

Growth Strategies of Entrepreneurial Businesses: Evidence From Macedonia

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1 Introduction

The research conducted by Stapford and Baden-Fuller (1990) showed that almost all analyzed enterprises invested in new equipment and organizational change. But, after some months, the results showed that not all of the businesses that made investment managed to survive. The reasons for failure varied for different situations, but most of all, they represent a result of failure to adapt and continuously innovate the enterprise strategy. Depending on the phase of the life cycle where they currently operate, enterprises use different strategies in order to compete successfully in the market. One of question that still remains unanswered is why some enterprises are more profitable than others. Porter (2004) considered that industry profitability results from the interaction of five competitive forces that he proposed, and that industry profitability depends from the impact of these five forces. But why then enterprises in the same industry differ in their profitability? Some research had pointed out that profitability inside the industry differs three to five times more than profitability between industries (Roos 2005). We propose that choosing the right strategy for the right moments has huge impact on enterprise profitability. This research is oriented toward enterprises that are in the growth phase of their life cycle. There are several alternative types of strategies that are available to businesses, but we will try to identify the growth strategies that will enable growth to enterprises.

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2 Characteristics of the Growth Phase

Growth implies continuous growth of sales, purchases, number of employees, profit and thus the normal growth of the enterprise. The growth of the enterprise from an internal point of view at the same time means increased management-type problems in all spheres, but also facing greater competition from an external point of view. The competition which the enterprise starts facing with is not as simple as it was in the past and therefore requires special attention and analysis.

Furthermore, the enterprise should continue its confrontation with a number of specific requirements of customers and finding quality suppliers. This means almost complete change of the usual management operation and undertaking of new management activities. The manager at this phase will hardly be able to perform all tasks related to his work. In this section, the use of the technique empowerment as a way that will make it easier for enterprises to overcome these problems is recommended.

During analyzing the growth phase of the enterprise, will appear the following characteristics:

- More frequent undertaking of new competitive moves,
- Increase of productivity and efficiency as a result of the accumulated knowledge and skills,
- Problems with volume production as well as production efficiency and quality,
- Establishment of formal organizational structure,
- Reduced variation of the strategy,
- Continuous growth in sales and profits,
- Sophisticated consumer demand,
- Increasing entry barriers,
- Consumers are gradually familiar with the products/services of the enterprise,
- Increasing demand.

It is important to emphasize that not every enterprise will be able to pass the first phase of the life cycle. Most of the enterprises usually fail to pass the first phase in the first year. Statistics showed that only one of three enterprises will be able to move into the next phase of the enterprise life cycle. Entry of the enterprise in growth phase implies the need for a larger space, so that enterprises can breathe freely. In order to achieve this, it is necessary to manage the enterprise effectively and efficiently throughout its development. Usually enterprises are not aware of the fact that they have progressed to the next phase of their development. In order for enterprises to be able to correctly determine when the enterprise has stepped into the growth phase, it is necessary to define what growth phase is. It is assumed that an enterprise enters the growth phase after it achieves a positive growth of the profit of more than 1 % per month (Rink and Fox 2004). We should also take into consideration that the duration of one phase of the life cycle of enterprises is different and depends on many factors.

Factors that affect the duration of enterprise life cycle are: (Balanko-Dickson 2007)

- *Capacity* – refers to whether enterprises have adequate financial capabilities.
- *Premises* – refers to whether enterprises have the necessary office/warehouse space, necessary to achieve their objectives.
- *Attitudes* – ways you can elevate your emotional and intellectual capacity.
- *Opportunities* – analysis of the capabilities of enterprise to accept opportunities in the last 6 months, as well as the necessity to increase the ability to leverage the opportunities offered.

Most of the enterprises, as we noticed earlier, have problems in identifying the phase of the enterprise life cycle. They do not notice that their enterprise is in another phase ahead and that the enterprise cannot perform in the old way. The ability of the enterprise to adapt to the new demands is related to the enterprise future success or existence. Transition from one phase to another is a difficult, but necessary process.

