SME's LIFE CYCLE – STEPS to FAILURE or SUCCESS?

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Abstract

The body of literature on SMEs suggest that all SMEs seem to go through different life cycles, and while the terms used by different authors may vary, the events that govern them are all too familiar to the founders and managers involved. While each SME may seek to grow from the start it will inevitably meet new challenges and crises over time that must be addressed effectively if the business is to survive and prosper. This author believes that these crises are characterised as 'Plateaus' that must be carefully managed in order for the business to be ready for its next growth period. If neglected and the business tries to continue 'business as usual' during a crisis it will collapse in failure. As so many have done in the past and why the average life span of many SMEs is only five years. Moya K. Mason (2009) points out that: "The Small Business Administration (SBA) keeps the stats on business failures and claims that more than half of new businesses will disappear in the first five years." According to an August 2009 Business Daily Article - Poor practices lead to high SME mortality: "poor management and a shortage of funds have been identified as the main cause of start-up deaths globally." It is recommended that training be provided for all SME entrepreneurs to prepare them for the road ahead and the challenges and crisis that they will inevitable meet along the way. This Paper provides a brief look at a typical SME's life cycle in terms of both its Growth Phases and the subsequent crises 'Plateaus' it must manage along the way in order to survive and prosper, and be ready for the next growth Phase.

Key words: *Small Medium Enterprises (SMEs), Corporate/company life cycles.*

Introduction

Now with the financial crisis still wreaking havoc on the world and many large corporations and public sector organizations reducing their staff numbers, many aspiring entrepreneurs, suddenly finding themselves out of work, are striving to make their dreams come true and seeking to start their own business. Most such businesses are Small to Medium Sized Enterprises, businesses employing fewer than 250 people, commonly referred to as SMEs[2].

The history of SMEs is one where many have gone but few have succeeded. The average lifecycle of many SMEs is in the region of five years or less. Take the United States, for example. As pointed out by Mason (2009), "*the Small Business Administration (SBA) keeps the stats on business failures and claims that more than half of new businesses will disappear in the first five years*." And, as an August 2009 Business Daily article, ominously entitled 'Poor practices lead to high SME mortality,' indicates, business failure at an early stage of a company's existence is a worldwide phenomenon: "*poor management and a shortage of funds have been identified as the main cause of start-up deaths globally. Experts say a majority of small businesses fold up after an average of 18 months due to failure to stand up to competition. About 80% of start-ups are expected to fail … the failure rate is not localized, even in advanced economies the mortality rate is just as high*." Harvard Professor Mukti Khaire[3] is equally blunt and categorical in his assessment of SMEs' life expectancy: "*the track record is well known and sobering for any entrepreneur: 90 per cent of all new ventures fail as start-ups often lack vital resources, must compete against established companies, and have little or no*

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track record with which to woo customers and investors." Figures invariably point to a high mortality rate.

And figures are even more baffling when one takes into consideration the fact that many who fail learn invaluable lessons for future ventures that can thus increase their chances of success, a view which this author endorses. For, as Thomas Edison once said about his many failures en route to inventing the electric light bulb: "*I will not say I failed a 1,000 times, I will say that I have discovered that there are a 1,000 ways that Cause Failure*." Moreover, as Albert Einstein once remarked*: "If someone feels that they had never made a mistake in their life, then, it means that they have never tried a new thing in their life*." Still, while making mistakes is an integral part of the learning process, it does not of itself explain the high rate of attrition. Which begs the question of why so many defunct SMEs?

One way to account for this high level of failure is to consider company life cycles, an approach which this paper will follow. This author has identified four key Phases to all SME Start ups. However, it is also this author's belief that, as each of these four Phases comes to an end, there are important decisions to be made. This author calls these defining moments, which represent transitional stages from one Phase to another, 'Plateau Stages'. Each of the four stages will therefore consist of a Phase and a Plateau.

After briefly reviewing the history of company life cycles, upon which these four Phases are based, and considering whom these potential entrepreneurs are, each Phase - and Plateau - will thus be explored at length. A whole life cycle pattern will then emerge making it abundantly clear that training should be provided for all SME entrepreneurs to prepare them for the many challenges ahead.

