biological metaphor for business organisations which has been the source of much controversy in the literature of economics, business and sociology (Penrose, 1952; Kimberly & Miles, 1980).

A number of published reviews were found in the literature which focus specifically on explanations of SME growth based on life-cycle stages through which growing businesses might typically pass. These extend the coverage provided in the general reviews on business growth already identified. D'Amboise & Muldowney (1988) is a widely cited overview of management theory for SMEs which includes consideration of stage models of growth. In addition, there are reviews – some of which form introductions to reports on empirical research in the area – by Perry (1982), Quinn & Cameron (1983), Miller & Friesen (1984a), Smith et al. (1985), Kazanjian (1988), Kazanjian & Drazin (1989), Hanks (1990a, 1990b), Kazanjian & Drazin (1990), Hanks et al. (1991), Dodge & Robbins (1992), Hanks & Chandler (1992), Hanks et al. (1993), Terpstra & Olson (1993), Dodge et al. (1994) and Hanks & Chandler (1994).

Together, these reviews consider all the best known attempts to develop, mostly inductively but sometimes deductively, life-cycle or stage models of SME growth. Not all of the reviews are fully supportive of this explanatory paradigm. Nevertheless, as already suggested, the growth and life-cycle stages framework has a substantial history in the literature of economics and business generally, and in the literature focused specifically on SME development.1

In terms of usefulness to the present review, the works of Hanks (1990a, 1990b), Hanks et al. (1991), Hanks & Chandler (1992), Hanks et al. (1993) and Hanks & Chandler (1994) stand out in the literature cited above in a number of respects. First, they post-date a considerable number of other works identified. Second, they critically review virtually all significant prior writing and research on the enterprise life-cycle construct. Third, they represent a comprehensive attempt to ground stages of the enterprise life-cycle in empirical observation. Conceptually and methodologically, these works stemming from Hanks' (1990a) doctoral research represent a worthwhile cumulation and advancement of knowledge in the area.

Before presenting the findings of their own empirical research, Hanks et al. (1993) review 10 enterprise life-cycle models described in the previous literature. Hanks et al. (1993, p. 6) indicate that models proposed by Quinn & Cameron (1983), Miller & Friesen (1984b) and Smith et al. (1985) are all 'summary models, developed to achieve some synthesis among competing life-cycle models'. Hanks et al. (1993) take these, along with models of Greiner (1972), Galbraith (1982), Churchill & Lewis (1983), Flamholtz (1986), Scott & Bruce (1987), Kazanjian (1988) and Adizes (1989) not otherwise considered, and compare and contrast them in terms of the number, nature and order of stages they entail, and the contextual and structural dimensions of business organisation they contemplate. Note that Hanks et al. (1993, p. 7) define a life-cycle or growth or development stage as 'a unique configuration of variables related to organization context or structure'. Contextual dimensions considered include enterprise size and age, growth rate, and focal tasks or challenges faced. Structural dimensions include structural form, formalisation, centralisation, vertical differentiation, and number of organisational levels.

Hanks et al. (1993) note that, at a superficial level, there are many commonalities between the life-cycle models they review. Nonetheless, commenting on wide differences in the specifics of prior life-cycle models (particularly inclusion of from 3 to 10 stages), Hanks et al. (1993, pp. 11-12) observe that:

In recent years, a few empirical studies of the organization life cycle have emerged, providing important contributions to life-cycle theory (Kazanjian, 1988; Kazanjian & Drazin, 1990; Miller & Friesen, 1984a; Smith et al., 1985). However, most of these studies have defined growth stages a priori, using existing conceptualizations. The lack of specificity and empirical rigour in these typologies may account for unexpected intrastage variance found in some analyses. . . . It may be possible to address some of these difficulties by deriving taxonomic rather than typological models . . .

Hanks et al. (1993) see the strength of a taxonomic approach to identifying and specifying stages in an enterprise life-cycle model as deriving from use of multivariate analysis of empirical data to reveal common patterns and relationships in the data. They acknowledge only Smith et al. (1985) as having previously employed a taxonomic approach to developing an enterprise life-cycle model, but note that that research had a very small sample size and various other weaknesses.