The Management of enterprises should realize that each phase of the enterprise life cycle is special, because the needs and benefits at each phase are different. Each phase is characterized by different ways of decision-making, it has a different organizational structure and therefore normally requires different strategies (Kazanjian and Drazin 1990).

It is important to bear in mind that the factors that made an enterprise successful in the first phase (low cost, good quality, etc.) must remain present in growth phase. This means, the enterprise should continue offering products or services with the same quality in the second phase, as well as do its best in improving the quality of a given product or service. Despite the changes in the management approach, a very strong accounting unit which will provide a clearer financial picture of the overall situation of the enterprise is also required. These data should be valid and timely.

At this phase, it is necessary to increase the number of employees as well as explore new sources of funding that will allow funding of growth and utilization of the new alternatives. This phase is followed by an increase in revenue, number of employees, etc., which represent a huge management challenge and as a result – increasing difficulties in controlling and managing the enterprise.

3 Growth Strategies

The point of strategy is to offer an enterprise a sustainable competitive advantage and this can be done only if the enterprise has a strategy which is original compared to other enterprises and a strategy which is coordinated with all enterprise activities and emerges through time.

Growth strategies are classified into two basic categories, concentration on existing business or industry and diversification into other businesses or industries. Concentration strategy is used primarily in cases where the enterprise operates in an

attractive industry with good growth potential. Diversification strategy is used in opposite situation where the enterprises operate in unattractive industries. Concentration strategy further can appear in the following two types:

- *Vertical integration* – is used in cases when the enterprise has a strong competitive position in a growing industry.
- *Horizontal growth* – involves expansion of the current product into other market segments or increasing of the volume of products in the existing market, or a combination of both.

Also there are several *diversified growth strategies*, including:

- *Related diversified strategies (concentrated)* – involves the expansion of the activity of enterprises in related industries that are in synergy with existing lines of businesses.
- *Unrelated diversified strategies (conglomerate)* – includes entry into new businesses that are not related to existing business lines.

Furthermore, enterprises can exploit the benefits of generic strategies (cost leadership, differentiation and focus on cost leadership and differentiation) in the growth phase. These are the main strategies that usually enterprises in the growth phase can use. Enterprises also need to understand that *choosing the right strategies for given situations in the right moment* is the best competitive advantage that an enterprise can invent. Most enterprises, when shaping their strategy, are usually oriented towards strategies of other successful enterprises. But, it is unlikely that a strategy which is successful in one enterprise will be successful in another enterprise, if we take into the consideration the uniqueness of each enterprise.

3.1 Deciding on the Strategy

One of the dilemmas that enterprises have in this phase is whether to grow or remain small. In the literature, there is a dilemma about what will happen if the enterprise decides to remain in the current position and does not want to grow, will it continue to exist and perform successfully or will it disappear? Some authors believe that those enterprises that choose to act in niche markets do not need to grow in order to survive (Agarawal and Audredsch 2001). This means that enterprises can *use niche strategy* to remain small and to achieve excellent profitability by occupying parts of the market that are not attractive to bigger companies. According to Churchill and Lewis (1983), the choice of such strategy (niche market) will not be significantly influenced by external circumstances. With the growth of the enterprise, there will be a need of engaging functional managers who do not have to be from the highest caliber (because their goals can be higher than those that enterprise owners want to reach). The strategy for performing in niche market can be used if the industry is in the maturity phase; if the industry is in introduction or growth phase, then this strategy is not recommended (Agarawal and Audredsch 2001).

Another strategy that enterprises can choose is to continue the growth of the enterprise. The growth of the enterprise will be financed from the generated profits and financial assets that are available. Engaged managers need to address the future as well as to install a system that will be oriented to future needs. Owners are engaged in all phases of strategic planning of the enterprise (Churchill and Lewis 1983).