1. A Brief History of Company Life Cycles

One of the earliest writers on company life cycle growth was Greiner (1972) who provided the foundational work on the theory of a company's development as evolution and revolution. Based on his theoretical review of developing organizations he came up with the conclusion that organizations seem to move through five distinguishable types of growth "*each phase contain*[ing] *a relatively calm period of growth that ends with a management crisis.* The five phases and crises which Greiner identified are:

> *"(1) growth through creativity, followed by a crisis of leadership;*
> *(2) growth through direction, followed by a crisis of autonomy;*
> *(3) growth through delegation, followed by a crisis of control;*
> *(4) growth through coordination, followed by a crisis of red tape;*
> *(5) growth through collaboration; followed by a crisis of psychological saturation among employees. This crisis can be solved by new structures and programs that allow employees to periodically rest, reflect, and revitalize themselves*."

Others have followed his work and expanded on it, and in time developed a rich literature on company life cycles. One such scholar to whom Kees van Montford (2006) refers in his landmark work dealing with the life cycle characteristics of small professional service firms are Lavoie and Culbert (1978) who, as he put it, "*stressed the human factor in organizational development in their review of a series of different theories. To be effective, organizational development must be tied to progressively mature reasoning processes that characterize managers working in increasingly higher stages of the organization's evolution. Valid organizational change and development basically addresses the problem of getting managers and their employees to upgrade the values and logic underlying their patterns of decision-making*."

Another significant contributor to this field is Adizes (1979) who argued, among others, that "*the attitudes and style of an organization's managers may provide a means for ensuring a long and effective life for an organization.*" Adizes identified 10 Life Stages in the corporate life cycle of an organization. They include:

1. courtship (the initial development or creation of the proposition/ model/ business/ formation/etc);

2. infancy (after launch - start of active trading);
3. go-go (frantic energetic early growth and sometimes chaos);
4. adolescence (still developing but more established and defined);
5. prime (the business or organization at its fittest, healthiest and most competitive, popular and profitable);
6. stability (still effective, popular, can still be very profitable, but beginning to lose leading edge - vulnerability creeping in maybe);
7. aristocracy (strong by virtue of market presence and consolidated accumulated successes, but slow and unexciting, definitely losing market share to competitors and new technologies, trends, etc);
8. recrimination (doubts, problems, threats and internal issues overshadow the original purposes);
9. bureaucracy (inward-focused administration, cumbersome, seeking exit or divestment, many operating and marketing challenges);
10. death (closure, sell-off, bankruptcy, bought for asset value or customer-base only)

    http://www.businessballs.com/adizeslifecycle.htm.

Also of great import is the work of Quinn and Cameron (1983) who examined many models, which they then combined and summarized into one theoretical model. Under that model, companies go through 4 different but related life cycles. The first one, "*an entrepreneurial stage*" is characterized by innovation and creativity on the part of the founder. Followed by "*(ii) a collectivity stage (high cohesion, commitment), (iii) a formalization and control stage (stability and institutionalization), and (iv) a structure elaboration and adaptation stage*. According to Quinn and Cameron, **"***there is a consistent pattern of development in organizations over time, and organizational activities and structures at one stage are not the same as those at another. Thus, the criteria used to evaluate an organization's success at one stage of development may well be different from the criteria used to evaluate success during another developmental stage*."

Applying the findings of Greiner to the small entrepreneurial business situation, Churchill and Lewis (1983) developed a model that has become "*a classic*." Starting from the position that many of the traditional models are not suitable for small entrepreneurial businesses because not all such businesses must go through the typical stages of development or risk failure, they argued that many traditional models do not pay enough attention to the entrepreneur him/herself, to why they started the business in the first instance, and to what happened in its early stages of development and growth. They also showed that for the small entrepreneurial business "*each stage is characterized by size, diversity, complexity, and the following management factors: managerial style; organizational structure; extent of formal systems; major strategic goals; and owner involvement*."

