"STAGES OF SMALL BUSINESS GROWTH REVISITED: INSIGHTS INTO GROWTH PATH AND LEADERSHIP/MANAGEMENT SKILLS IN LOW- AND HIGH-GROWTH COMPANIES"

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Funding was provided by Ewing Marion Kauffman Foundation.

Printed at INSEAD, Fontainebleau, France

STAGES OF SMALL BUSINESS GROWTH REVISITED: INSIGHTS INTO GROWTH PATH AND LEADERSHIP/MANAGEMENT SKILLS IN LOW- AND HIGH-GROWTH COMPANIES

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ABSTRACT

We explored the developmental progression of organizations using Churchill and Lewis' (1983) stage typology of small business growth. In a revalidation and update of their model we found substantial support for the original model, and defined the critical leadership/management skills needed per stage. Using Reynolds' (1988) four classifications for high-growth, low-growth companies, we found that over time there were no significant differences between the two classifications for high-growth companies in either annual sales or jobs created. We did find significant differences between the self-reported skills of CEOs in high-growth companies versus low-growth companies.

INTRODUCTION

We studied the leadership and management skills of 338 CEOs and the developmental progression of their organizations.[1] The skills of CEOs used in each stage and each company's progression were measured with an open-ended, qualitative survey. In a separate step, we measured the CEO's current management and leadership skill level again using an established, structured inventory. We also divided the sample according to Reynolds' four categories of Low-Start/Low-Growth, Low-Start/High-Growth, High-Start/Low-Growth, and High-Start/High-Growth companies in an attempt to replicate his findings and investigate differences in leadership and management skills within those categories.

METHODS

We drew a sample of 2,700 company presidents (CEOs) from four sources: Ernst & Young

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[1]The authors would like to thank the Ewing Marion Kauffman Foundation for their generous financial support and the Center for Entrepreneurial Leadership for their expert contribution to our work. Their sponsorship has made this research possible.

Entrepreneur Of The Year Institute, The Executive Committee (TEC), Connecticut Mutual Blue Chip Enterprise Initiative, and the Small Business Administration's national database of women- and minority-owned businesses.

Data Collection

Using Churchill and Lewis' 1983 model of small business growth, we asked company presidents to identify: (a) what stage their businesses were currently in; (b) what stages of growth they had been in; and (c) what stage they aspired to achieve. We also asked them what skills they had used in each of these stages and what skills they believed they would need to reach their next desired stage of development. We used two surveys, the Entrepreneurial Leadership Questionnaire (ELQ, a qualitative, open-response format questionnaire; Eggers & Leahy, 1993), and the Management Skills Profile (MSP, a Likert-scale broad spectrum management skill inventory; PDI, 1982), to learn how businesses develop and how their owners manage them. Participants returned 346 ELQ surveys, which gave us a response rate of 13%. The MSP questionnaire was then sent to the ELQ respondents which resulted in 237 returns -- a 68% response rate. We chose this multi method survey approach to help enhance data accuracy (Conrad & Maul, 1981) and help eliminate possible confounds due to method response biases (Podsakoff & Organ, 1986).

We randomly stratified the groups in our sample for geography. Our respondents' organizations approximated the geographic and demographic distribution of businesses in each category as identified by the ten SBA reporting regions (SBA, 1992). Two researchers completed an independent content analysis of the ELP returns and reached agreement on all 34 leadership/management dimensions. The initial results of the survey were presented to eight focus groups of small business CEOs in San Diego, Austin, Kansas City, Atlanta and Boston. The groups confirmed that the study results represent their experiences of leading their organizations (Eggers & Smilor, in press).

Sample Demographics

The number of respondents for each group broke out as follows: (1) The Executive Committee (TEC), N = 184; (2) Ernst & Young Entrepreneur of the Year Institute, N = 103; (3) Small Business Administration, N = 40; and (4) Connecticut Mutual Blue Chip Initiative, N = 11. All subjects were CEOs or primary decision-makers. The average subject was 48 years old, had been in his or her current industry for 19 years, owned 59% of the company, had seven direct reports, belonged to three associations, and attended two seminars last year. Most respondents reported that their businesses were in the *Growth Orientation* stage of developmental maturity. Businesses were normally distributed among the other stages in the model with 7 in *Conception*, 30 in *Survival*, 63 in *Stabilization*, 130 in *Growth Orientation*, 65 in *Rapid Growth*, and 42 in *Resource Maturity*. See Figure 1 for median sales of each group at each stage.

The median business in our sample had current annual sales of $10 million, an annual sales increase of $800,000, first-year sales of $150,000, and two locations. Our median business was also 15 years old, employed 73 people, covered a national market, and exported less than 1% of their product or service (Eggers & Leahy, 1994; Eggers & Smilor, in press).

