A CASE BASED ANALYSIS OF THE STAGES OF ENTREPRENEURIAL GROWTH: A PRELIMINARY STUDY

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Abstract

While Churchill [1983] & Eggers [1994] put together a model for entrepreneurial growth, which included aspects of a decision tree at each stage of growth, this model has not been fully tested. Most studies based on the Churchill-Eggers research have utilized “large n” survey research and have looked at growth vs. failure. This study uses case studies of entrepreneurial firms over time and at different stages of entrepreneurial growth to test the model looking at multiple paths that entrepreneurial organizations follow. These case studies present “small n,” longitudinal analysis of several entrepreneurial ventures at all stages of their existence.

KEY WORDS: Small business growth stages; Case-based research

INTRODUCTION

While Churchill and Lewis [1983] and Eggers, Leahy and Churchill [1994] put together a model for entrepreneurial growth, which included aspects of a decision tree at each stage of growth, this model has not been fully tested. This paper will present in-depth data from a series of case studies that have been developed by members of the New Hampshire Entrepreneurship Group. These case studies present “small n,” longitudinal analysis of several entrepreneurial ventures at all stages of their existence.

Most of the follow-up studies of the original Churchill-Eggers research have utilized “large n” survey research. Few in-depth studies using case-based research have tested specific aspects of the growth model. Most of those, other than the original Churchill & Eggers studies, looked only at growth vs. failure. This study will use a small number of case studies of entrepreneurial firms over time and at different stages of entrepreneurial growth to test the model looking at multiple paths that entrepreneurial organizations follow.

LITERATURE SURVEY

Churchill and Lewis [1983] developed a framework for identifying and studying the issues that occur in small businesses over time and particularly through growth. They observed that businesses of widely varying industries and sizes nevertheless experienced similar problems and challenges at similar stages of development. Their model identified these key issues at five stages of growth, beginning with the struggle for Existence, followed by Survival and Success. Success, the stage at which the business is both profitable and stable, could lead to either Disengagement by the owner or to Take-off, which if successful, could lead to Resource Maturity. For each stage, Churchill and Lewis identified the managerial challenges that they felt were critical in determining success or failure at each stage. The evolutionary process for small companies was summarized in a decision tree [p. 5] which outlined both possible positive and negative outcomes as the business progressed through the stages.
This model was further refined and tested by Eggers, Leahy and Churchill [1994]. They divided the Success stage into Stabilization and Growth Orientation, expanding the framework to six stages, and made explicit the assumption by Churchill and Lewis that a business need not go through the stages consecutively, but might skip stages or regress. Their research led them to focus on the management skills needed as a business evolved, consequently renaming the stages as Phases of Management [p. 137]. Eggers et al also tested the model using a survey of 2700 company presidents who were asked about the critical skills needed in different phases, confirming the need for different skills from phase to phase.

Among the many research papers that have studied the development and growth of entrepreneurial businesses, several have confirmed aspects of the Churchill & Eggers model. Solomosy and Penna [2001] found parallels between Churchill's model and Chandler's research [1962] on the relationship between strategy and structure in large businesses. They identified challenges or crises as an important driver of the process of moving from one stage or phase to the next: the organization either adapts, or fails. Their conceptual model of this transition process, involving changes in organization size and structure and in CEO behavior, was consistent with their preliminary study involving two companies over time.

Hanks, Watson, Jansen & Chandler [1994] studied the growth stage configurations of 133 high-technology firms. They looked at organization age, size, and growth rate, vertical differentiation, structural form, formalization, specialization, and centralization, using cluster analysis to see if the companies' data showed patterns in ways that suggested discrete growth. They identified six clusters, four of which demonstrated different levels of increasing sales and complexity, which they termed start-up, expansion, later expansion/early maturity, and maturity/early diversification. They also identified two clusters of smaller, older firms. Firms in one of these clusters were not growing, perhaps because of the owners' lifestyle choices or specialization in a limited market niche. In the other, growth was slow, possibly stagnated, leading the authors to hypothesize that “rather than using the company as a platform of growth (a substage Churchill and Lewis call ‘Success-Growth’), the owner(s) choose to disengage fully or partially from the company, maintain the business at status quo, and use the derived resources to pursue other activities” [p. 23].

