

EXPLORING THE EARLY STAGES OF SERVICE-BASED FIRMS

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Abstract:

Stage models have attempted to clarify management priorities during the early stages of business growth. However, many of these models are conceptually based and have a universal focus, providing only limited added value for businesses in specific industries and business environments. A focused and empirically based stage framework provides an effective tool for reflecting on and predicting challenges businesses face during the early stages of growth. Such models are especially useful for entrepreneurs, managers and business advisors. The early stages of technology-based ventures have attracted the interest of scholars, while only limited attention has been paid to the early stages of service-based firms. This study takes a closer look to the early stages of growth at the context of service-based firms. The research problem described above can be condensed into the following research question: What are the basic characteristics of the recent empirically based studies focused on the early stages of service-based firms? This study is a meta-analytical review designed to answer this question. A group of recent, empirically based stage models focused on the early stages of service-based business were selected for a closer meta-analysis. The meta-analysis was conducted to explore some of these models' central findings. This explorative study provides first steps towards forming a self-evaluation framework for early-stage service-based companies.

Keywords: stages of growth, growth process, growth management, service-based firm, business development, meta-analysis, review

1. INTRODUCTION

Company growth can be studied from different perspectives. This study is focused on the configuration perspective. The configuration perspective deals with the growth process and aims to clarify managerial priorities in the early stages of growth (e.g. Churchill & Lewis, 1983; Greiner, 1972). It explores, describes and/or explains how growth affects a company and how a growing company can be managed (e.g. Davidsson & Wiklund, 2006; Wiklund, 1998). Among the first authors mentioning term 'configuration' in this sense are Miller and Friesen (1984). For example Miller et al. (1984) and Hanks et al. (1993) agree that life-cycle stages are best characterized as configurations. According to this view, the key typing attributes (for example, structures, systems and information procedures) tend to influence each other in a manner that gives rise to a small number of configurations representing common developmental or transitional sequences.

The configuration perspective is often labelled the 'stages of growth' or 'life-cycle' perspective (e.g. Muhos et al., 2010). Among the recent literature (e.g. Phelps et al., 2007), other terms, including 'states of growth,' have been proposed. The term *stage* in these studies corresponds to a unique configuration of variables (e.g. strategies, problems and priorities) that growing firms are likely to face (see Miller & Friesen, 1984).

The configuration models developed during the past few decades vary widely in focus industry, use of empirical evidence, number of stages and other factors (e.g. Siu & Kirby, 1998). There are numerous models based on recent reviews of the literature (see Levie & Lichtenstein, 2010; Muhos et al., 2010; Phelps et al., 2007). A generic analysis of these models published in the management literature shows neither consensus nor empirical confirmation of the stages theory, as many of such models/frameworks are conceptually based. However, focused and empirically based models have more consistent findings. Support for the applicability of such models has been provided by empirical tests by, among others, Hanks et al. (1993) and Kazanjian and Drazin (1990). These studies have traditionally focused on technology-based firms. Moreover, preliminary tests of the synthesis of tech-focused empirically based stage models provided support for the applicability of such a framework to business contexts of four countries (Muhos, Kess, & Rasochova, in press; Muhos, Kess, Distanont, Phusavat, & Sanpanich, 2014; Muhos, Lee, Chang, & Kess, 2014).

However, empirical models focused on the early stages of service-based firms are rarer. Among the recent models, more models focused on service-based firms have been published; some of them are empirically based. There is an increasing need to synthesise the central findings of empirically based models and to test the findings in different business contexts. Doing so will allow for analysis of gaps between reality and the stage models and will highlight potential paths for further development of these models for service-based businesses. This study is a step towards integrating some of these models' central findings.

The above can be condensed into the following research question: (1) *What are the basic characteristics of the recent empirically based studies focused on the early stages of service-based firms?*

The configuration perspective has been criticised as overly deterministic (e.g. Churchill & Lewis, 1983; Dodge, Fullerton & Robbins; 1994; Geroski, 2002; Miller, 1981; O'Farrell & Hitchens, 1988; Perry, 1982; Siu & Kirby, 1998; Stubbart & Smalley, 1999; Whetten, 1987), conceptual (e.g. Hanks & Chandler, 1994) and overly general and simplistic (e.g. Tornatzky, et al., 1983; Whetten, 1987). The aim of this study is to fill a gap by analysing empirically based configuration studies focused on service-based businesses starting from the early 1980s. This study provides an explorative review of configuration models focused on the growth of service-based businesses and functions as a first step towards integrating central findings of these models.

2. METHODOLOGY

This meta-analysis (e. g. Glass, 1976) focuses on the growth configuration models of service-based companies. This meta-analysis reviews growth configuration studies focused on the early stages of service-based businesses. Studies published in 1980 or later were included in a preliminary sample to ensure sufficient accessibility to the sample. Two episodes, the years 1980–1999 and the new

millennium (2000–2014), were established to explore potential shifts or changes in the characteristics of these studies.