The growth of the enterprise in growth phase can be achieved in two ways:

- Growth through direction,
- Growth through delegation.

According to a research conducted by Wu, Wang, Chen and Pan (2008), it was found that in 166 enterprises in Taiwan the competitiveness of enterprises increases as resources increase. Under resources, the authors take into account both touchable and untouchable resources and capabilities of the firm during the growth phase. Resources fall into five categories (Wu et al. 2008, p. 537):

- A specialized know-know,
- Financial capital,
- The ability of managers,
- Reputation,
- Past experience with alliances.

Hwang and Park (1999) consider that enterprises at this phase are mainly internally oriented. They worry about the way how to produce and sell product that will increase its financial performance. It is recommended for the enterprises at this phase to use incremental innovation. There are eight factors that are suggested as important for the growth of the enterprise at different phases of the life cycle and that act differently in each phase (Mitra and Pingali 1999, p. 66):

- Management orientation,
- Management objectives,
- The current business strategy,
- Human Resources Policy,
- Orientation towards customers,
- Consumer base,
- The current management style,
- The managers' capacity.

Extremely important aspects related to the growth of the enterprise are management orientation and objectives. They are more important for the growth of the enterprise rather than consumer satisfaction and current business strategy. Taking into consideration the characteristics of the growth phase, there are several strategic options that enterprises can undertake at this phase:

- Try to grow faster than the industry itself (if the industry is on the growth phase),
- Use the low cost strategy in order to attract new customers (if the industry is in the growth phase and maturity phase),

- Use innovation as a strategy to offer innovative products and increasing the value of the existing products (in all phases of development of the industry),
- Establish access to additional distribution channels and retail outlets,
- Expand the market in which they act in order to access new customers,
- Expand production lines in order to offer them to a wider range of consumers,
- Use empowerment and
- Make alliances and network strategies.

Besides enterprise life cycle, Hofer (1975) considers that the product life cycle is also very important when we want to establish enterprise strategy, in whatever phase the enterprise may be. Thus, we also need to define what the growth phase of the products. We can define it as time period from commercial birth and maximum monthly income (Cox 1967). It is assumed that this period most frequently lasts for 7 months, depending on the nature of the product.

According to Rink and Fox (2004), when both enterprises and their products are in the growth phase, enterprises should *follow the below listed strategies* related to their purchases and sales:

- Strictly maintaining the quality standards,
- Monitoring reports for sale,
- Extensive list of suppliers, switching to large suppliers,
- Using the internal changes in product modification,
- Creation of large amount of stocks
- Instant payment of the invoices to local suppliers.

These strategies can be of great help to the enterprises in making decisions about their purchases that are larger and rising at this phase. When being in this phase, *strategic alliances and cooperation* with other enterprises are highly recommended. Hwang and Park (2007) in their research related to the formation of strategic alliances across the life cycle of the organization, propose the following: “During the growth phase, the decision to enter into alliances should be aimed at finding partners that suit their specific requirements and match their strategies. Furthermore, these enterprises together should be able to achieve better efficiency in production and marketing activities” (p. 431).

4 Research Methodology

Beside the theoretical analysis presented within this research, we have also conducted an empirical research which was carried out in several ways, starting with a personal interview with the general managers of several enterprises, further questionnaire sent by mail and finally using the e-mail. Direct interview was conducted in total 20 enterprises, by post are sent 25 questionnaires, 18 were returned. Via e-mail, 200 questionnaires were sent, out of which only 7 were returned, resulting in a total of 45 enterprises surveyed. This showed that the direct