Lester and Parnell [2005] looked at firms of a variety of ages, using a five stage, organizational life cycle. The small businesses in their study fit within stages 1 (existence), 2 (survival) and 5 (decline). Although they were not directly testing the Churchill/Eggers model, they noted: "The fact that stage two, the Survival stage, had no clear indicator of firm size is consistent with the previous work of Churchill and Lewis (1983). It is during this growth stage that firms either begin to reach their potential, stagnate and not progress past this stage, become a victim of shakeout and go out of business, or fail to grow and revert back to the Existence stage." (p. 207)

Mazzaroli's research [2006] focused on the role played by planning in the growth of owner-managed small businesses. While not explicitly testing a stages-of-growth model, he found significant differences between the factors associated with high versus low average annual sales growth [his Table 4]. This dichotomy is consistent with the existence of the dual path in Churchill's stage 3 (stabilization), in which owners either begin to disengage or to prepare for future growth.

Other research on the stages of small business growth, like that of Eggers et al, has relied on survey research. These include Lester and Parnell [2005] who used a 20 item instrument with 242 managers, Mazzaroli [2006] with an n=71, and Hanks et al [1994]. However, while this approach can demonstrate the correlation of specific characteristics or factors with particular stages of entrepreneurial growth, it cannot prove causality. Further, it relies on the perceptions of the survey respondent about past stages. Hanks et al [1994, 24] agree: "There is a need for rich qualitative studies which capture the nuances of change within individual organizations."

Case-based studies allow the researcher to explore the sequence of events, by direct observation and/or by in-depth, unstructured or semi-structured interviews. This process leads to a more thorough understanding of the interactions and complexities of the situation. Yin [1989, pp 16-21] notes that case based research is especially appropriate when asking the what, why, and how questions. Case studies can be used for both exploratory and explanatory research. In the analysis of stages of entrepreneurial growth, the focus of this paper is primarily on the explanatory aspects. Exploring further the role of entrepreneurial managers in the stages of growth in their ventures is also of interest.

Case-based studies of entrepreneurial growth have tended to be focused on the impact of specific
factors or relationships, however. Solymossy and Penna [2001], for example, apply their framework for studying structural changes in entrepreneurial organizations to two firms with which they have long-term involvement. Deakins and Freel used four cases in their study of entrepreneurial learning. They began with semi-structured interviews, which "served to highlight potential critical incidents and issues to be taken up with subsequent open-ended interviews" (149), with information checked against others in the firm and supplemented by direct observation.

**METHODOLOGY**

This study will use case-based techniques to explore the issues of growth in small businesses. It will examine companies at each of the steps and compare them to the Stages of Entrepreneurial Growth in the list above. The companies are a limited group that were originally presented as teaching case studies by the authors. The authors have been developing a wide-ranging series of case studies and accompanying Instructor’s Notes that include the information necessary to carry through this type of analysis. While the companies will be disguised during the analysis, all of the information is factual. None of the case studies in their original form were disguised. The paper will analyze the decisions that the entrepreneurs make at each stage of growth and the consequences of these decisions. These consequences will be compared with the Stages of Growth proposed by Churchill/Eggers, over time, and across companies.

**THE STAGES OF SMALL BUSINESS GROWTH**

The Stages of entrepreneurial growth include the following factors and characteristics. The Issues are from Churchill; Skills are from Churchill, [Ex. 5, p. 7] and Eggers [p.137]. Description of the characteristics of the stages is drawn from Eggers [p. 136].

**Stage 1: Existence as a viable business.** The main goal is creation of the business. The most important issues include obtaining customers, providing the product or service, and finding enough cash to reach viability. The owner does everything, and any other employees report directly to him or her. Thus, the critical skills are the owner’s operating ability, access to financial resources, and ability to develop the processes and business relationships that will create the company’s competitive position in the industry. These are guided by the owner’s personal and business goals.

**Stage 2: Survival.** The business has demonstrated that it is potentially viable and has established a market niche. Key issues in this stage revolve around the relationship between revenues and expenses. In the short run, the goal is to break even, with sufficient funds to maintain the capital assets. In the longer view, the company needs to generate enough cash to grow in order to earn an economic return on its assets and labor. The critical skills are similar to Stage One.

**Stage 3: Stabilization.** According to Eggers et al, at this stage the business is economically viable and stable enough to support the owners, returning a profit. It is likely to have evolved into a functional structure, with some professional managers. The company can remain at this level as long as its environment does not change. The main issue, then, is what to do next. Churchill & Lewis label this as Stage 3D, where the owners may begin to disengage themselves from the business. The most important skill at this stage is still the owner’s operational abilities, with development of business resources and relationships and its financial resources also still important.

**Stage 4: Growth Orientation** (In Churchill, this is 3-G, the growth-oriented aspect of stabilization). The goal now is to become a big company, and resources and profits are used to fuel growth. The main issues are acquiring the financial resources and developing the systems to enable that growth. The owner’s personal goals and strategic ability, as well as operational ability, are key skills. Additional factors that are becoming important include the owner’s management skills and ability to delegate and access to personnel resources, especially at the management and staff levels.