FIGURE 1
Median Annual Sales For Each Sample Group
N = 338

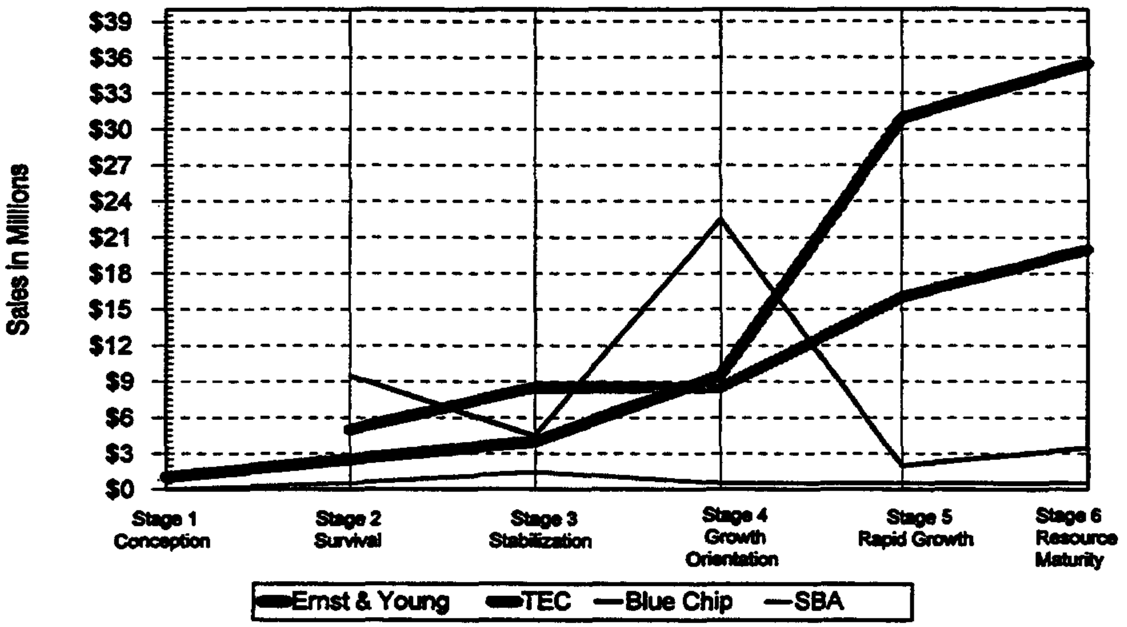
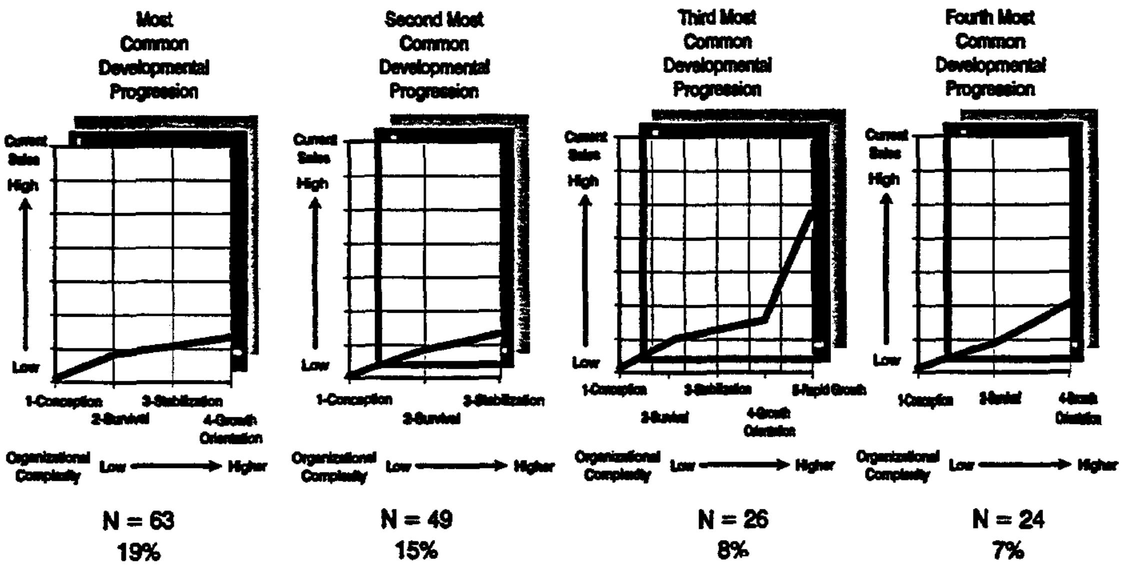