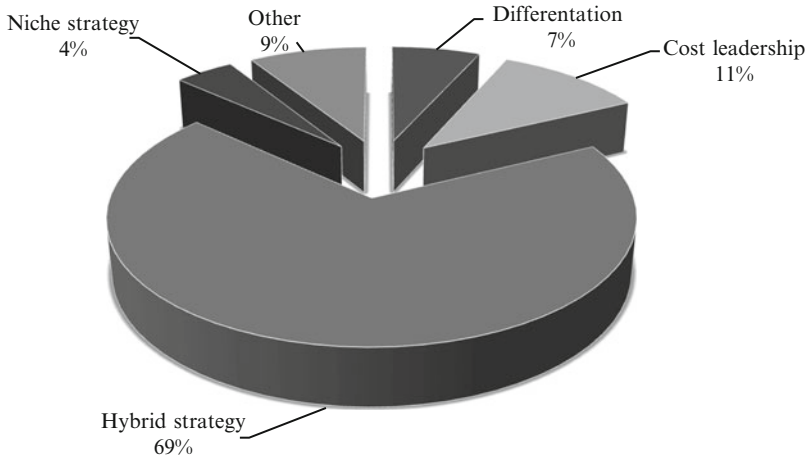


Fig. 1 Strategy selection (Source: Own research)

interview and the use of the mail is still the best way of communicating with the enterprises in the Republic of Macedonia, and the use of electronic mail proved to be quite inefficient. The survey was conducted in the period from 15 May to 25 August 2012. Data from the questionnaire were processed using the statistical program Statistical Package for the Social Sciences (SPSS).

5 Research Results

Research showed that the most frequent strategy used by enterprises in growth phase is hybrid strategy, where 69 % of the analyzed enterprises said that they use this strategy which incorporates both strategies on cost leadership and differentiation (Fig. 1). The pure strategy on cost leadership has been used in 11 % of the cases, differentiation strategy has been used in 7 % of analyzed enterprises and focus strategy in only 4 % of cases. More than 90 % of analyzed enterprises which used hybrid strategy were successful in the past 5 years (2006–2011) which leads us to the conclusion that hybrid strategy is the most successful strategy for enterprises in the growth phase in Macedonia and in countries similar to Macedonia.

A part of this research has also included the question if the strategy of the enterprises in the growth phase emerges or it is deliberate and does not change over time. Empirical research has shown that only four enterprises, or 9 % of enterprises had committed a complete change of the strategy, 22 % of enterprises had made major changes rarely, the other 29 % of the enterprises had made small changes frequently, while 39 % of enterprises had made minor changes rarely, and only one enterprise had never made any change in their strategy (Fig. 2).

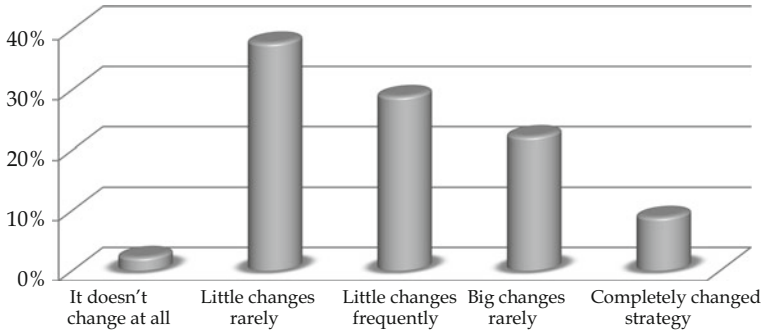


Fig. 2 Degree of change of the strategy (Source: Own research)

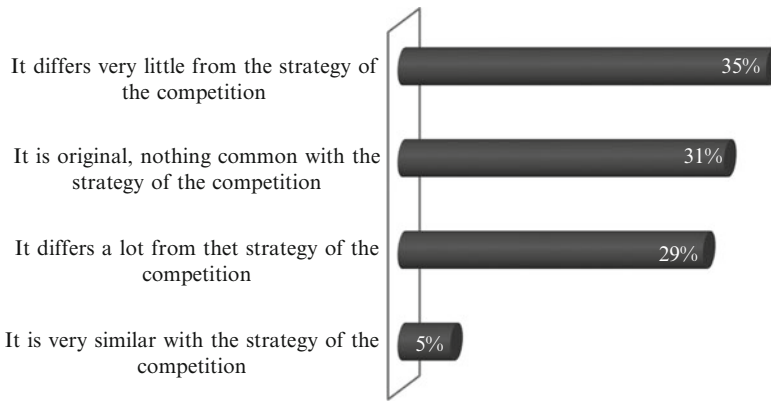


Fig. 3 Degree of strategy differentiation (Source: Own research)