**Stage 5: Take-off/Rapid Growth.** The business has developed the resources to grow rapidly. Problems now result from the focus on how to grow and how to finance that growth and/or manage cash flow. The organization is decentralizing, and another key issue is delegation and development of control systems. Due to the demands of rapid growth, all of Eggers’ skills and factors are important, although the owner’s operational ability is decreasing in importance and the business resources and relationships have already been established.
Stage 6: Resource Maturity. The business now has the advantages of size, financial resources, well-developed systems, and an experienced and well-trained staff. One issue is the need to consolidate and control the results of growth. The challenge is to retain the advantages of entrepreneurship, including flexibility and the "entrepreneurial spirit," despite the company’s increased size. The owner’s strategic ability is particularly important, along with the financial resources and management skills. Also important are management personnel, established systems, and the owner’s business and personal goals. However, the owner and the business are usually now separate entities, operationally and financially.

While many small businesses proceed continuously through the stages over time, it is possible, according to Eggers to skip a step or to fall back to a previous stage.

THE COMPANIES

Company A:
Company A is a string band based in upstate New York. The organization is approximately three and half years old at the time of the case study, and is incorporated as a business. Four musicians, all in their mid to late twenties started the band. Early in its existence, one of the original founders left the organization over personal and artistic differences. The band earned approximately $100,000 in gross revenues in 2003. Company A uses a simple organizational structure. The three partners equally share the revenues and expenses and individually and/or collectively manage the business and management functions (publicity and advertising, scheduling, hiring/auditions, accounting/bookkeeping, operations, logistics, festival/venue selection). They are beginning to explore ways to better manage or outsource some of the business and management functions. The group decides to purchase a new van and accept a contract with a small recording company as stated in the epilogue. Company A is in Stage 2, poised to enter Stage 3.

Company B:
Company B is a 9.4 million dollar manufacturer of equipment for the packaging industry. It manufactures machines that fold and glue corrugated and folding carton boxes. It also has inherited a small line of machinery for the carpet cutting industry. The company sells domestically and internationally and is credited with developing a “niche market” for specialty, high end, folder-gluer. In 1986, Company B introduced the industry’s first computerized folder-gluer that revolutionized how their customers (ranging from large forest product companies to major independent packaging and box companies) conduct business. Their new product line attracted significant attention from Company’s B rivals, mostly foreign competitors. Company B had been in business since 1921 and had had a rocky history in terms of sales growth, sustaining profitability and changes in ownership. A new owner has just bought company B. He had been brought in by the former owner to try to turn the company around from a loss situation. The previous owner considered the company to be in the mature/decline stage of a small business. It was not dominant in the industry, and was viewed more as a small business, and a distraction on corporate management’s time and efforts. The former owner decides to sell the company before a turnaround is accomplished. The new manager agrees to purchase the company, run it and develop a new, profitable strategy. The new owner’s goal was to profitably, double the company’s sales in five years. Entrepreneur B, and later, his son, developed the growth strategy and prepared for its implementation. Company B is in Stage 4, preparing to enter Stage 5.

Company C:
Company C is a $60 million manufacturer of high end stuffed frozen pasta. It is located in New England, but has expanded its customer base throughout the United States. It provides product to several large, national restaurant chains as well as warehouse clubs, small restaurant chains and individual restaurants. The company as well as a system of regional distributors serve these customers through direct sales. Entrepreneur C founded the company as a result of a business plan he wrote in college. After leaving school in 1991, Entrepreneur C started his company and gradually has built it into the leader of its market segment. He has recently bought his largest competitor and consolidated operations in his Northeastern facility, while securing the competitor’s largest customer as its own. Company C has grown from a one person firm to where it employs more than 125 employees. At the end of the case research, the entrepreneur has added two layers of management. He has also followed a path of technological and product evolution. The new products have been well accepted by the market. Growth continues to be
high, with average growth of 25% per year. Company C is in the early part of Stage 5.

**Company D:**
Company D manufactures packaging materials and systems. It has transitioned from a marginal division of a much larger parent, who view it as a mature, small business, which was not dominant in its industry. It was viewed as a distraction on corporate management time and efforts. It has been turned into the entrepreneurial endeavor of Entrepreneur C, his wife, and a non-managing partner. Entrepreneur D and his wife manage to stabilize the company, turn it around and start it on a growth path. The new owners then followed a relatively conservative approach to growth based on their personal values concerning risk, and limited resources. The husband and wife want to reduce their time on active management, as they grew older. Gradually, they turn operations over to their son as the firm is about to transition from Stage 3 to Stage 4. He decides to follow a more aggressive growth strategy by introducing new products and industries for its products. The new owners then followed a relatively conservative approach to growth based on their personal values concerning risk, and limited resources. The husband and wife want to reduce their time on active management, as they grew older. Gradually, they turn operations over to their son as the firm is about to transition from Stage 3 to Stage 4. He decides to follow a more aggressive growth strategy by introducing new products and industries for its products. He brings a team of new, young managers to help him guide this growth. He also brings in an engineer to help develop new product lines. The new entrepreneur has his staff develop a strategy to achieve high growth, when the firm faces a cash flow problem. Shortly after that, he is faced with an offer from a much larger firm to acquire his company. Company D is in Stage 4, preparing to enter Stage 5.