FIGURE 2
Four Most Common Developmental Progressions



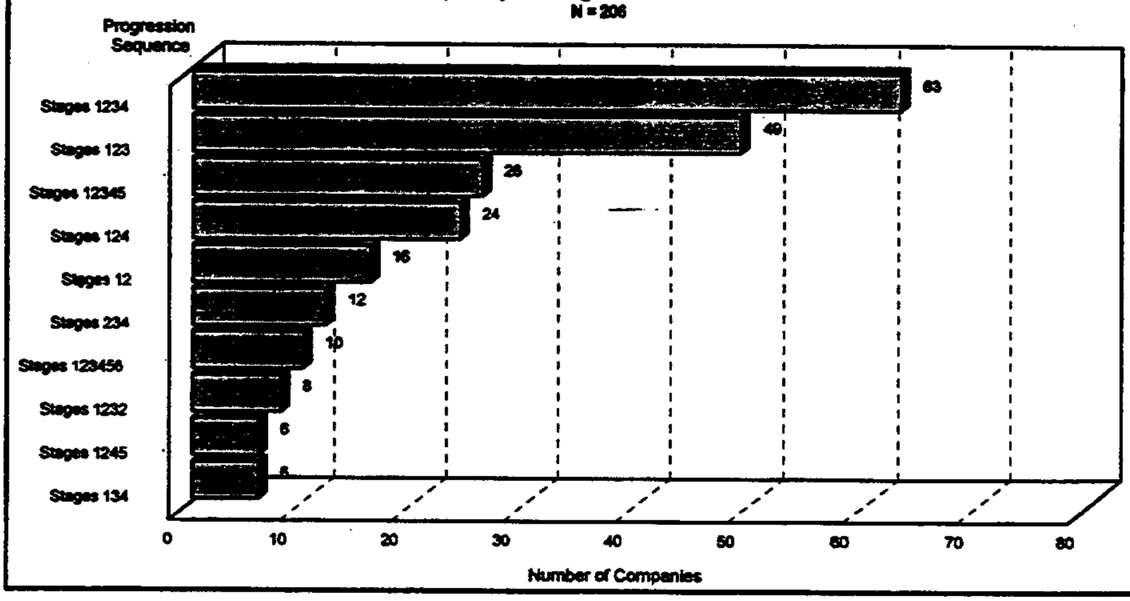
RESULTS

The Stage Model

We retitled the two phases (*Disengagement* and *Preparation for Growth*) of Churchill and Lewis' stage three (*Success*) into two distinct stages: *Stabilization* and *Growth Orientation*. This decision was based on the assumption that all business owners face a decision to stay or grow. The original five-stage model, with this modification, was then expanded to six stages. This addition was confirmed by most CEOs as representative of their experience. Most respondents (74%) said that they went through both phases of the original *Success* stage. Even within this group, however, CEOs reported different progression paths for their organizations. Shown in Figure 2 above are the four most common developmental progressions, which account for 49% of the participants.

Of the remaining respondents, 25% reported that the model was not fully representative of their organization's development. There were three primary reasons identified for this. First, 38% of the respondents reported that they skipped stages in the developmental progression of their companies. This occurred either initially or later in development. Second, 8% reported that they dropped back a stage in development. Third, 7% of the respondents reported that their organization's

FIGURE 3
Frequency of Progression Paths
N = 206



developmental progression both skipped stages *and* dropped back (Eggers & Leahy, 1994; Eggers & Smilor, in press). Churchill and Lewis (1983) predicted this finding, but had not incorporated it into the original model. See Figure 3 for the ten most common progression paths and Figure 4 for a comparison of linear versus nonlinear growth and regression paths.

The mean ages of companies at each stage varied widely. This is illustrated by the wide standard deviations for company age per stage as seen in Figure 5. We found only a small