Mainly using exploratory cluster analysis of cross-sectional data supplied via mailed questionnaire by 133 manufacturing SMEs from 'high technology' industries in the United States, Hanks et al. (1993) derive a
Figure 1: Hanks et al. (1993) Enterprise Life-Cycle Model

**DEVELOPMENT STAGES**

- **START-UP**
  - Mean number of employees: 6.46 persons
  - Mean annual sales revenues: US$0.27 million
  - Mean age: 4.29 years

- **EXPANSION**
  - Mean number of employees: 23.64 persons
  - Mean annual sales revenues: US$1.40 million
  - Mean age: 7.36 years

- **MATURITY**
  - Mean number of employees: 62.76 persons
  - Mean annual sales revenues: US$3.71 million
  - Mean age: 6.66 years

- **DIVERSIFICATION**
  - Mean number of employees: 495.40 persons
  - Mean annual sales revenues: US$45.76 million
  - Mean age: 16.20 years

**DISENGAGEMENT STAGES**

- **LIFE-STYLE**
  - Mean number of employees: 7.00 persons
  - Mean annual sales revenues: US$0.41 million
  - Mean age: 18.71 years

- **CAPPED GROWTH**
  - Mean number of employees: 24.65 persons
  - Mean annual sales revenues: US$2.05 million
  - Mean age: 12.65 years

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life-cycle model with four development stages and two disengagement (or arrested development) stages, as represented in Figure 1. Hanks et al. (1993) further describe the various development configurations or stages in their taxonomic life-cycle model as follows:

• Start-up – young, small enterprises with simple organisational structures and a mean of 2.20 organisational levels. The organisation is highly centralised and quite informal. There is little functional specialisation, with a mean of 1.50 specialised functions. Product development appears to be the focal priority. Mean sales revenue growth is 91 per cent per annum, and mean employment growth is 29 per cent per annum.

• Expansion – slightly older and larger enterprises with more complex organisational structures and a mean of 3.18 organisational levels. The organisation is still very centralised and is a little more formal than in the start-up stage. Functional specialisation is generally adopted, with a mean of 3.4 specialised functions. Product commercialisation appears to be the focal priority. Mean sales revenue growth is 297 per cent per annum, and mean employment growth is 94 per cent per annum.

• Maturity – although not necessarily older, on average, than in the expansion stage, enterprises in this stage are typically more than twice as large. Organisational structures are more complex than hitherto, with a mean of 4.00 organisational levels. Centralisation is declining and formalisation increasing. There is a mean of 10.17 specialised functions. Mean sales revenue growth is 99 per cent per annum, and mean employment growth is 28 per cent per annum.

• Diversification – enterprises are generally medium-sized with an increasing tendency to have divisionalised structures. There is a mean of 5.70 organisational levels. Centralisation is low, and formality is highest for any stage in the life-cycle model. There is a mean of 15.30 specialised functions. Mean sales revenue growth is 37 per cent per annum, and mean employment growth is 57 per cent per annum.

Particularly note that generally increasing size and age of enterprises when reading down this list of life-cycle stages provides some evidence that businesses may, in some sense, progress sequentially through the stages as they evolve and develop. Kazanjian & Drazin (1989) make a similar point based on findings of their study of growth in technology-based concerns.

Hanks et al. (1993) further describe the two apparently stable and sustainable disengagement configurations or stages in their taxonomic life-cycle model as follows:

• Life-style – these enterprises are slightly larger than those in the start-up stage, but are generally much older. In most other respects, they are organisationally like start-up businesses. Mean sales revenue growth is 34 per cent per annum, but there is no growth in employment. These enterprises appear to have disengaged from the growth process after establishing their viability at relatively small size following start-up. Hanks et al. (1993) observe:

Perhaps they represent life-style firms, where owners have consciously chosen to keep their firms small. Davidsson (1989), in his study of Swedish firms, found that for many small business managers, the negative effects of growth appeared to outweigh the positive outcomes once the firm had reached the size of five to nine
employees, roughly the size of firms in this cluster. This configuration may also reflect firms whose growth is limited because they operate in very small market niches.