**Company E:**
Company E is a natural and organic foods market and café, located in an affluent community. Its founder had an extensive background in catering, but initially wanted to concentrate on providing fresh, healthy foods such as she had seen in the farmers’ markets on the West Coast. Over time she added a deli and take-out vegetarian meals, personal care items, and similar products targeting health-conscious customers, with sales increasing every year. Making money was not an important consideration for the owner, who was primarily interested in the well-being of her customers and employees. However, when the town made her street one-way, making the market harder to reach from the center of town, sales growth halted, and the owner reconsidered her attitude toward profitability, altering her product mix to focus on fresh local products and on the café. Entrance into the local market of two large supermarkets, each with an extensive health foods section, created significant competition. The owner continues to try new ideas, most recently cooking classes, and to debate whether and how to leave Company E when her husband retires from his business. Company E is part of a family limited partnership, which includes the owner’s husband’s business. The company currently is in Stage 3.

**MATCHING STAGES TO COMPANIES**

**Stage 1: Existence as a viable business.**
**Company A** The main goal of the band was initially to create a viable group. The band started by playing as many small venues as it could book. It wrote and recorded much of its own music. It tried to develop a unique style in order to develop itself as a viable group. It wanted to develop a core customer group that would pay to see and hear it, both in person and on recorded versions. Its intent was to establish its product, a distinctive musical sound, to provide sufficient cash flow to enable the members of the group to continue to perform together, write and compose, and record their music.

The members of the group performed all functions to achieve these goals. At the outset the members sought out venues to perform, organized their own performances, and followed through with the performance, and set up transportation to and from venues.

The initial success of the group was dependent on the skills of the individual members of the band. These included administrative and bookkeeping skills, experience with securing venues, which led to slowly increasing revenues, as well as mastery of various aspects of performing at an acceptable level for the patrons of the band. This commitment to developing an effective and acceptable band led to sufficient positive cash to allow the band to develop into a viable business and to grow to the next level of entrepreneurial activity.

**Company B** was already at break-even (Stage 2/3) as a division of a larger company when it was taken over by Entrepreneur B. The original parent company divested it to the entrepreneur because of perceived limited growth potential and lack of fit with its other products.

**Entrepreneur C** started by making homemade pasta on the second floor of the family bakery and
trying to find restaurant customers for his product. He was unsuccessful until meeting a chef who needed a different product, which Entrepreneur C developed for him. The product was of the same quality as the chef made, produced at a reasonable price, and provided a considerable time savings to the chef. Entrepreneur C now needed to find additional customers for his product, which he was willing to customize.

Entrepreneur D took over as the operating officer for the Packaging Division of a larger company. The Packaging Division was considered marginal under the larger company, which decided to divest the Division. Entrepreneur D and a partner decided to purchase it; he and his wife would run it as a self standing company. The company had one plant, which was organized functionally. The company had already established itself as a viable business with several accepted products, having already passed through Stage One.

Entrepreneur E saw the need for healthy and fresh foods in the community where she lived. With her husband’s support, she invested some of the proceeds from the sale of their house into remodeling and stocking a small natural and health food market. She drew extensively on her personal experiences as a Sunday School superintendent and caterer and on the advice of a friend with a vegetarian restaurant, as well as a small business consultant who served as her mentor. The market, including a small deli/take-out wraps counter, over $100,000 in its first (partial) year, doubling its sales in year 2. The business broke even, but Entrepreneur E did not draw a salary.

Stage 2: Survival.

Company A has established a market niche for itself – the band has gained a reputation and carved out a niche as a “subversive folk traditionalists” who are part of a folk revival in the US. It has enough customers and satisfies them sufficiently with its products and services to keep them (CD sales are increasing, audience size is increasing, attracting a wide fan base in terms of age and music tastes). After three and a half years in existence, the band generated $100,000 in revenues, performing 160 shows per year, and was attracting attention from record labels, radio stations, and music critics. An important factor in generating cash flow and additional resources was collaborative relations and sharing of expenses with similar niche players – “a community of folk musicians” -- A strategy sometimes referred to as “co-opetition”. This strategy helped the band to cover expenses while on the road, increase ticket sales, grow revenues, and stay in business in an industry with a high initial failure rate. The founders are beginning to explore ways to better manage or outsource some of the business and management functions. They are still very vulnerable to failure – the band and its owners face financial, business and personal risk. They are continuing to develop their business by preparing for their third cross-county tour, the addition of contract musicians, and planning to increase ticket revenues and size of venues. Company A is still in Stage 2.