Following Greiner's seminal work, Scott and Bruce (1987) came up with a similar five-phase model, classifying those stages of development as "*inception, survival, growth, expansion, and maturity*." Like Greiner, they too stressed that a crisis of some kind comes before each stage of development or growth. This model is somewhat similar to the four-phase model developed by this author as described below, where each crisis stage is classified as a 'Plateau' stage which must be first addressed if the company is to continue to survive and grow, short of which it will collapse in failure.

Kees van Montford's (2006) empirical study among small professional service firms also includes references to Goffee and Scase (1995) whom he credited with concluding "*that a major constraint limiting small business growth is the process of mutual adjustment between proprietors and their employees.*" According to him, "*they identified the most common causes of crises in small (high-tech) firms as: weak general management; poor financial controls; product competition; diversification and acquisition;*

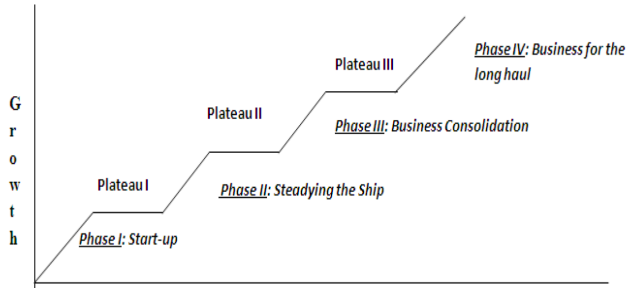
changing market demand; high overhead structure; manufacturing and operating problems; cancellation or delay of major contracts; poor marketing; and price competition."

Describing the main life cycle framework in the literature, Hamilton (1999) explained that SME development responds to a variety of forces in the marketplace which, as expounded by Lewin's (1951) work on Force Field Analysis, are both driving and restraining forces in addition to being equilibrium ones. Quoting Van de Van (1992), Hamilton also questioned the assumption that development is linear: "*The development of firms involves their passage through a fixed sequence of identifiable stages. There is no doubting the value of such frameworks but they generally assume development to be a linear process and so they do not apply readily to the host of small firms that happen to have "grown, declined, and re-grown" (Filley & House, 1969, p. 440) during their lifetime*." The 'Plateaus' which this author identifies at each stage are also based on the similar assumption that the development of small firms fail to follow a linear process.

In his empirical study, Kees van Montford (2006) also found that small professional service firms "*change over the course of their life cycle*." He then explained that "*as a firm progresses from the start to the growth stage, and then to the maturity stage, its diversification in sales increases in terms of objects types, client types, and activities. On passing the maturity stage and entering the decline stage, a firm's diversification decreases, and it returns to a limited number of sectors, client types, and activities. The same pattern applies to the composition of the labor force: after the start (with, by definition, an extremely high percentage of architects in our study), more non-professionals join the firm; and the same effect emerges from the growth stage to the maturity stage. When the firm hits the decline stage, many nonprofessionals leave, whereas the professionals remain, thus increasing the relative percentage of professionals*." He thus identified different stages, each one with different characteristics, but all of them leading to the need for both external consultants and professional training for SME entrepreneurs, be they skilled crafts people or professionals.

While these models are relevant to some organizations, this author takes the view that in order to encompass SMEs in one model, it is necessary to narrow down the Life Cycle Phases to four, each one being followed by a potential or actual crisis 'Plateau' that must be carefully managed or otherwise the business will fail. As Figure 1 below illustrates, each Plateau Stage brings about a key decision point – to continue business 'as is' and risk failure and collapse, or take time to address the crises and challenges and get the company back on an even keel again to be ready for its next growth period.