FIGURE 4
Linear versus Nonlinear Growth and Regression
N = 284

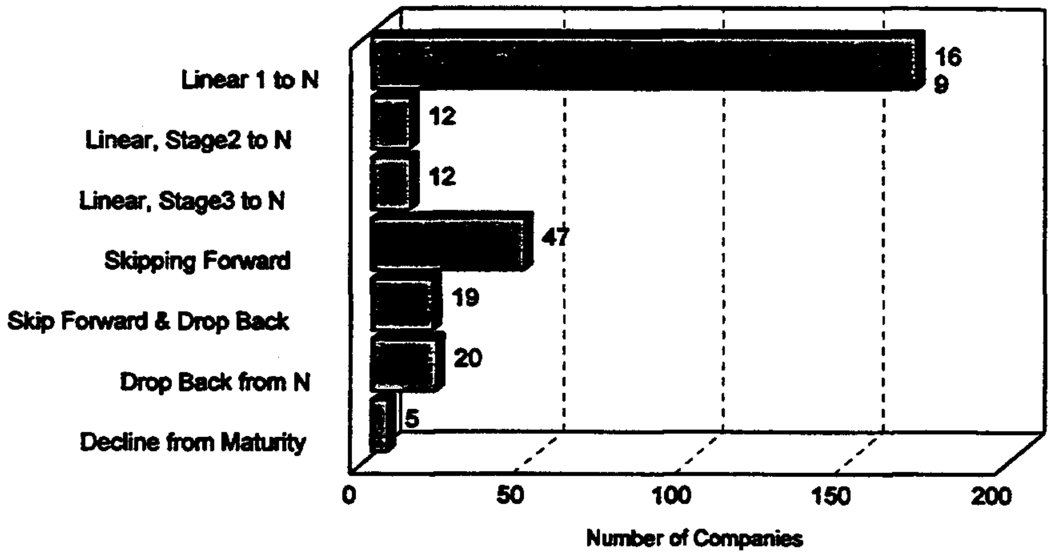


FIGURE 5
Company Age by Stage
N = 321

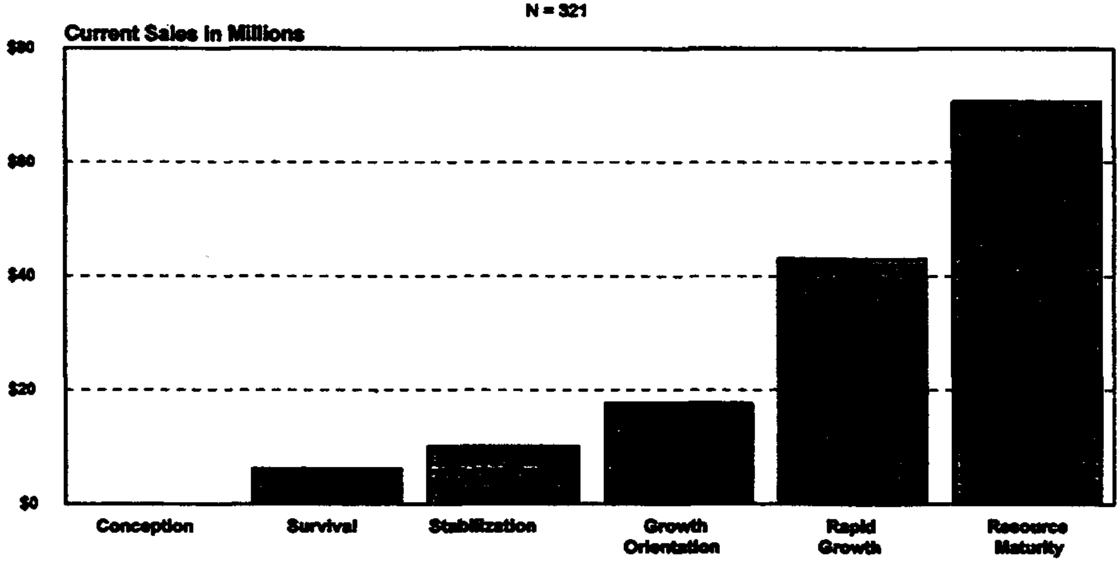
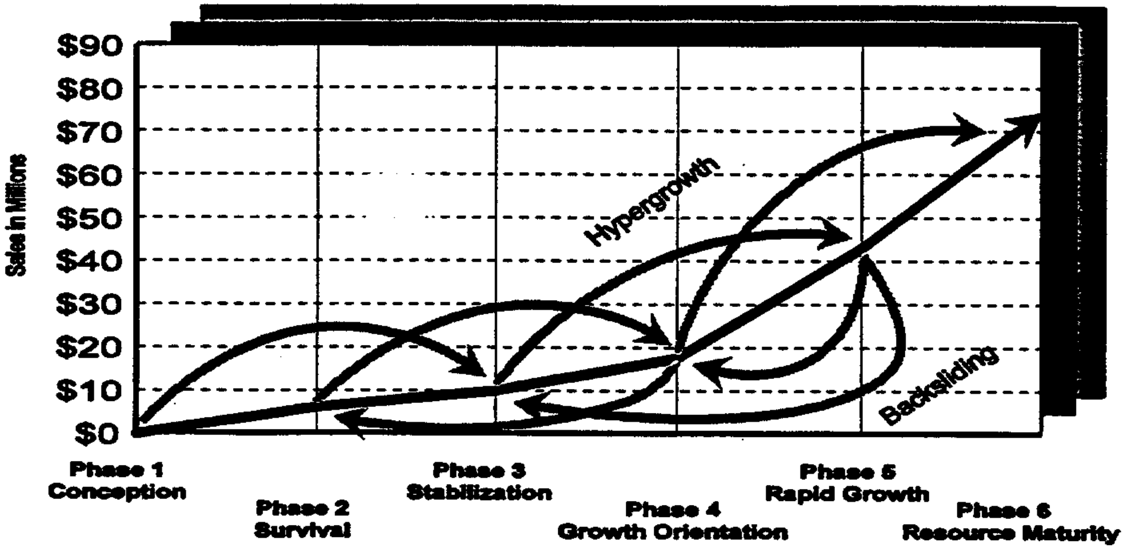


FIGURE 6

Phases of Management

N = 338



The main goal at this earliest phase of management is the creation of the business.