Entrepreneur B acquired the company after it had passed through the survival stage.

Entrepreneur C needed to expand past his original sale to the North Shore chef. He sold personally to other restaurants that saw the success of the product at the first restaurant. Sales were sufficient to achieve break even status for his company. He expanded to meet new customer demand. Growth was still limited due to production and resource constraints. Entrepreneur C was the supervisor as well as the primary marketer of the product, finally having hired other people to help produce the product. It was a simple structure, but had demonstrated the ability to survive.

Entrepreneur D and his wife operated the company; Entrepreneur D also served as the marketer. The structure was still relatively simple with Entrepreneur D performing most of the managerial tasks with the help of his wife, as the accountant. The main task at this stage was to achieve break even with its current viable products to sufficient customers to ensure the continuation of the company without the support of its former owner. The entrepreneur was able to supervise most aspects of the company’s operations. The company succeeded at achieving Break Even.

Company E’s sales continued to increase, without formal advertising. In year 3, the owner was able to buy her building, with financing from the seller. She was able to refinance with a local bank, and took out additional funds to renovate the kitchen and create seating for customers to “eat in.” The deli, now a café, drew in new customers. Employee turnover was very low, and the owner was proud of the internal culture of caring. However, there were no formal systems for inventory management or pricing, and the business approximately broke even. On the advice of her accountant, the owner began to draw from the business, but used this money to pay the mortgage and taxes.
Stage 3: Stabilization:

**Company B**: At the time of the takeover, the company was in Churchill Stage 3-D/Eggers Stage Three: the Stabilization Stage. The new owner was trying to utilize his organizational and financial abilities to overcome the previous phases of intermittent profits. He found ways to cut costs and to expand sales while improving margins. His first objective was to develop cash flow to provide a stable base for future growth.

While his first moves were mostly tactical, he developed a strategy to achieve his overall goal of profitable growth. At this stage, the owner was the primary decision maker in the company. There was very little delegation.

The new owner/manager's goal was to profitably double the company's sales in five years. The sales and profit goals were very ambitious given the spotty history of Company B and the intense rivalry amongst industry competitors. The new owner's stated goals were:

- "The short-term goals are profitability and cash flow levels adequate to service debt and to maintain a strong position in the specialty corrugated machinery market. The longer-term goals are to strengthen its position in the industry by offering a full line of converting equipment, and to find a counter cyclical product."

Company B centered on the new owner's strategy to "exploit the company's accomplishments and expand" the business. The owner was clearly using the company "as a platform for growth." Churchill identified two major sub-stages for a Stage III company - to grow the business sufficiently to allow the owner to exit/disengage and harvest any accumulated value in the business (Stage III-D Disengage) or to manage the business for the longer-term growth (Stage III-G and positioning it for stage IV -Take-off.

**Entrepreneur C** found that he could not continue to grow without added management resources and supervision. He brought in two new top level managers to help provide stability to the company. The Marketing Vice President proposed to expand to small and medium size chains, while stabilizing the sales and growth in the small restaurant customers. During this phase, Entrepreneur C moved his company out of his family's building into an old, renovated mill building. He continued to plan for growth and developed his company to be able to achieve that growth.

**Entrepreneur D** succeeded in stabilizing the company. He followed limited growth objectives tied to his and his wife's desires to slow down and live part of the year in Florida. He began to delegate some responsibility and authority to his son. Primary growth at this point was through internal operations with only a small amount of growth through a new product line for a single customer, NASA. This growth was to take place in Florida. The son was to oversee the stabilization and internal growth phase.

**Company E**: the environment changed before stable profit was achieved, due to emerging competition and town regulations. The slowing growth forced the owner to think about viability. As a result, she implemented inventory and bookkeeping systems that allowed her to track profits. The business has not transitioned to professional management. The owner continues to be heavily involved and comes up with new ideas for products and services. She is also contemplating the future of the business and how to disengage, including the possibility of turning the business over to her employees in some way. Company E is currently (2006) in this Stage.

Stage 4: Growth Orientation

**Company B**: The owner prepared a plan for growing the product line and revenues through the acquisition of a European competitor, maintaining the company's technological leadership, restructuring the sales and marketing operations, addressing adverse manufacturing variances, stabilizing cash flow, and profitability and meeting ambitious revenue targets. The new owner articulated a Stage 4 (Churchill III-G) strategy for the company: to "exploit the company's accomplishments and expand" the business. The owner was clearly using the company "as a platform for growth." The organization was still based on the strengths and skills of the lead entrepreneur, however.