Figure 1: SME Growth–Time Graph with Phases and Life Cycle Plateaus



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Though this is a model predominantly inspired by Western SMEs (most studies on this topic pertain to Western SMEs), it is this author's belief that it may be applied to some Asian SMEs, including Thailand's. One caveat, though; in Thailand there are many Thai-Chinese SMEs that were started by Chinese migrants who came to Thailand in the early to mid 20th century. Many had few skills, low level education and little cash. However, they worked and saved hard and eventually bought out their employer's business, or left and started their own. These newly established SMEs grew slowly but steadily, and today many are quite prosperous. They are primarily still managed by the founder or his sons and daughters or their offspring. In some cases there are now three generations of the family involved, and the business continues to thrive within its particular sector. However, a new type of life cycle 'Plateau' has begun to emerge as a result of the current younger generations' Business Education and interest in upgrading the business with the introduction of information Communication Technology (ICT) and new Management Information Systems that are ICT driven. These pose a real threat to the elder family members who don't trust ICT, mainly because they don't understand it. They point out to their younger members, "*but we have managed the business very successfully for the past 30 to 60 years without computers, so why do we need them now*?" While this paper recognizes the dilemma facing these Thai-Chinese SMEs it is hoped that some answers provided below will be of benefit to them, even if the unique features of these SMEs is not fully addressed at this time.

2. Who are these Potential Entrepreneurs?

Many entrepreneurs begin with a great idea for a product or service and believe that they can succeed if only they had the opportunity to set up their own business. Unfortunately, these same entrepreneurs are often people with ideas who do not have the know-how or experience of starting and running their own business and quickly come unstuck. Some are crafts or trades people who maybe great carpenters, plumbers, mechanics, electricians, builders, beauticians, hairdressers, cooks, etc who believe it is easy to set up shop and start their own SME, only to find that the paper-work alone to get a license to trade and register their business is both bureaucratic and demanding.

For some professionals, such as architects, engineers, medical doctors, dentists, lawyers, accountants and psychologists, etc, all part of Kees van Montford's 2006 study (see above), having the necessary professional qualification is a pre-requisite, to starting their own business but may be insufficient for them to get the seed capital together to cover the overheads, facilities, equipment and offices, etc to start their own SME. Still others, such as artists and craft workers may have very high quality work to sell but who lack the marketing and other skills to get their business underway. The list goes on, but most importantly, what is common to all is the lack of many essential elements required to start a business and make it a success. These include: a high quality product or services that meets a market need; a suitable location to start their business; investment capital; managerial skills such as finance, HR, sales, marketing, and administrative skills; not to mention the ability to carry out a business feasibility study and prepare a robust and accurate business plan - two other essential requirements before ever proceeding further. Whatever socio-professional categories SMEs belong to, they all lend themselves to a general life cycle analysis,

3. PHASE I: Start-up Excitement

Let us suppose that our Entrepreneur Joe has all the necessary skills, knowledge, and capital to start an SME to deliver his great manufacturing product into a market that has a demand for it. Initially the energy and drive of the entrepreneur Joe will see him launch his business, perhaps with some family members, friends or former colleagues. This core team of say three to five people will all be enthusiastic and inspired by Joe's energy and drive and will give the business all the hours at their disposal to get it off to a good start. The key challenges here for Joe – and for all the Joes of the world (all aspiring entrepreneurs of some sort) – are to sell his ideas to others while reinforcing his own commitment to the business. This precisely characterizes the early stage of the company and progresses to when risk becomes an issue due to significant expenses involved in capital outlays for machinery, etc.

While this author classifies this step as the Start-up Phase, Adizes (1979) saw it as two distinct stages, which he named 'Courtship and Infancy,' Scott & Bruce (1987) called it the 'inception stage,' and Quinn & Cameron (1983) referred to it as the 'entrepreneurial stage,' Though the semantics differ, they all nonetheless refer to the same reality; a linear, steady ascending advance in the entrepreneurial endeavours. That is until Joe hits the first Plateau, the first sign of a crisis.

The company may soon become like a family affair, with everyone pitching in to get things done. Many sacrifices will be made by all, none more than from Joe and his family. They rapidly see the sales figures expand, market access grow and revenues beginning to flow. They believe that the sales increase is a sign of greater profitability, when in fact they may not have done an accurate costing of their products. Have they included in their costing the price of all raw materials, machinery, utilities, space-facilities, storage, salaries/wages, administrative overheads, transport, sales and marketing, and all the other myriad costs incurred in pricing each unit of production? Perhaps not! The author recalls once speaking to a married couple who had recently started their own craft business. When he asked how they priced each item, they gave a list of inputs, but in turn left out many more, including the cost of their own time. When these missing cost items were added, he could demonstrate to the couple that they were working for minimal wages, well below the minimum wage at the time. They were shocked to realise this and so had to revisit the whole business operation and raise the selling price of their craft products or they would have quickly gone out of business again.