Characteristics:

1. Developing a viable product and/or service.

2. Delivering the product and/or service.

3. Developing an adequate customer base.

4. Creating enough cash to meet the demands of start-up and staying alive.

The company has demonstrated its potential viability and has established a market niche for itself, keeping and satisfying its customers.

Characteristics:

1. Establishing enough sales to develop at least a break-even cash-flow position.

2. Generating enough cash flow to grow, finance expenses, and stay in business.

3. Continue developing the business in its market niche.

4. Company still very vulnerable to failure.

The company has become stable enough to support the owner(s) and is returning a profit.

Characteristics:

1. Maintaining market niche and customer base.

2. Eliminating problems that can drain cash.

3. Company can stay at phase indefinitely, barring major environmental change or ineffective management.

4. If environment changes, and the business does not adapt, the company may drop back to

The resources and profits of the successful company are used to fuel growth, with the goal of becoming a big company.

Characteristics:

1. Developing the resources and sales for growth.

2. Developing management and internal systems to the demands of growth.

3. If cash-flow outstrips growth the company may drop back to an earlier phase of development or go bankrupt.

The company has developed the resources to grow rapidly. Key problems arise from the focus on how to grow rapidly and finance that growth.

Characteristics:

1. Maintaining adequate cash flow, and establishing expense controls.

2. Increasing customer base and market share.

3. Professional managers may replace original founder/owner.

The company has weathered the perils of rapid growth. It now has the advantages of size, financial resources, well developed systems, and an experienced and well developed staff.

Characteristics:

1. Controlling financial gains brought on by rapid growth and eliminating inefficiencies.

2.Professional-izing management, budgets, planning, cost systems.

3. Well developed financial resources.

TABLE 2

Comparison of CEOs' Self-Reported Critical Skills at Current Phase vs What CEOs at Earlier Phases Report they Need to Develop to Achieve that Phase

Reported Critical Skill for CEOs at this Phase:

PHASE 5
RAPID GROWTH

Communication = 238*
- Regular & frequent communication with employees, especially management team.
- Communicate ideas, goals, objectives clearly.
- Good listening, writing and public speaking skills.

Vision, Direction/Focus = 206*
- Develop a Vision for growth.
- Stay focused on the "big picture."
- Communicate the Vision to employees.

Motivating Others = 192*
- Team building.
- Create incentives.
- Praise & reward employees who perform.

Planning & Goal Setting = 187*
- Develop strategic plans.
- Assist employees to set goals and require accountability.
- Monitor performance of plans.

Financial Management = 182*
- Develop financial plan with forecasts & budgets.
- Monitor cash flow, cost controls, collect receivables.
- Maintain credit line & banking relationships.

Problem Solving/Decision Making = 175*
- Acquire input & analyze core problems.
- Support management team decisions.

Relationship Building = 162*
- Stay accessible to all employees.
- Show compassion, respect, empathy, and fairness.
- Network with other professionals.

Motivating Self = 154*
- Commitment and discipline to continue regardless of circumstances.
- Have endless energy.
- Maintain a strong work ethic.

Leadership Influence Style = 133*
- Lead by example - model core company values.
- Project positive attitude/image focused on confidence & enthusiasm.

Human Resources Mgt. = 108*
- Hire and retain the right people for the job.
- Identify talented/high ability employees and promote/place them in critical positions.

What CEOs Report they Need to do differently to Achieve this Phase:

PHASE 5
RAPID GROWTH

Financial Management = 102*
Motivating Others = 86*
Delegating = 70*
Planning & Goal Setting = 45*
Employee Development = 37*
Communication = 35*
Vision, Direction/Focus = 35*
Product/Business Development = 33*
Relationship Building = 25*
Systems Development = 25*

* Combined total weight for category

correlation between company age and stage of development, $r = .20$, $p<.001$. However, we did find that current company sales correlated meaningfully with developmental stage, $r = .42$, $p<.001$; as did average annual sales increase, $r = .30$, $p<.001$.

We further refined the Churchill-Lewis model when we found that some *Resource Mature* companies had reached stage six but then reported a regression to earlier stages of the model. We have incorporated all these findings in the revised version of the model depicted in Figure 6.

Due to our findings revealing individual company differences in developmental progression, we believe using "Stages of Growth" is no longer an appropriate term to refer to this process, and may be misleading. Thus in our most recent refinement of the revised model, we now refer to the developmental transitions all organizations go through, in one form or another, collectively as "Phases of Management." Each previously mentioned stage in the original version of the model we now call separate "Management Phases." We will use this new term for the balance of this study.