- Capped growth – these enterprises are slightly larger than those in the expansion stage, but are generally much older. Organisationally, they are somewhat less complex than typical businesses in the expansion stage. Mean sales revenue growth is 44 per cent per annum, but mean employment growth is only 4 per cent per annum. These enterprises appear to have disengaged from the growth process after successfully expanding to modest size following start-up. Hanks et al. (1993) observe that such businesses could be in Churchill & Lewis' (1983, p. 34) 'success-disengagement' sub-stage described as follows:

... the company has attained true economic health, has sufficient size and product-market penetration to ensure economic success, and earns average or above-average profits. The company can stay at this stage indefinitely, provided environmental change does not destroy its market niche or ineffective management reduce its competitive abilities.

Holmes & Zimmer (1994) amongst others have also highlighted the possibility of capped growth in SMEs. A detailed justification for SME owner-managers seriously considering this strategic option at some point is provided in a prescriptive article by McKenna & Oritt (1981).

Note that the term 'capped growth' is not specifically employed by Hanks et al. (1993) in depicting their taxonomic life-cycle model. However, based on their description of SMEs in this disengagement/arrested development circumstance, its use appears entirely appropriate. Note also that the Hanks et al. (1993) model does not include a decline stage as in some other models such as those of Smith et al. (1985), Adizes (1979, 1989) and Kazanjian (1988). Hanks et al. (1993, pp. 9-10) comment on this as follows:

Exclusion of decline stages in the majority of models can most likely be attributed to two characteristics of organization decline. First, the impact of decline on organization structure and systems is far less predictable than changes associated with growth. Second, the onset of organization decline may actually occur at any stage of the organization life cycle (Hanks, 1990b; Miller & Friesen, 1984a).

On the compatibility of their taxonomic life-cycle model with the ten prior models they reviewed, Hanks et al. (1993, p.9) observe:

All of the models include one or more stages related to organization birth or start-up, expansion, and maturity. All but three ... include one or more diversification ... stages.

Critique of Stage Models of SME Growth

The main limitations of the SME growth model developed by Hanks et al. (1993) are acknowledged by the researchers as deriving from their use of an exploratory method and cross-sectional data, and due to potential sample specificity. On the possibility the model only has some validity for smaller high-technology concerns in the industries studied by Hanks et al. (1993), a point made by Kazanjian & Drazin (1989, p. 1499) regarding their stage-of-growth study of technology-based new ventures (TBNVs) may be relevant:

... even though the model presented ... is theorized only to hold for TBNVs, the underlying structure of the theory has enough in common with general stage of growth models to lend some plausibility to a stage of
growth progression occurring in a variety of growth situations.

Certainly, the work of Hanks et al. (1993) is very well grounded in prior research and writing on stage models of development in SMEs of all types; and their findings appear to align reasonably well with those of earlier investigations. Furthermore, for one versed in SME theory and research, their model does have intuitive appeal as a more or less general conceptualisation.

O'Farrell & Hitchens (1988) present a comprehensive critique of stage models of SME development which acknowledges the following weaknesses of business growth conceptualisations of this type:

- Some stage models seem little more than heuristic classification schemes, rather than true conceptualisations of the growth process. The models are inclined to address the symptoms of growth, rather than reveal the underlying processes of the phenomenon.

- The body of literature underlying stage models is largely discursive and wisdom based. Furthermore, stage models and business life-cycle theory both tend to assume their own validity, rather than endeavouring to establish it in some rigorous manner.

- Where attempts are made to empirically validate stage models, most often this is done with relatively small samples and cross-sectional data. A strong argument can be made that longitudinal data are inherently appropriate to conceptualising growth of businesses over time.

