

Analysis of Enterprise Development Strategies Based on the Features of Different Stages in Enterprise Life Cycle

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Abstract: In 1959, Haire first put forward the enterprises life cycle theory in China. By using qualitative analysis and quantitative analysis, the paper discusses the choice of enterprise development strategies. According to the feedback of questionnaires the features of different stages in enterprise life cycle have been investigated. It concludes with the key factors of development strategies and proposes the most appropriate strategies for each stage in an enterprise life cycle.

Key words: Enterprise life cycle; Enterprise development strategies; Key factors; Strategic choice

1 Introduction

Enterprise is the economic organization for the purpose of profit. To gain profits and maximize its value are the objectives for all enterprises^[1]. This paper investigates the evolution law of enterprises strategies in terms of life cycle and made further discussion about the enterprise development strategies based on the combination of enterprise strategy theory and enterprise life cycle theory. After 1959 when Haire first put forward the enterprise life cycle, Greiner (1972) proposed the five stages theory for enterprise development, followed by the seven-stage theory of Flamholtz (1986) and the ten-stage theory of Adizes (1989)^[2]. As Greiner thought, the leader, innovation, coordination and cooperation all play important roles in the process of enterprise developing evolution. In China, Li Yongfeng and other scholars (2004) defined the different stages of enterprises life cycle in terms of the cash flows, costs, profits, incomes, capitals and operation capabilities. Cao Yu, Chen Xiaohong and Wang Fuqiang, in successive research, have concluded the differences in competitiveness between enterprises at different stages of life cycle, demonstrated in their books under the empirical studies on the models of enterprise competitiveness evolution at different stages of life cycle. Li Gang (2007), Hu Meiqin (2006) and others also did the same research. They put forward that at different stages of life cycle, enterprises should strengthen different respects of abilities. With the enterprise life cycle as the main clue, Shi Shenglin and Jia Chuangxiong have studied from the practice, theories and methods of strategy managements. What's more, by combining the enterprise life cycle theory, Sun Wei has studied the factors which have effects on the construction evaluation index system of enterprise achievements. In general, there are more and further researches on enterprise life cycle and enterprise strategy theories, but less on the relationships between them. As a result, this paper plans to research on the enterprises development process from point of the view of life cycle.

2 Features of Life Cycle of Enterprise Development

2.1 Phenomenon of life cycle of enterprise development

Enterprise grows and ages follow the way of the development of human beings: in the young age, it has strong flexibility but weak controlling force. When getting old, the controlling force increases, but the flexibility decreases. This pattern is like human's bodies: at the young age, he has good flexibility, but lacks of experience and maturity which turns out to be a result of weak discriminability and controlling forces. As time goes by, he is getting aged but his metabolism is getting worse than before; his physical function turns down and his mobility and agility reduce. However, over the years, because of accumulating a wealth of experience and knowledge, his controlling force to the environment and his ability to deal with everything both increase^[4]. On the basis of enterprise life cycle theory, the objective of enterprise strategy management is to keep balance on development, and get rebirth. Finally it can keep forever young and be prosperous.

2.2 Features of different stages of enterprise development life cycle

2.2.1 Survival stage

This period includes pregnancy and infancy stages. During this period, enterprises mostly are groping, studying and searching for survival, and also full of creativities and possibilities for the future. Because the enterprises are recently founded without any specific rules and regulations, as well as management principles, the originator of the enterprise is surely the core of everything. In other words,

they need to be responsible for the risks; their enthusiasm for career determines the success and failure of the enterprises. In this period, although there is not yet mature enterprise culture or stable strategic management, enterprises possess the best innovativeness. Therefore, enterprise should take this period as advantages to play full innovativeness into the breakthrough of products. In this way, it can satisfy the market demands and create additional value to strengthen its ability of making money for growth. Finally it can stand in the market firmly and smoothly transit itself into the growth stage.

2.2.2 Growth stage

In this period, enterprise grows at the highest speed. As a result of the improvement of techniques and the ability of product designing, the cost of production is decreased; the scale effect is raised and the marketability is strengthened. With the abundance of fund, enterprises present a scene of prosperity, such as the rapid development of enterprise and the improved skills, qualities and creativities of their employees. The most remarkable characteristics at this stage are contradiction and lack of continuity. Entrepreneurs may be conceited about themselves, and expand the scale of enterprises blindly without strategic visions. On business, entrepreneurs should decide whether to develop on diversification business or specification business; on enterprise culture, they will face some problems such as the authorization, how to coordinate the employees' relationship and how to improve their reliance between each other. Therefore, in this period, enterprises need to establish their policies and managements to make specific rules and appoint key personnel to encourage them to do their best on their positions. Then the organization form and the culture of enterprise can work well.