Leadership and Management Skills

Previous content analysis identified the top three critical skills summed across condi[illegible] of management as: 1) Vision, 2) Motivating Others, 3) Financial Management. Using the data collected from the MSP as a validation tool, we found that these skills significantly predicted a portion of the current sales of companies in the sample, adjusted R-square = .17, $p<.001$. (Eggers & Leahy, 1994; Eggers & Smilor in press).

TABLE 1
Top Ten Management/Leadership Skills per Phase

Conception	Survival	Stabilization	Growth Orientation	Rapid Growth	Resource Maturity
Communication	Financial Management	Financial Management	Communication	Communication	Communication
Administration	Communication	Vision	Motivating Others	Vision	Motivating Others
Vision	Marketing	Planning & Goal Setting	Financial Management	Motivating Others	Vision
Time Management	Vision	Communication	Vision	Planning & Goal Setting	Financial Management
Planning/Goal Setting	Motivating Others	Motivating Others	Planning & Goal Setting	Financial Management	Planning & Goal Setting
Human Resources	Planning & Goal Setting	Relationship Building	Relationship Building	Problem Solving & Decision Making	Problem Solving & Decision Making
Business & Technical Knowledge	Customer & Vendor Relations	Problem Solving & Decision Making	Business & Technical Knowledge	Relationship Building	Customer & Vendor Relations
Financial Management	Employee Development	Employee Development	Problem Solving & Decision Making	Motivating Self	Ethics & Organizational Culture
Problem Solving & Decision Making	Problem Solving & Decision Making	Marketing	Leadership & Management Skills	Leadership & Management Skills	Motivating Self
Leadership & Management Skills	Business & Technical Knowledge	Business & Technical Knowledge	Human Resources	Human Resources	Leadership & Management Skills

In the current study a further analysis of the ELQ data set revealed that the leadership/management skills reported as needed by the CEOs in one phase were different from those needed by CEOs in other phases of organization development. Table 1 provides a listing of these skills. Interestingly, most CEOs (48%) said they would not need different skills in their next phase of company development, but they had already shown that their skill needs were different in each past phase. This may be due in part to the fact that some categories of skills, like finance and communication, were consistently cited as important in all phases (Eggers & Leahy, 1994; Eggers & Smilor in press). On the other hand, a substantial portion of CEOs (32%) were aware that they would need different skills at a later management phase.

Even the consistently mentioned skills were shown to be slightly different in nature from phase to phase. Other categories of skills were recognized as important only in later phases of management (e.g., ethics and organizational culture). When CEOs looked back on a previous phase, what they thought was important then (e.g., self-motivation) did not match what people who were currently in these management phases thought was important. From the opposite perspective other skills (like delegation) were predicted as important in future phases of management, but the CEOs who were currently in these later phases did not find them as important as respondents at earlier phases thought they would be. This may be due to the emphasis that some CEOs placed on developing participatory organizational cultures when the company was young, thus effectively delegating early and not needing to add delegating skills to their repertoire later. See Tables 2 and 3 for a list of the skills CEOs believe they would need to develop to reach the most popular developmental phases as compared to the responses of CEOs who had successfully achieved that phase.

Growth Rates

Those who responded to the questionnaire were from both high-growth and low-growth companies. We found that we could divide the companies in our sample into Reynolds' (1988) categories of Low-Start/Low-Growth, Low-Start/High-Growth, High-Start/Low-Growth, and High-Start/High-Growth. In our sample, which had an average company age of 13 years, we found that the Low-Start/High-Growth companies were not significantly different in annual current sales from the High-Start/High-Growth companies (see Figure 7). We also found no significant differences in annual current sales between High-Start/High-Growth and Low-Start/High-Growth companies in our sample population with the highest growth, the Ernst & Young Entrepreneur Of The Year winners. In both cases, we found no significant correlations between an organization's first year sales, average annual sales increases, or current sales (see Figure 8). There were also no significant differences found in the number of people employed by either group, as shown in Table 4.

When we reviewed the self-reported leadership/management skills from the different groups, we found that CEOs of high-growth companies set priorities for leadership and management skills differently than CEOs of low-growth companies. Developing an organizational culture that motivates employees and that creates and communicates a vision for the organization's future, were considerably lower priorities for CEOs of low-growth companies than for CEOs of high-growth companies. See Table 5 for a comparison of the top ten skills as reported by the two groups. Within the Ernst & Young Entrepreneur Of The Year sample, who on average had the fastest growing companies, we did find differences in reported skills between Low-Start/High-Growth companies and High-Start/High-Growth companies. Low-Start/High-Growth company CEOs put greater personal emphasis on self-motivation, sales and marketing, and relationship building with vendors and customers than did CEOs of High-Start/High-Growth companies (see Table 6).