The strategy should be original and innovative, especially when the enterprises are in the growth phase. The research results presented in Fig. 3, showed that only 31 % of surveyed enterprises have original strategy that is very different from that of the competition, 29 % of them said that their strategy differs in many aspects from the strategy of other enterprises-competitors. About 40 % of the enterprises said that their strategy has just some minor differences or it is completely equivalent to that of the competition.

Studies presented in Fig. 4 show that only 51 % of the enterprises which are in the growth phase coordinate their strategy with all of their activities, in 29 % of the cases the strategy is coordinated with more than three activities, while in the remaining 20 % of the cases the strategy is coordinated with one or two activities which is as an indicator of the strength of the strategy.

The research also included the question – what is more important in establishing strategy in the growth phase, industry life cycle or enterprise life cycle? The survey showed that 62 % of enterprises responded that the phase of development in which

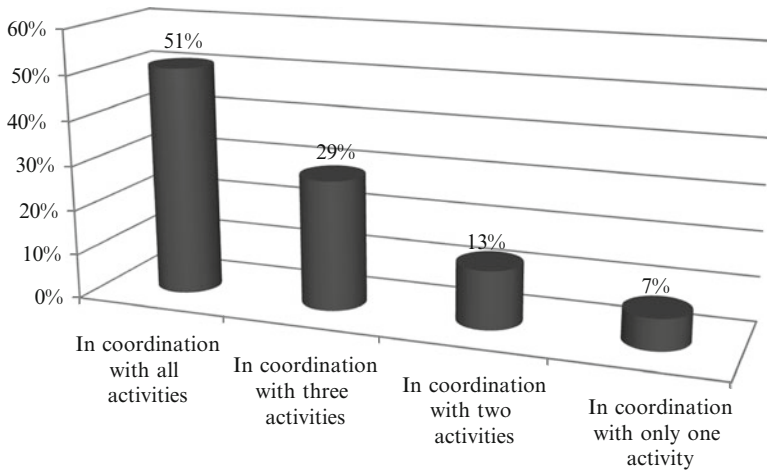


Fig. 4 Degree of coordination of the strategy (Source: Own research)

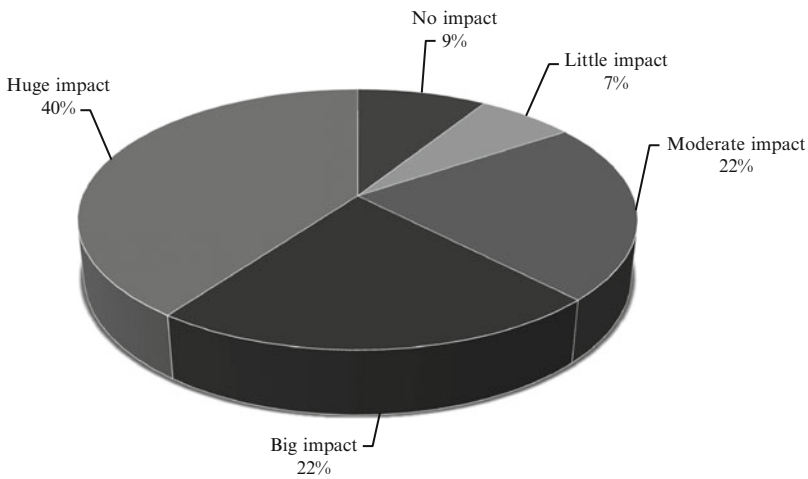


Fig. 5 Influence of enterprises life cycle (Source: Own research)

the enterprise is located has a great and profound impact on the choice of strategy, while only 16 % of enterprises believe that it has no or little effect (Fig. 5).