As described above, the Start-up Phase is one of excitement and high energy, where everyone pitches in and does whatever it takes to get the business off to a successful start. Joe likes to be involved in everything and especially in the production area from where his career has been to-date and from where his original product business ideas came. Typically, he is not so much interested in management as such, preferring to be a hands-on boss and getting his 'hands dirty.' The leadership is clearly with the entrepreneur and his family members, while there are perhaps only notional demarcations among workers as to their specific roles and responsibilities. This vagueness is often accepted so that each job or task that arises gets done by someone. Everyone tries to ensure that no task 'falls through the cracks' and yet no one is held responsible for their outcome. There are minimal administrative procedures put in place and much of the admin decisions are made on the 'fly' as they arise. During this early start-up period, the company's growth is likely to be fast and may even be exponential as it gathers momentum in the early stages.

As the business grows ever faster and sales increase, this puts pressure on production and quality control to ensure that they meet their customer's requirements, even if it means extra overtime and reworking items to address quality shortfalls. There is also pressure on transportation to ensure customer deliveries are on time, and on finances to ensure invoices go out on time and are paid in full when due. In the meantime, as contractually agreed upon with his customers, the late payments for the products sold - typically two to three months after delivery - eat into the working capital and thus affects the purchase of raw materials. In addition, payment of utility bills begins to add up and salaries or wages may also not be paid on time or in full. And, adding insult to injury, machinery breakdowns delays production. And, if new staff members are employed, there is no time to train them up to Experienced Worker Standards (EWS), thus affecting quality further which in turn, can lead to additional production costs due to the re-work of some items.

Yet! While all these 'problems' are arising, Joe and his brethren in the world see only the increase in the order book, the growing demand for his products, and fail to notice what all the fuss is about on the shop floor. It is as if he and the rest of the company are on parallel tracks – his is a positive one of growth and the company's a negative one of problems beginning to spiral out of control. Of course this is somewhat of an exaggeration, for Joe will be getting constant reminders and complaints from his own family members about what is really going on throughout the company. He in turn is perhaps ignoring some of the warning signs believing that they are just teething problems that will go away in time, or he may be avoiding addressing them because he is unsure of what to do. Either way, a crisis is looming that has to be dealt with if the company is to survive.

3.1. PLATEAU I

The above scenario quickly leads to the first crisis - or' Plateau' in this author's language – which, as Scott & Bruce (1987) point out, precedes another growth period in the SME's life cycle. Greiner (1972) befittingly classified this as a 'crisis of leadership.' At this juncture, paradoxically enough, if the entrepreneur takes the unwise decision to keep going 'as is,' the business is very likely to collapse, even with a full order book in place. To avoid such a collapse, he must slow down the company's growth and take time to put in place the various systems that are needed to ensure the company's survival.

These will include: well-defined, coherent job descriptions with roles and responsibilities clearly stated; administrative systems to address the purchasing or raw materials and other inputs; goods' receivables to ensure that what has been ordered arrives in full and on-time; a financial system to ensure that accurate invoices go out on time and are paid in full and punctually and that bills for raw materials are paid when due as are utilities and other charges etc.

It is now also a time when Joe might consider working with his colleagues on putting together a Vision and Mission for the company, as well as strategic and operating objectives to reflect the latter. These will help set the company's direction for the future and get the buy-in of his workers. These objectives should be S.M.A.R.T. objectives – meaning Specific, Measurable, Achievable, Realistic and Time related. While Adizes (1979) argued that the 'go-go' stage (stage 3 of the 10 Life Stages, defined as frantic, energetic and showing early growth and sometimes chaos), requires a Vision and Administrative systems and stage 4, the 'adolescent' stage, characterized as still developing but more established and defined, the introduction of planning and coordinating, this author sees these as belonging to the Plateau Stage that follows the initial start-up Phase and as part of the emergence of different crises issues that need to be addressed.