- Stage models tend to assume all SMEs pass inexorably through each stage, or fail in attempting to do so. It is usually unclear whether passage through all stages is necessary; or whether, in some circumstances, one or more stages may be omitted, and if variations in sequencing can occur. Stage models should be able to account for the rarity of growth; and for phenomena such as life-style and capped growth businesses in which owner-manager psychology and personal wishes may override strict business considerations. The possibility of regression through some stages should also be contemplated.

- Stage models typically fail to capture important early stages in the initiation of small enterprises, including prior to start-up. The focus of attention or emphasis is most often on those concerns well on the path to becoming medium-sized.

- Stage models usually measure enterprise size in terms of sales revenue or number of employees, and they usually disregard other measures of attainment or performance such as product mix, value added and rate of innovation.

- Stage models tend to focus on the internal dynamics of growing concerns, and typically pay insufficient attention to the impact of external factors in the social, economic and business environments. For example, stage models generally fail to take account of spatial dimensions of SME tied to advancement or decline of local, regional, national or international economies.

These points cover virtually all the substantial criticisms of stage models of SME found in preambles to empirical studies already identified, and in specific reviews/critiques such as those of Penrose (1952), Perry (1982), Gibb & Davies (1989, 1990, 1991), Hay & Kamshad (1994) and Merz et al. (1994).

Of the criticisms of stage-of-growth models identified in the previous paragraph, those grouped in the fourth
point are most often made in the relevant literature. For example, in her seminal work *The Theory of the Growth of the Firm*, Penrose (1952, p. 806) expresses the following views:

The purpose a life cycle theory of the firm would serve are obvious, yet the theory as a base undeveloped hypothesis has existed for a long time and nothing has been done to construct from it a consistent theoretical system with sufficient content to enable it to be used for any purpose whatsoever. . . . Although we have a respectable collection of information about firms, it has not stimulated economists even to suggest the further hypotheses necessary to the development of a life cycle theory of the firm. This, I think, is primarily because the available evidence does not support the theory that firms have a life cycle characterized by a consistent transition through recognizable stages of development similar to those of living organisms. Indeed, just the opposite conclusion must be drawn: the development of firms does not proceed according to the same 'grim' laws as does that of living organisms.

Gibb & Dyson (1984) claim that much SME growth is chaotic, and is reactive rather than pro-active. Fombrun & Wally (1989, p. 108) make the point that 'Growth . . . may be neither orderly nor sequential; it may occur in surges'. According to Miller & Friesen (1984a):

. . . while the stages of the life cycle are internally coherent and very different from one another they are by no means connected to each other in any deterministic sequence.

Finally, when commenting on published research into stages of growth in SMEs, Merz et al. (1994, p. 49) proclaim that:

These studies, while interesting and thought provoking, possess limited usefulness for the study of growth management since they are built upon the deterministic assumption that all firms grow linearly through a predictable series of preordained stages.

**Stages or Gestalts of SME Growth?**

At least a partial rejoinder to many criticisms of stages-of-growth models included in the previous section of the paper may be provided by Miller’s (1981, 1987) suggestion that, rather than moving predictably through a sequence of developmental stages, businesses might instead ‘attain gestalts or patterns of strategy, structure, and environment that may emerge for any number of reasons’ (Kazanjian, 1988, p. 258). According to Miller & Friesen (1984b, p. 1):

Organisational structures, production systems, information processing procedures, strategies and environments all tend to influence each other. Our thesis is that they do so in such a manner that gives rise to a small number of extremely common configurations. . . . Configurations may represent common organizational structures, common scenarios of strategy making in context, and even common developmental or transitional sequences.

Kazanjian & Drazin (1989) point out that organisational *gestalts* are appropriate responses to imperatives facing businesses, and that movement from one *gestalt* to another would not necessarily follow any developmental pattern.