2.2.3 Maturity stage

It includes the prime period and stable period. When management and leading rules have been established, enterprises enter into the most ideal stage that is, the peak period in the life cycle curve. In this period, enterprise's controlling force and flexibility have arrived at a balanced level and it can make the best performance under the rules and structure. The expansion of horizon and performances of innovativeness are institutionalized which focus on the results and satisfy the demands of customers. The preeminent performance of enterprise can be imagined. It can take the pressures from the development, produce new enterprises and derive new business with its marketing ability or its profitability. When enterprises enter into its stable period—the turning point towards recession, although they are strong but their flexibly are decreasing^[5]. So in this important period, if nothing significant happens, the emerging negative attitudes refusing to reform will finally block up the development of enterprises. In this environment that lacks of innovative ability, creative spirit and reforming supports, enterprises will stick in convention, and scare to break rules to make progress; the employees are more interested in the relationships than the adventure and innovation enthusiasms.

2.2.4 Ageing stage

It includes nobility period, early stage of bureaucracy, bureaucrat period and death stage or reproductive period. In the nobility period, the control system, welfares and equipments cost the most. Enterprises emphasize more on business patterns than contents and reasons, and pay more attention to the external performance and lack of internal innovation. They obtain the creative abilities through consolidation. In this time, their flexibilities continuously turn down. When facing the opportunities of long-time development, enterprises appear to be insensitive to the short-time demands. They can't make immediate decisions. Even though they have made some progress and achievements, they lack of enthusiastic spirits, which turns them down towards the next period—the early stage of bureaucracy. In this ageing stage, enterprises almost have the big-company diseases which make the management inflexible. Meanwhile, the long-term shortage of innovations makes the enterprises unimproved. As a result of the out-of-date products and techniques, enterprises lose their competitiveness. Because of their weakened responsiveness and the changing environments, their core competences gradually get lost. Therefore, there are two directions for them to choose: one is shrinking and gradually going to die; the other is reconstructing the enterprises, and get rebirth in the recession.

3 Investigation of Key Factors of Enterprise Life Cycle Stages

3.1 Investigation methods

With the methods of questionnaires and interviews to determine the key influencing factors of enterprise life cycle stages, this paper provides strategic decisions for different stages of the enterprise life cycle.^[6] In August 2009, the questionnaires were distributed to 20 cities and provinces, such as Beijing, Shanghai, Wuhan, Harbin etc., and 23 managers were interviewed. The total number of the questionnaires was 2000. Among them 1,237 were valid of which the rate was 61.85%.

3.2 Design of questionnaires

The designing of questionnaires are improved mainly based on the research by Cao Yu, Chen Xiaohong and Wang Fuqiang (2009). Some discriminated questions about the strategic models of enterprises at different stages of life are added to the questionnaires which also have been simplified. The main variables include enterprise resources (enterprise culture, knowledge resource, human resource, financial resource, material resource, technology resource, market resource, information resource; totally 30 questions); enterprise abilities (entrepreneurs ability, studying ability, innovation ability, strategy ability, technology ability, production capacity, marketing ability, organization and management ability, human resources management ability, financial management ability and enterprise brand ability; total 50 questions); enterprise dynamic mechanisms (power mechanism, studying mechanism, matching mechanism and contingency mechanism; totally 20 questions)^[7]. With Likert scale method to measure and score, each question provides 5 different choices for the respondents to choose: very poor performance, poor performance, general, better performance and perfect performance.

3.3 The reliability and validity of questionnaire

Table 1 Survey on Cronbach's α Value

Survey items	Cronbach's α	Survey items	Cronbach's α
Dynamic mechanism	0.9912	Entrepreneurs ability	0.9794
Studying mechanism	0.9060	Studying ability	0.9687
Matching mechanism	0.9495	Innovation ability	0.9566
Contingency mechanism	0.8675	Innovation ability	0.8481
Resources	0.9223	Strategic ability	0.8894
Enterprise brand ability	0.8874	Management ability	0.9607
Human resources management ability	0.8874	Technical ability	0.9532
Financial management ability	0.8694	Marketing ability	0.9637

According to the reliability analysis of the questionnaires (as shown in Table 1), the Cronbach's α coefficients are all above 0.8, which suggests good reliability. On the other side, through second order of confirmatory factor analysis for testing the validity of questionnaires, the result suggests the good validity.