The criteria for selecting the preliminary sample of models for this meta-analysis were as follows:

1. Published within the time frame of 1980 to 2014
2. Focused on service businesses or general business but adds value to service businesses
3. Based on empirical evidence

Altogether, 25 studies meeting the above criteria were included in the study. The studies included in the preliminary sample were peer-reviewed international journal articles, conference articles or book contributions published by well-established academic publishers. Of the selected studies, majority was published during the new millennium. The preliminary sample and the two episodes of analysis are presented in the following table 1.

Table 1: The sample of empirically based growth configuration studies focused on service-based businesses and the two episodes of analysis

The 1980s and 1990s (1980–1999)	The New Millennium (2000–2014)
1. Kimberly, 1980; Kimberly, 1979	12. Shim et al., 2000
2. Filley & Aldag, 1980	13. Ndonzuau et al., 2002
3. Aplin & Cosier, 1980	14. Rutherford et al., 2003
4. Quinn & Cameron, 1983	15. Greiner & Malernee, 2005
5. Flamholtz, 1986	16. Masurel & Van Montfort, 2006
6. Olson, 1987	17. Stam, 2007
7. Baird & Meshoulam, 1988	18. Lester et al., 2008
8. Dodge & Robbins, 1992	19. Teeter & Whelan-Berry, 2008
9. Terpstra & Olson, 1993	20. Auzair, 2010
10. Dodge et al., 1994	21. Guo & Miller, 2010
11. Eggers et al., 1994	22. Van Tonder & McMullan, 2010
	23. Witmeur & Fayolle, 2011
	24. Ferreira et al., 2011
	25. Empson, 2012

The preliminary sample of empirical configuration studies focused on the early stages of service-based firms was collected and analysed during 2014 at University of Oulu, Finland. The analysis of the sample was carried out and the preliminary findings were concluded during the fourth quarter of 2014 at University of California San Diego (UCSD) Rady School of Management.

3. REVIEW OF THE PRELIMINARY SAMPLE

As configuration models are reviewed, three layers of analysis can be presented (see Muhos & Sanpanich, 2009). These are: (1) the identity of the studies, (2) the descriptive level of analysis and (3) the methodology and underlying assumptions of the models. The analysis of the preliminary sample covered the identity of the models (author(s)' identity, publication's identity and year published), basic descriptive attributes (number of stages and focus business sector(s) of the model) and attributes related to the methodology and underlying assumptions (peer reviewed/not, research strategy and size of the sample). These characteristics are presented in table 2.

Table 2: The sample of empirically based growth configuration studies focused on service-based businesses

Number, identity of the author(s) and study, year published	Peer review	Focus business*	Stages	Research strategy	Size of sample
1. Kimberly, 1980	yes	service	3	action research	1
2. Filley & Aldag, 1980	yes	generic	3	survey	272
3. Aplin & Cosier, 1980	yes	generic	3	case study	2
4. Quinn & Cameron, 1983	yes	generic	4	case study	1
5. Flamholtz, 1986	no	generic	4	case study	8
6. Olson, 1987	yes	generic	2	case study	2
7. Baird & Meshoulam, 1988	yes	generic	5	case study	24
8. Dodge & Robbins, 1992	yes	generic	4	case study	362
9. Terpstra & Olson, 1993	yes	generic	2	survey	115
10. Dodge, Fullerton, & Robbins, 1994	yes	generic	4	case study	645
11. Eggers, Leahy, & Churchill, 1994	yes	generic	6	survey	237
12. Shim, Eastlick, & Lotz, 2000	yes	service	5	survey	416
13. Ndonzuau, Pirnay, & Surlemont, 2002	yes	generic	4	case study	15
14. Rutherford, Buller, & McMullen, 2003	yes	generic	4	survey	2,903
15. Greiner & Malernee, 2005	no	service	4	case study	200
16. Masurel & Van Montfort, 2006	yes	service	4	survey	279
17. Stam, 2007	yes	generic	5	case study, survey	174
18. Lester, Parnell, & Menefee, 2008	yes	generic	5	survey	94
19. Teeter & Whelan-Berry, 2008	yes	service	4	case study	1
20. Auzair, 2010	yes	service	3	survey	149
21. Guo & Miller, 2010	yes	generic	3	case study	11
22. Van Tonder & McMullan, 2010	yes	service	5	survey	21
23. Witmeur & Fayolle, 2011	yes	service	3-4	case study	4
24. Ferreira, Azevedo, & Cruz, 2011	yes	service	5	survey	23
25. Empson, 2012	yes	service	5	case study	13

*Generic models seek to provide added value for both product and service businesses

As shown in table 2, the great majority of the 1980s and 1990s models can be characterised as generic models that only add limited value to the service-based context. In fact, only one of the early models is focused solely on service-based businesses. However, among the models published during the new millennium, the number of service business–focused studies increased dramatically. This seems to be part of the broader increase of interest in more focused studies.