**Entrepreneur C** decided to take on debt to fund high growth. He moved the company to a new, larger building. He developed an automated production process to enable the company to provide an expanded product line to new customers. The entrepreneur started to delegate more to his new management team. The Marketing VP developed an aggressive campaign to bring in new, larger customers. Internal cash flow was used to help fund the development of all these actions.

**Company D**: his parents gave the son 10% of the company. They also turned over operating control
of the company to him. He began to develop formal policies and procedures and started a strategic planning process. He also hired a crew of new, young managers to oversee departments within the company. He felt that this new, formalized management structure was necessary to lay the groundwork for growth, both through continuing operations as well as new products and industry customers. He decided to personally train the young managers to be able to follow his new directions and maintain growth, at a relatively inexpensive level. This was done so that the new CEO could commit more time and effort to strategic issues for the company.

Stage 5: Take-off/Rapid Growth.

Company B: ran into cash flow problems. The entrepreneur was unable to implement his strategy for growth as a result of the cash flow problems. He burned through cash at a higher than anticipated rate. He was unwilling to surrender the amount of equity necessary to secure financing for growth. Moreover, he felt that he had as much debt as the company could afford. At that point, a larger firm offered to buy Company B. Entrepreneur B agreed to the purchase rather than to accept higher risk. The new owner indicates that it plans to carry through with the growth strategy for the company.

Entrepreneur C took a major step towards rapid growth by acquiring his largest competitor. He took on debt to secure the company for both offensive and defensive purposes. Offensively, the acquisition allowed him to expand his customer base by securing the competitor's largest customer, accounting for an additional 15% growth in revenues, as well as several new distributors who also accounted for approximately 15% revenue growth. This was combined with approximately 20% internal growth in revenues. The business expanded into new geographic areas, as well. Entrepreneur C developed an additional, new layer of management to help supervise this growth. More delegation occurred, although top management still agreed that Entrepreneur C kept "his fingers in everything." While earlier debt had been repaid, new debt was taken on to fund this growth. The entrepreneur accepted debt, grudgingly, to fund growth, and adopted policies to pay down the debt as quickly as possible. He reacted quickly and positively to a crisis that overtook the firm shortly after the acquisition, clearly demonstrating his strong, and positive, principles to his management team. More systems were put in place to help manage the rapid growth. Company C is currently still in the Rapid Growth stage. The management team has stated that Entrepreneur C still maintains control over most decisions. They state that he likes to keep his fingers in all parts of the business.

Company D: ran into cash flow problems. The new product line required added resources at the same time as other customer industries - defense, aerospace and the electronics industry – were contracting. These cash cow product lines were no longer able to provide the resource necessary to provide for growth into the new industry, waste management. Moreover, products supplied to the health care industry were expanding faster than expected. Instead of acting as a cash cow, these product lines were requiring added capital to fund high growth.

It was at this point that another, larger company offered to buy Company D. The combination of insufficient funds to foster growth and a substantial offer to purchase the company, led the son and his parents to sell the company, to reduce both personal and company risks. Under its new owner, the company was poised for growth with the availability of resources and new products.

Stage 6: Resource Maturity.

None of the companies in this study have achieved Resource Maturity as entrepreneurial businesses. One could argue, however, that companies B and D were both in this stage under their previous, corporate ownership. The previous owners viewed the divisions as small businesses, lacking the size and market growth necessary to justify the time, effort, and resources needed to bring them back to a growth stage of development.

DISCUSSION

Company A faces “classic” stage II critical issues as identified by Churchill and Lewis (1983), and Eggers, Leahy and Churchill (1994). The owners are wrestling with cash flow and financial management issues. The owners are at odds with how best to grow revenues and earn sufficient profits that will provide working capital, operating and long-term strategic funds. Addressing the financial issues will help to stabilize operations and build a firmer foundation for future expansion. Challenges (and opportunities)
confronting the owners include the need to make several business and owner decisions including: an
offer to sign with a record label, bank borrowing to support a major capital investment expenditure
(purchase of a much needed van to transport the band and its instruments to shows) and the addition and
integration of two new band members. Additionally, the owners are struggling with finding the time they
need to attend to managing the business, develop new materials and repertoires, business networking,
and personal time-off. Their personal goals and values are potentially at odds with the organization’s
business goals and future direction. Furthermore, Company A owners are at a critical juncture in their
business. They are discussing how best to move from a slow growing start-up to a potentially high-
growth, fast moving “professional” organization. The top five critical skills (Eggers, Leahy, Churchill: 1994)
that need addressing in low growth start-up companies are financial management, relationship building,
motivating self, time management, ethics and organizational culture. The top five critical management
skills that need to be addressed in a high-growth start-up company are financial management, motivating
others, vision/direction/focus, motivating self, and planning and goal setting.