Typically, this crisis leading to Plateau 1 will take place within the first 12-18 months of the SMEs life cycle. The Plateau itself may take no more than 6 months before the company is ready for its next growth period.

4. PHASE II: Steadying the Ship

This second growth period is one where the SME is beginning to steady its growth and build on the early successes, while starting to reap the benefits of the slow-down during Plateau 1. According to Scott & Bruce (1987), this is the 'survival' stage. It is a period that lasts perhaps another 12-18 months when the company begins to expand and take on new production staff to meet the growing orders. It also introduces Quality Assurance (QA) for all workers, both supervisors and line workers, to ensure optimum effectiveness and efficiency. It may also install a planned maintenance system for its machinery.

The administration office will increase by one or two more staff members and introduce computer support systems for all its functions rather than relying on ledgers or paper controls. Staff will be appointed to focus on Sales & Marketing to increase orders and manage customer relationships, Supervisors will be appointed for different functions such as Production, Maintenance, Warehouse & Transport, and Administration. A few new Managers may also be recruited or appointed from the existing staff - very often other family members or close and loyal colleagues of Joe's. These will include Production & QA, Administration & Finance, Sales & Marketing managers, etc. Joe will now have to spend much of his time dealing with suppliers and customers, and carrying out general management functions, much more than hands-on Production that he favoured during the start-up Phase.

Here, Adizes referred to the organization as in its prime where it is results-orientated, has plans and procedures in place to optimize effectiveness and efficiency, while being alert to what is happening within the sector. He then goes on to refer to the next stage as maturity which is associated with established company-wide systems, where procedures and processes for task accomplishment are in place.

Again we see rapid growth occur, perhaps not as steep as before, but rapid nonetheless. Things begin to run much more smoothly than before and the new systems put in place ensure a more even work flow for all, and less emergencies seem to arise as a result. Managers, supervisors and workers are much clearer about their roles and responsibilities and get on with their tasks with renewed energy and drive. However, Joe is not at all comfortable in his new role for he is now busy with what he calls bureaucratic tasks that take up enormous amounts of time and diverts him even further from his first love – Production. He is constantly attempting to second guess his other managers and supervisors leading to undermining their authority and credibility in the eyes of their subordinates. This causes growing confusion among them as they strive to 'please' the 'big boss' rather than their immediate one. Some of the newly appointed managers and supervisors may not be sufficiently capable for their new roles and look to Joe for guidance and support but he too doesn't know how to provide this, thus leading to further problems. Meanwhile the company is doing very well financially, sales continue to grow as revenues increase and on the surface all seems well. But behind the scenes there are emerging conflicts among departments and among some managers and supervisors. Joe is perceived to be supporting some more than others, especially his own family members. This is beginning to show in poor cross departmental communications, and poor collaboration, leading to inadequate advance notice from Sales to Production, or on-time deliveries to customers who complain to Sales about the delays. In the meantime, Finance is having its share of problems with suppliers who are not given adequate notice of purchasing orders, or some orders are being changed at the last minute due to a change in Production requirements. Delivery delays to customers are further causing delays in Invoices being paid on time and this is beginning to impact on cash flow.

In short, a second Plateau Crisis is emerging and again Joe has a choice to make – continue 'as is' with the risk of a company collapse, or slow down growth to address the many problems and challenges that have arisen since the last take-off occurred?

4.1. PLATEAU II

This Plateau II tends to occur in year 3 of an SME's life cycle and is generally brought about by Phase II-scenario or variations of it. Greiner (1972) classified this Plateau as a 'crisis of autonomy.' As with Plateau I it is a time when the company again has to slow down and get its house in order if it hopes to survive and continue to grow in the future.

And also as with Plateau I, this Plateau will often be over within six months though the Plateau period may well last longer than six months, as it is an essential time to address many of the key challenges the company is facing.