The most significant empirical research found which explicitly tests, for SMEs, the validity of the alternative stages-of-growth and *gestalt* perspectives identified in the previous paragraph is a longitudinal study of technology-based new ventures (TBNVs) in the United States reported by Kazanjian & Drazin (1989). The research question addressed by Kazanjian & Drazin (1989, pp. 1492-1493) is:

. . . whether, over time, TBNVs progress according to a stage of growth model or if transitions in organizational form represent shifts in gestalts or configurations.

The authors cite only Miller & Friesen (1984a) as previous empirical research.
reflecting on this question. Although the sample size is small, a stage-wise progression is claimed to be roughly present in Miller & Friesen's (1984a) data. On the outcome of their research, Kazanjian & Drazin (1989, pp. 1499) comment as follows:

To the best of our knowledge this paper provides the first statistical test of whether firms actually advance through stages over time. The modest support shown in the results confirms that some TBNVs do tend . . . to progress according to the predicted pattern.

Subsequently, Kazanjian & Drazin (1989, p.1499) claim that the findings of their study provide 'only partial support for the stage of growth model, but point the way toward an interesting possible synthesis of the stage of growth and gestalt perspectives'.

Recall that Hanks et al. (1993, p.7) define a life-cycle stage as 'a unique configuration of variables related to organization context or structure'. This definition, it could be argued, might equally well apply to a gestalt. Furthermore, the taxonomic approach to deriving their model employed by Hanks et al. (1993) is a method one might use in identifying gestals amongst business concerns. Commenting on the findings of their research, Hanks et al. (1993, p.18) claim that:

While the cross-sectional nature of this study limits our ability to reach definitive conclusions as to the sequencing of stages, the derived taxonomy suggests a sequence of four developmental stages . . .

As pointed out earlier, a sequence of stages might be inferred from the enterprise size and age characteristics typical for concerns in each stage of the Hanks et al. (1993) study. However, later in their paper Hanks et al. (1993, p. 24) observe:

Although the cross-sectional approach taken in this study is suggestive of life-cycle stages, it is impossible to differentiate between configurations representative of life-cycle stages and those suggestive of firms simply choosing to do business in different ways.

This may be taken to suggest that what could be seen as life-cycle stages might alternatively be perceived as gestalts amongst the businesses studied.

The point is, then, that the Hanks et al. (1993) model described at some length in this paper is not inconsistent with an alternative gestalt perspective; although, on balance, it favours a stages-of-growth perspective. Note also that a gestalt may, in fact, be a growth stage. The upshot is that some reliance can be placed on the Hanks et al. (1993) model in the knowledge that, as well as overcoming concerns that stages-of-growth models are frequently not empirically based, it can also be claimed to at least partially answer the most prevalent objections to such models in the literature (in particular those detailed earlier from Penrose, 1952; Gibb & Dyson, 1984; Fombrun & Wally, 1989; Miller & Friesen, 1984a and Merz et al., 1994).

Summary and Conclusions

Given the emergent state of scholarship in the field, perforce, a degree of pragmatism about conceptualising SME growth needs to prevail if current research and policymaking embracing the business growth phenomenon are to meet their objectives. A reasonable expectation would seem to be no more than a convenient explanation of SME growth that is sufficiently supported by informed thought, empirical observation and business experience. It must, of course, be acceptably robust and parsimonious as to be operational; and it should not undermine the internal and external validity of research employing it.
After a critical appraisal of recent research in the field, this paper has argued that reconsideration should now be given to a conceptual framework that represents SME growth as a series of stages of development through which the business may pass in an enterprise life-cycle. In particular, it is believed that some reliance can be placed on the Hanks et al. (1993) stages-of-growth model in the knowledge that, as well as overcoming concerns that such models are frequently not empirically based, it can also be claimed to at least partially answer the most prevalent objections to this type of model that have appeared in the relevant literature. Importantly, the model uniquely incorporates two disengagement (or arrested development) configurations that are frequently observed amongst SMEs – the life-style business and the business electing for capped growth. Furthermore, while predominantly focused upon stages of growth, the model is sympathetic to, or at least not inconsistent with, an alternative gestalts of growth perspective which has recently received some support in the literature.

References


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