Company B faces “classic” Stage 4 (Churchill’s III-G) critical issues as identified by Churchill and
Lewis (1983) and Eggers, Leahy and Churchill (1994). The new owner’s strategy was to “exploit the
company’s accomplishments and expand” the business, “as a platform for growth.” He has initiated a
number of cost cutting and consolidating actions to marshal the resources for growth. These include the
decisions to divest the carpet line; restructure the sales force; reduce emphasis on the folding carton line;
develop next generation, computerized machinery; install a profit based incentive program for key
managers; install new manufacturing systems and controls; and outsource several manufacturing
operations (machining of parts, purchase of assemblies and subassemblies, addition of manufacturer’s
reps). All actions were aimed at reducing costs, gaining control of operations and build a solid platform for
growth. However, the new owner had heavily leveraged the company in order to buy it. He had an
approved line of credit against inventory and accounts receivable to use for working capital and financing
growth. He was trimming the product line and outsourcing some manufacturing and sales operations to
generate additional funds. A critical task for a Stage 4 company’s owner is to make sure the company
stays profitable so it will not “outrun its source of cash” and to develop managers to meet the needs of the
growing business. The new controller was tasked with helping the new owner “put the company back on
solid financial grounds,” and felt comfortable with its bank’s support. The owner, as is typical in this
phase, was active in all phases of the company’s affairs. He extensively used systems, budgets and
strategic and operating plans to manage the business, and employed a consultant to help him put in
place a strategic plan. In addition to the controller, the owner hired a new sales manager and installed a
new incentive system to motivate managers: “I know that I am taking quite a risk by establishing the
incentive program, but I believe we’re all in this together. The incentive program will help to motivate
performance and it will keep us on the right track.”

However, as Churchill and Lewis point out,

If successful, the III-G company proceeds into Stage IV. Indeed, III-G is often the first
attempt at growing before commitment to a growth strategy. If Stage III-G is
unsuccessful, the causes may be detected in time for the company to shift to III-D. If not,
retrenchment to the Survival Stage may be possible prior to bankruptcy or a distress sale
(p. 34.)

Company B develops a cash flow problem that will inhibit the entrepreneur’s ability to follow his
growth strategy. Shortly thereafter, he is approached by a larger firm, which sees Company B as a nice fit
with its own growth strategy. The Entrepreneur decides to sell rather than increase his financial risk by
borrowing the funds to achieve growth. He is unwilling to take on an equity partner at this stage, since he
feels he is at a negotiating disadvantage due to the cash flow problem. He is unable to implement his
strategy and take it firmly into Stage 4 (Churchill III-G.)

Company C has successfully followed Churchill and Egger’s path through the Stages of
Entrepreneurial Growth. While Entrepreneur C has struggled, at times, he adapts to the requirements and
resource needs of each stage. He has been able to develop an organizational structure to support Stage
5 (Churchill Stage IV.) The real issue at this stage is whether Entrepreneur C is willing to relinquish
sufficient control to his subordinates to enable the firm to successfully follow Stage 5 Growth. Eggers and
Churchill would argue that this type of control will inhibit the firm’s ability to successfully maintain, let
alone continue through Stage 5. Entrepreneur C has been able to provide his two top managers with
authority and responsibility up to this point, but the earlier stages of growth still rely, to a great extent, on
the operational, financial, and strategic abilities of the entrepreneur. Stage 5 growth does not rely as much on those abilities, but more so on those of the other members of the organization.

**Company D** has followed a path similar to Company B. The major differences are that Company D was not as stable as Company B at the point that the respective entrepreneurs take over their companies. Perhaps because of this, but, it appears, more because of the more conservative values and objectives of the original Company B entrepreneur and his wife, led the company to progress more slowly through Stages Two and Three. The entrepreneur relies on his and his wife’s abilities to lead them to stability. Their values concerning risk and leisure activities are driving factors in some of their decisions. By the time he achieves stability, he and his wife have reached a position where they wish to spend less time in the business and more time on their own in Florida. It is at this time that they turn operating control over to their son. He sets more aggressive goals, consistent with Stage 4 positioning. He develops the organization to meet the requirements for Stage 4. He also develops the product structure and new markets for Stage 4. He then develops plans for Stage 5 Growth. He even starts the process of decentralizing decision making to a new group of managers he has recruited. The one area where he is not able to secure sufficient resources involves financing. This is where Companies B and D follow similar paths, again. They both run into cash flow problems while larger firms make offers to purchase them. The entrepreneurs decide not to pursue higher risk through higher debt to allow them to achieve Stage 5 High Growth, once again, based on the values of the parents.