One of these is of course Joe himself. Should he remain the Chief Executive or should he bring in someone and appoint him/her as the General Manager that is so badly needed at this time. The entrepreneurial and driven leader that is Joe is more suited to a start-up company than to a company that needs constant maintenance and management of the various systems that have had to be put in place; a management system, financial system, an administration system, a HR system, Production & QA system, and Sales & Marketing system, etc. Joe is also more suited to a company where the General Manager must be focussed on the company's Vision and Mission as (s)he strives to grow the business and attend to the many external forces affecting the company's sector and markets such as technological innovation, product innovation, work-force diversity, competitors from within the country and from abroad, currency fluctuations, market regulations and tariffs, costs of utilities especially electricity and water, logistics and transport costs due to oil price increases, etc; areas Joe is neither proficient in nor interested in getting fully involved with for his 'love' remains Production.

Perhaps there is a need to recruit new professional managers to replace some poor performing family members and loyal colleagues? How will Joe address this and how will his existing team accept the need for change? All these challenges must be met during this Plateau II stage, for if not, the company is doomed to failure.

The ironic thing is that failure at this juncture may well be due to the company's earlier successes. Greiner called this 'a crisis of control.' This is often a time when Joe will have to seek external guidance from Management or Organization Development Consultants to help him and his Team manage this needed change stage in the company's life cycle. This will involve a careful diagnosis of the company's strengths, challenges that exist and are ahead, as well as opportunities for further growth. They will also need to identify the weaknesses and threats that exist.

This diagnosis may take many forms and use a variety of diagnostic tools such as S.W.O.T as suggested above, Appreciative Inquiry (Copperrider et al, 2000), Future Search (Weisbord et al, 1995), 360 Evaluation, Risk Analysis, Porter's (1990) Five Competitive Forces (Bargaining Power of Suppliers or Customers, Threat of new entrants, Threat of substitutes, and Competitive rivalry from within the industry).

Following this diagnostic stage, the company, with the collaboration of its consultants, will begin to put in place a carefully crafted Action Plan of Organization Development Interventions (ODIs). This plan will then be implemented on a company wide basis, carefully monitored and evaluated at all stages, and modifications made as needed to effectively address the problems identified at the diagnostic stage. When successfully completed or even while in process the company will move to Phase III – Business Consolidation.

Many of the same steps to be taken by an organization going through this second Plateau stage are also enumerated by Adizes (1979) in his 11 step Program, although each business has to decide for itself which of these is relevant to its needs at this time in its life cycle **http://www.businessballs.com/adizeslifecycle.htm**.

5. PHASE III: Business Consolidation

This is a Phase where the company is seen to be growing up and maturing. Adizes (1979) described this Phase III as a combination of both 'stability and aristocracy' and Scott & Bruce (1987) as 'expansion and maturity.'

The company has addressed its many challenges and built on its strengths and is now ready to take on the opportunities available to it. These may include product and/or market diversification, or moving into the export market in targeted countries. These of course bring with them new challenges different from those in the past but, having a more Professional Management Team in place, the company is better equipped to deal with them. In the meantime Joe, as the founder and owner of the business, may have taken up the role of Chairman or Managing Director while the day-to-day operations of the company are conducted by the General Manager and his/her Management Team. Joe may also be responsible for product or business at this time.

Of course the various management and business systems that were put in place earlier will now have to be expanded to cope with the growing business. While this may involve restructuring the organization and increasing the number of functional departments, care must be taken to ensure that the company does not become too pyramidal and bureaucratic, since its major strength from the start lay in its flexibility and ability to respond quickly to all emerging situations. It was also characterized by its loyal and committed employees who have over time built up their own company culture. This must get transmitted to new staff members while also reflecting the changing attitude and perceptions of them.

As the company grows and expands into a wider range of technologies and products, and increases its export sales, new challenges have to be met. In turn, these can again lead to a third Plateau.

This third Plateau Crisis emerges as a result of Phase III developments and again at this juncture the company has a choice to make – either continue 'as is' with the risk of a company collapse, or slow down growth to address the many problems and challenges that have arisen since the last take-off occurred?