3.4 Analysis on the results of survey

Table 2 Comparison of Key Factors Influencing Enterprise Development Strategies at Different Stages of Life Cycle

Survival period	Growth period	Mature period	Recession period	Rank
Entrepreneurs ability	Market resources	Market resources	Marketing ability	1
Marketing ability	Entrepreneurs ability	Material resources	Financial operation ability	2
Market resources	Studying ability	Financial resources	Human resources management ability	3
Studying ability	Financial resources	Human resources	Entrepreneurs ability	4
Human resources management ability	Human resources	Marketing ability	Interface management ability	5
Financial operation ability	Enterprise culture	Entrepreneurs ability	Enterprise culture	6
Strategic ability	Marketing ability	Information resources	Material resources	7
Matching mechanism	Financial operation ability	Technical resources	Financial resources	8
Information resources	Material resources	Studying ability	Strategic ability	9
Interface management ability	Matching mechanism	Technical resources	Market resources	10
Innovation ability	Interface management ability	Strategic ability	Human resources	11
Material resources	Technical resources	Studying ability	Information resources	12
Enterprise culture	Dynamic mechanism	Human resources management ability	Studying ability	13
Technical resources	Strategic ability	Enterprise culture	Technical resources	14
Financial resources	Information resources	Innovation ability	Studying mechanism	15
Human resources	Innovation ability	Dynamic mechanism	Matching mechanism	16
Studying mechanism	Technical resources	Matching mechanism	Innovation ability	17

The analysis on the comparison of key factors influencing enterprise development strategies at

different stages of life cycle is shown in Table 2. In survival period, because of the short enterprise resources, enterprises should depend on their specific ability to compete with others. In growth period, as the enterprise resources growing more, it becomes the competition of resources and capacities. In the mature period, enterprises possess the most recourse, but their abilities begin to slip down. When entering the ageing stage, as resources become limited, the competition of enterprises comes back to the original competition, but the studying abilities, matching mechanisms and their innovation performance are getting lowest. These factors determine the success and failure of enterprises, which means if they are not improved, enterprises will stop developing and gradually into death.

4 Enterprise Development Strategies

4.1 Strategic choice at survival stage

In the survival stage, financial resources rank 15th, interface management ability ranks 10th, technical ability ranks 14th, and human resources rank 16th, all of them are below 10. It indicates that, when enterprise first comes into market, it will face to such problems, like the lagging information, fuzzy definition of market, backward techniques, short in talents and internal resources. In this stage, enterprise can't hold the core factors and continuously stays at the exploration stage in the field. As a result, in the survival stage, enterprise should choose the specialization and differentiation strategies to integrate its superior resources and make its core competitiveness; and build up its own brand personality to distinguish from other competitors.

4.2 Strategic choice at growth stage

In the growth stage, market resources rank 1st, studying ability ranks 3rd, human resources rank 4th, and financial resources rank 5th, all them are above 5. It indicates that, in this stage, enterprise has already had well-improved organizational system and well-defined enterprise culture. As a whole, enterprise is continuously rising. In this stage, enterprise devotes all its energies and resources into the development in the market. The cash flow quickly expands, and the healthy and rapid growing situation is preliminarily formed. Enterprise should take the cost as leadership strategy, with the value of customers as guidance, to maintain its client group and business partners. Through expanding the market areas, attracting more customers, and researching and developing independently, enterprise brand can be strengthened in leading position in its industry.

4.3 Strategic choice at mature stage

In this stage, among the key factors, marketing resources rank first, material resources rank the second, financial resources rank 3rd, human resources rank 4th, and marketing ability ranks 5th. The core resources have been fully taken into the spreading advantages and the core competitiveness makes enterprise extra profits above the average level in the industry and stands at an advantageous position as well. As a result, enterprise has basically formed an operation system with collectivization, scale effects and branding effects, generally built up a comprehensive business empire. In this mature stage, enterprise should take a international strategy, integrating strategy and diversification strategy. In specific words, they are taking use of new technologies to develop new products; with the increasing production ability to improve its availabilities for using; to purchase other enterprises and expand new business, as well as its marketing areas; meanwhile, to consummate its management system and reserve talents^[8].

4.4 Strategic choice at ageing stage

In this stage, the enterprise marketing resources rank 10th, study ability ranks 17th, and human resources rank 12, all are behind 10th, where the "big company is sick" emerged, and management came to a deadlock. Without the improvement of innovation, the products and technologies are severely out of date and lost their competitiveness. Enterprise should redefine its positions in management strategies, structures of products and industries, and the marketing patterns in this ageing stage. To integrate the resources and reappear with new looking in the market, enterprise should take the retrenchment strategy to shrink its scale and recovery the cost, thus it can speed up the accounts receivable and inventory turnover rate to make the least wastage for enterprise^[9].

5 Conclusions

This paper discussed about the phenomenon of enterprise life cycle and the features of life cycle at different stages. With the methods of questionnaires and interviews, researches on key factors in the each stages development of enterprise have been covered. This paper put forward different strategies for each stage of enterprise life, which are: differentiation strategy and specialization strategy for survival

stage, cost leadership strategy and the guidance of customer's value for growth stage, internationalization strategy, integration strategy and diversification strategy for mature stage. The last in the ageing stage, enterprises can adopt the reform strategy and all-round integration of resources which can help enterprises enter the market with brand new images.

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