TABLE 3

Comparison of CEOs' Self-Reported Critical Skills at Current Phase vs. What CEOs at Earlier Phases Report they Need to Develop to Achieve that Phase

Reported Critical Skill for CEOs at this Phase:	What CEOs Report they Need to do differently to Achieve this Phase:
PHASE 6	***PHASE 6***
RESOURCE MATURITY	***RESOURCE MATURITY***
Communication = 150*	Delegating = 78*
Active listening skills-draw out other's ideas.	Motivating Others = 72*
Speak and write clearly, persuasively.	Planning & Goal Setting = 62*
Motivating Others = 91*	Employee Development = 52*
"Catch employees doing something right."	Financial Management = 51*
Get employee buy-in to company objectives.	Marketing = 51*
Share the success.	Systems Development = 49*
Vision, Direction/Focus = 86*	Human Resources = 45*
Act in alignment with the company vision.	Vision Direction/Focus = 37*
Maintain a clear sense of purpose.	Communication = 38*
Instill that purpose in all employees.	
Financial Management = 85*	
Maintain profitability and financial strength.	
Analyze finances.	
Keep cash flow and accounts receivable current.	
Planning & Goal Setting = 85*	
Direct employees to convert mission/vision into action plans.	
Form long- to mid-range strategic plans.	
Set goals and apply strategies to achieve them.	
Problem Solving/Decision Making = 81*	
Get employee involvement.	
Allow discussion of problems.	
Guide employees through the decision making process.	
Be decisive, think clearly, assess risks.	
Customer/Vendor Relations = 73*	
Customer service orientation - maintain customer satisfaction.	
Listen to needs/wants/feedback on product/service.	
Maintain good relations with external groups: Suppliers, banks, accountants, lawyers, investors, community.	
Ethics & Organizational Culture = 71*	
Exhibit integrity, honesty, & fairness.	
Set forward a clear set of values and principles for the company.	
Keep your commitments.	
Motivating Self = 64*	
Be tenacious, persistent & work hard.	
Leadership Influence Style = 58*	
Create an enjoyable & positive environment.	
Stay optimistic & enthusiastic.	
Set the example.	

* Combined total weight for category

FIGURE 7
Growth Patterns
N = 253

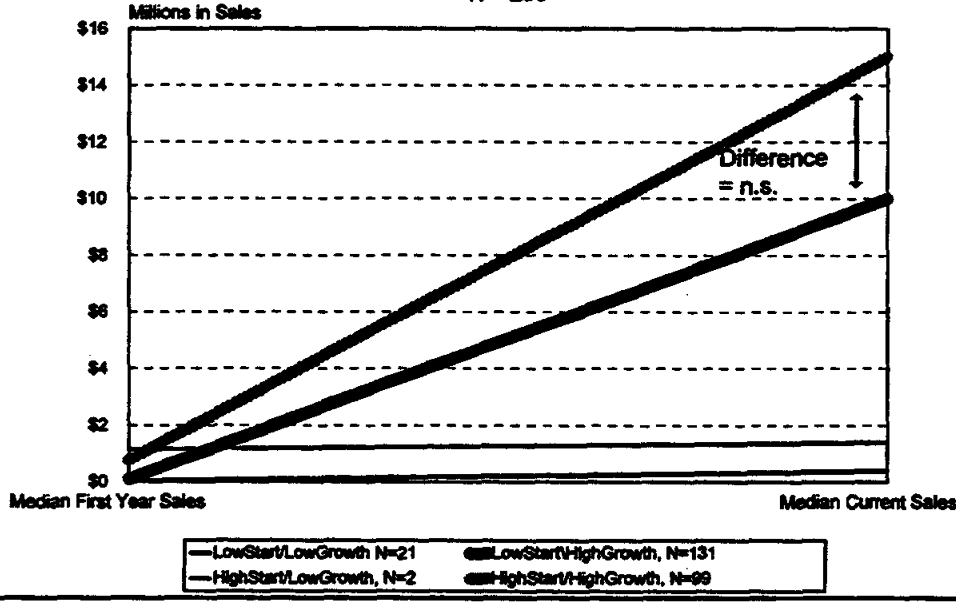


FIGURE 8
Entrepreneur of the Year Growth Patterns
Average Company Age = 13 years
N = 96