**Company E** could be considered to be in Stage 3, Stabilization, but retains many of the features of Stage 2, Survival. Even in the face of increased competition, revenues continued to increase, demonstrating viability. However, while the business is breaking even, according to the entrepreneur, it is not paying her a competitive salary, nor is it providing an economic return on investment. The entrepreneur’s strengths are her vision and her ability to form relationships, both within her company (employees and customers) and within the wider business community. The entrepreneur has recently become concerned with developing systems and increasing profitability, and wonders about how to create an exit strategy (disengagement) that will allow the community of employees and customers to continue. The improved financial condition will be an important factor in facilitating that exit. In the meantime, she has partially disengaged, no longer spending all day every day at work, and taking on new projects such as leading cooking classes.

**CONCLUSIONS**

The path of development of five entrepreneurial firms over time could be traced through the use of case studies describing the actions of the firms and their entrepreneur/owners. The firms and their entrepreneurs have closely followed the Stages of Entrepreneurial Development as described by Eggers and Churchill. The resources available have largely guided the development of these firms to the firm, including the abilities of the entrepreneurs. At the outset, the main focus has been on the ability of the entrepreneurs to bring key capabilities to bear on the problems of the firm. For the firms with only one entrepreneur, this has required a balanced set of expertise, as with Companies B, C, and E. The other two companies with more than one partner were able to rely on more specialized skills of their partners.

As the firms progressed, the entrepreneurs began to rely on their ability to gather other resources to support development. They focused on stabilizing their firms through development of new products and markets. As they progressed to higher stages of development, they started to bring on new management and to delegate decision making to these newer managers.

While three of the firms have clearly progressed through stabilization, only Company C has laid a solid base and entered Stage 4 and is poised to progress to Stage 5. The companies have all followed the progress that both Churchill and Eggers predict. This paper, therefore, has provided explanatory evidence through these case studies that the factors described by Churchill and Eggers are effective in explaining WHAT happens during the Stages of Entrepreneurial Growth. Also, however, one can start to see some exploratory evidence of WHY some actions occur. It is interesting to note that both Firms B and D decide to exit from their firms through sale to larger firms. These two entrepreneurs decided to exit due to a combination of values and risk profile. Both entrepreneurs faced cash flow problems when trying to position their firms for growth. Neither wanted to relinquish the proportion of the company that would be necessary to secure equity financing for development. Also, for different reasons, each decides not to increase risk and seek additional debt financing for their firms at this stage. One can even see this as a
potential problem for Firm C. This entrepreneur has been willing to take on debt to fund growth, but has
made it clear that he is averse to debt, and wants it repaid over a very short period. As the firm grows
ever larger, higher amounts of funds will be required to finance growth. Since Entrepreneur C has
indicated that he is unwilling to take on partners, it becomes questionable whether he will be willing to
take on sufficient debt, with its attendant risk, to finance growth.

Clearly, with only two or three firms, one cannot make broad based conclusions concerning the
degree to which values and risk determine whether and how entrepreneurs will lead their firms to different
levels of entrepreneurial growth. The authors intend to examine additional case studies of entrepreneurs
and their firms to expand on the body of evidence supporting this position. The authors also encourage
other researchers to share their case studies and findings. Further evidence will both broaden and
deepen understanding of entrepreneurial behavior.

In addition to affirming and advancing findings of WHAT happens during the stages of entrepreneurial
growth and offering exploratory evidence of WHY some actions occur for each growth stage, this paper
demonstrates HOW case based research contributes to teaching, research and organizational and
individual development. Cased based research is more than just a methodological tool aimed at discovery
and dissemination of new knowledge. It completes an UNBROKEN CIRCLE that helps teachers,
researchers, students, practitioners and policy makers understand cause and effect relations in a
dynamic, real world environment. Specific to this paper, case based research provides nascent and
experienced entrepreneurs with (a) a valuable research tool for theory building and affirmaton; (b) a
clearer window to see the internal and external drivers influencing their actions and the potential
implications of their actions on the firm and themselves before critical resources are committed and major
risks incurred; and finally (c) an epistemology to self-reflection, continuous learning and managing
oneself. While cased based research, as illustrated in this paper, is critically important in helping to
explain WHY happens, and WHY it happens during the entrepreneurial growth stages, its ability to
demonstrate HOW one can effectively move from cognitive understanding of WHAT and WHY to decisive
actions completes the unbroken circle of case research, writing, and teaching.

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