On the other hand, only 29 % of enterprises believe that the phase of development of their industry has big or huge influence in formulating strategies, while 27 % of the enterprises responded that the phase of industry development has little or no impact in their strategies, as presented in Fig. 6.

The results showed that the impact of both life cycles is very important, but the enterprise life cycle is more important than the industry life cycle in selecting enterprise strategy in the growth phase.

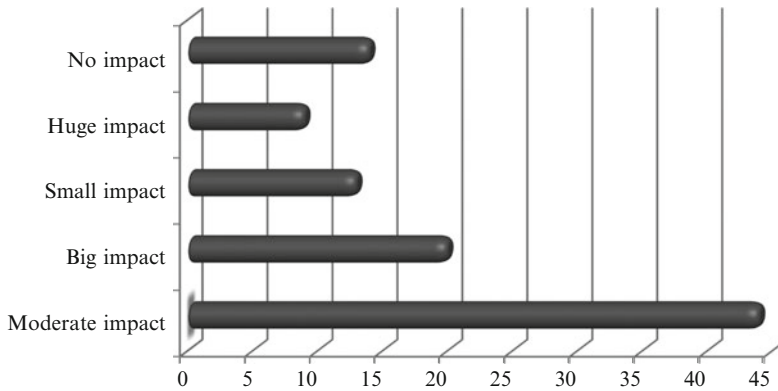


Fig. 6 Impact of industry life cycle (Source: Own research)

6 Conclusion

For the enterprises that are in the growth phase, the use of incremental innovation is recommended. It is very important that these enterprises ensure that products or services that are offered in the first phase and continue to be offered in the second phase retain the same quality, and if possible, improve. At this phase, the formulation of strategic directions toward which the enterprise will be moving in the future in order to become recognized by their customers takes place. In this regard, this is the phase when the enterprise should decide whether it will expand or stay at the current market position.

Strategies in the growth phase of the enterprises should definitely be planned, but it is necessary to allow these strategies to change, upgrade or evolve over time. Empirical research has shown interesting results and that, only 4 out of 45 enterprises committed changes in their original strategy. Most frequently or in 68 % of cases enterprises, have committed minor changes to their original strategies, while only 23 % of the enterprises made major changes in their strategies, although this does not mean that they have completely changed their original deliberated strategies. This leads us to the conclusion that growth strategies emerge but in their own shape.

When selecting the enterprise strategy, the impact of the enterprise life cycle and industry life cycle of the industry is quite significant, but the enterprise life cycle is more important than the industry life cycle. The results showed that 62 % of surveyed enterprises believe that the enterprise life cycle has more impact in the formulation of strategy, while only 27 % of surveyed enterprises believe that the impact of industry life cycle has a great influence in the formulation of strategy.

According to the survey conducted among 45 enterprises which are in a growth phase, it can be concluded that the most common strategy that these enterprises use or 69 % of them is the hybrid strategy. This means that these enterprises use a combination of the two strategies, strategy of differentiation and cost leadership

strategy. The consecutive strategy is the strategy of cost reduction which is used in 11 % of enterprises in the growth phase and only 7 % use differentiation strategy, while the strategy of focus is hardly used. The high percentage of using hybrid strategy confirmed that the enterprise which is at this phase very rarely uses the option of pure strategy despite the opinion of many authors who believe that the use of the hybrid strategy is very dangerous. Other strategies which can be proposed to enterprises in the growth phase are: vertical integration strategy, innovative strategy, increasing sales to existing customers, building new flexible competitive capabilities, strategy of continuous quality improvement and blue ocean strategy.

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