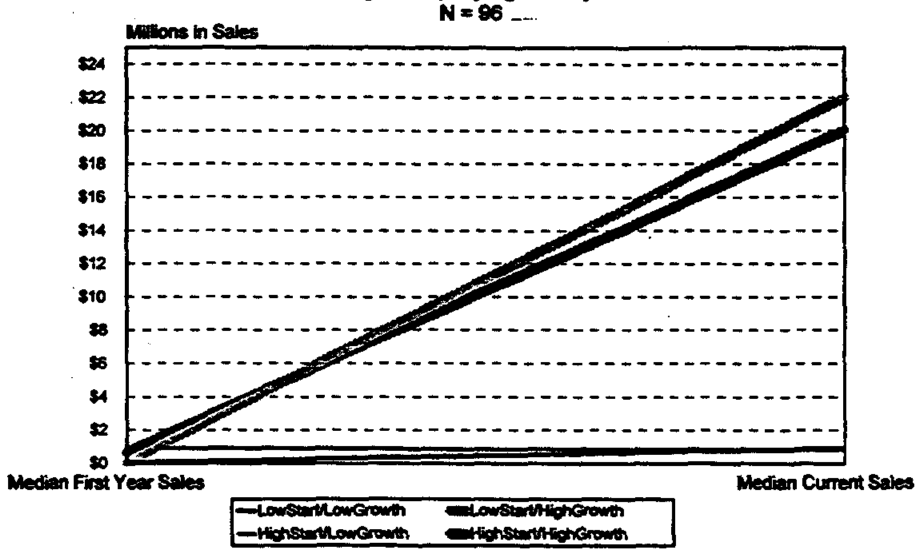


TABLE 6
Comparison of CEO Self- Reported Critical Skills in Low-Start/High-Growth Companies vs. High-Start/High-Growth Companies

Low-Start/High-Growth Companies N=131	High-Start/High-Growth Companies N = 99
1. Financial Management	1. Financial Management
2. Motivating Self	2. Motivating Others
3. Motivating Others	3. Vision, Direction/Focus
4. Vision, Direction/Focus	4. Planning & Goal Setting
5. Planning & Goal Setting	5. Human Resources
6. Sales	6. Problem Solving & Decision Making
7. Marketing	7. Sales
8. Problem Solving & Decision Making	8. Motivating Self
9. Communication	9. Communication
10. Relationship Building	10. Business/Trade/Technical Knowledge

Implications

The Churchill-Lewis (1983) model has been revalidated and updated. As other researchers have found, we verified that there are predictable stages of organizational development, which are common to many organizations. This gives considerable support to Churchill and Lewis' original typology (Miller & Friesen, 1984). However, we have shown that there is considerable variability and individuality within this typology in the way some organizations develop. Not all organizations follow the same developmental sequence. This evidence would open the door to question the validity of "life cycle" models of organizational development, where success at an earlier stage is always necessary for success at a later stage. We have shown that this is not always the case. We believe it is more appropriate to consider these stages as phases of common conditions that people in management often face as their companies grow. We believe these common conditions should be referred to as "Phases of Management" rather than "Stages of Growth." The latter implies an inevitable, even linear, passage through each and every phase. We believe our new typology provides a useful framework to conceptualize changes businesses go through over time. It also provides descriptions of the critical leadership and management skills required to meet the challenges and demands of leading organizations through this process.

In identifying these critical skills we found that even successful CEOs don't always anticipate which skills they must develop to achieve their desired growth. Our results also suggest that CEOs of high-growth companies rank skills differently than CEOs of companies with lower growth rates. If this finding is replicated in the future with a larger sample, we anticipate major implications for executive development within growing companies. Finally, our study suggests that over time low-start companies may be as important to generating revenue and employment as are high-start companies. Although our current sample is too small to generalize to all companies, this finding warrants further research.

TABLE 4
Entrepreneur of the Year Winners - Growth Patterns

N = 96

	Low-Start/Low-Growth	High-Start/Low-Growth	Low-Start/High-Growth	High-Start/High-Growth
First Year Sales	$27,500	$900,000	$74,000	$650,000
Median Sales Increase	$67,500	$17,000	$1,500,000	$2,000,000
Current Annual Median Sales	$900,000	$800,000	$22,000,000	$20,000,000
Median Age of Business	14	6	14	12.5
Median Number of Employees	10	6	145	120
Current Developmental Stage	4	3	5	5
Desired Stage of Development	4	6	6	6
CEO Age (Median)	53	46	46	50
CEO Years of Industry Experience (Median)	22	6	20	18
CEO Education Level (Median)	MBA	College B.A.	College B.A.	College B.A.

TABLE 5
Comparison of CEO's Self-Reported Critical Skills in Low-Growth vs. High-Growth Companies

Low-Growth Companies N=22

1. Financial Management
2. Relationship Building
3. Motivating Self
4. Time Management
5. Ethics & Organizational Culture
6. Marketing
7. Vision, Direction/Focus
8. Motivating Others
9. Communication
10. Business/Trade/Technical Knowledge

High-Growth Companies N = 230

1. Financial Management
2. Motivating Others
3. Vision, Direction/Focus
4. Motivating Self
5. Planning & Goal Setting
6. Human Resources
7. Sales
8. Problem Solving & Decision Making
9. Marketing
10. Communication