5.1. *PLATEAU III*

The scale of the challenges has increased in line with the company's own growth and once again they have to be carefully managed if the company is to continue to survive. One of the big challenges and mistakes many companies make is that they grow beyond themselves, that is to say, grow beyond their ability to manage the growth; 'a crisis of red tape' in Greiner's terms. This may make such firms vulnerable to a takeover or force a merger with a competitor. Or this may get them into financial difficulties that force them to take stock of their situation or go out of business.

Many times, such predicaments will have been caused by over ambitious investments in new plants or machinery, by diversifying the companies' product range too much, or by entering markets where they are overwhelmed by the competition. It may also be the result of globalization where trade barriers or tariffs impact on their exports, or currency fluctuations make it difficult for them to trade overseas, or transport and logistics costs escalate beyond what they had expected. In Porter's and Waterman's parlance, these companies failed to 'stick to the knitting," meaning that they didn't concentrate on what they know best how to do.

Addressing these emerging challenges may force Joe and its company to re-examine its Vision and Mission and long term growth plans and take corrective measures before it is too late. The way forward maybe to grow through some carefully targeted acquisitions, merge with a competitor or a company in a related industry to enhance it technological know-how and innovation, or it may mean consolidating its current market position to retain market share, and develop newly emerging markets it other global regions, all of which will take time. As Adizes stated: "*One of the main challenges for mature corporations is therefore to seek reinvention through new business development, before it's too late, often through acquisition of other businesses in infancy stage, or by developing new 'infant' business divisions within the parent corporation.*"
http://www.businessballs.com/adizeslifecycle.htm

This stage will involve a close examination of the company's management, teams, departments, functions, and organization within its sector, nation or region, and also within the global marketplace. Once again, taking the time to address all of the above could prove to be decisive for the company's success and later expansion once it is ready to act and capture these new markets.

6. PHASE IV: Business for the Long Haul

Following this third Plateau stage the company will be better prepared for the long-haul, as it expands its product range, modernises its technology and branches out into newly emerging markets. Of course, global challenges will continue to put pressure on the company and many further changes will be required over time, but each will be heralded by a series of actual or imminent crises. And just as before, the company will again be faced with a decision to continue business 'as is' and risk collapse or opt to take time to address the new challenges arising and be ready for yet further growth and expansion.

While all these Plateaus or steps have been considered in the context of SMEs, they are prevalent in most companies whatever their size. And regardless of a company's largeness, they must be dealt with effectively or the company could face its own demise. As we have seen in recent years, some companies from the Fortune 500 no longer exist, having failed to address the challenges facing them, while others such as IBM and Disney have been transformed and are again thriving today.

Summary

All SMEs tend to go through a series of life cycles, and while the terms used by different authors to refer to them may vary, the events that govern them are all too familiar to the founders and managers involved. While each SME may seek to grow from the start, it will inevitably meet new challenges and crises over time that must be addressed effectively if the business is to survive and prosper.

This author believes that these crises are characterised as ‘Plateaus,’ which must be carefully managed in order for the business to be ready for its next growth period. If neglected and should the firm tries to continue ‘business as usual’ during a crisis it will collapse in failure as so many have done in the past averaging a life span of only five years or less. As reported by Moya K. Mason (2009): “*The Small Business Administration (SBA) keeps the stats on business failures and claims that more than half of new businesses will disappear in the first five years*.” And given that according to an August 2009 Business Daily Article “*poor management and a shortage of funds have been identified as the main cause of start-up deaths globally*,” it is recommended that training be provided for all SME entrepreneurs so as to prepare them for the road ahead and the challenges and crisis that they will inevitable meet along the way.

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Notes

[2]A variety of definitions exist, the most widely accepted one being ‘a business employing fewer than 250 people’ http://www.booksites.net/download/chadwickbeech/Glossary.htm. According to the European Commission definition, “Small and medium-sized enterprises (SMEs) are those businesses which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million”. hecpevc.wordpress.com/resources/pevc-glossary/ and an independent business managed by its owner or part owners and having a small market share either by number of employees or turnover. http://www.planningportal.gov.uk/england/government/en/1115310689529.html

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