The numbers of stages proposed vary widely across the sample. The numbers of stages vary widely according to the ‘focal length’ of the models. Some of the models focus only on the very beginning of the growth, while others take a wider approach. The number of stages varies less among the recent studies published during the new millennium. The number of stages proposed by generic models varies more (between 2 and 6 stages) than the service business–focused models (3 to 5 stages). However, even more important than the number of stages is the content of the stages proposed. The preliminary content analysis showed remarkable consistency among the service-focused models. In fact, the service business–focused models seemed more consistent than the generic.

The research strategies found among these studies included case studies, surveys and action research. Case studies and surveys were the most popular approaches. Case studies were the most popular approach during the 1980s and 1990s. Among the recent studies, the number of surveys increased dramatically, making surveys the most popular approach of the new millennium.

The size of the empirical sample or number of cases varies greatly according to the selected research strategy. No trends were revealed as the two episodes were compared. The largest sample came from a survey with a sample of 2,903 companies. On the other end of the spectrum are two in-depth single-case studies and a longitudinal action-research study of a single organisation.

Based on the review of preliminary sample the following conclusions were made: First, Among the recent models, the number of service business–focused studies has increased dramatically. Second, most empirically based surveys were published among the recent studies. Third, the recent studies showed more consistent stages than the early ones. Fourth, the new service-business–focused studies show remarkable consistency compared to the generic models regarding both the number of stages and their content.

Based the review of preliminary sample, nine recent models with a clear focus on service-based businesses were selected for the further, more in-depth analysis. The models selected are presented in the following section 4.

4. META-ANALYSIS OF THE RECENT EMPIRICALLY BASED STAGE MODELS WITH SERVICE-BUSINESS FOCUS

Nine recent empirically based configuration models focused on early stages of service-based firms were selected for the explorative meta-analysis presented in this study. The purpose of this meta-analysis is to describe the characteristics of these models in order to lay a foundation for the development of reliable frameworks for self-evaluation and further analysis of the early stages of service-based businesses.

Shim et al. (2000) present a five-stage (and four-transition) model focused on an organizational life-cycle approach for the examination of US Hispanic-owned small retail and service businesses. The key areas analysed here are management decision-making style, complexity of structure, operational systems, strategic planning and owner involvement. The stages are *existence*, *survival*, *success*, *take-off* and *resource maturity*.

Greiner and Malernee (2005) present a four-stage (and four-crises) model for managing growth stages in professional service firms (particularly consulting). The data were collected from US-based professional service firms. The main perspectives analysed here are strategy, organisational structure, systems and rewards, management style, decision process, culture and sources of conflict. The stages are *exploring* the market for growth opportunities, *focusing* on specialised market niche, *diversifying* into multiple offices and related services and *institutionalizing* into a one-firm firm.

Masurel and Van Montfort (2006) present a four-stage model of life-cycle characteristics of small professional service firms. The data were collected from Dutch architectural firms. The key perspectives analysed in the study are sales diversification, labour force differentiation and labour productivity. The stages presented and tested in the study are *starting phase*, *growth phase*, *maturity phase* and *decline phase*. The study confirmed the increasing patterns of sales diversification, labour force differentiation and labour productivity through three developmental stages and decreasing patterns of those in the declining companies.

Teeter and Whelan-Berry (2008) present a four-stage model of the challenge of change in growing a small professional service firm. The key perspective analysed in this study is organisational change management. This is an in-depth single case study of a US accounting firm. The stages presented in this study are *start stage*, *growth stage*, *mature stage* and *decline stage*. This study concludes that the transitions between life-cycle stages can be more effectively managed when viewed as organisational cultural changes.

Auzair (2010) present a three-stage model of organisational life-cycle stages and management control systems in service organisations. The data of this survey were collected from diverse service industries operating in Australia, including retail and wholesale, health services, education, hospitality, transportation, finance and insurance and professional services. The key perspective analysed in this study is management control systems. The stages presented in this study are *formation*, *growth* and *maturity*.

Van Tonder and McMullan (2010) present a five-stage model of franchise growth. The data were collected in South African franchisees. The key perspective of the study is growth-related organisational change. The stages described and preliminarily tested in this study are *gestation*, *entrepreneurial*, *methods and systems*, *maturation/decline* and *renewal*.

Witmeur and Fayolle (2011) developed and tested a four-stage typology of growth strategies in entrepreneurial IT service firms. The typology was tested through four case studies of Belgian IT service firms. The key perspectives of this study include entrepreneurial team, activities, resources, organisational structure, business environment and growth strategy. Two typologies were proposed and studied. The first one consists of *start-up*, *early growth* and *continued growth*. The second consists of *seed*, *start-up*, *early growth* and *continued growth*. The first is focused on the characteristics of a traditional IT service firm while the second is focused on the characteristics of the 'software lab' type of IT service firm.

Ferreira et al. (2011) present a five-stage taxonomy of service business growth combining life-cycle and resource-based theories. The data were collected in the hotel and restaurant service industries of Cape Verde. The key perspectives analysed are context, structure, strategy, decision-making style and level of resources. The life-cycle stages are *birth*, *expansion*, *maturity*, *diversification* and *decline*.

Empson (2012) presents a five-stage (five-crises) model focused on governance in professional service firms. The model is based on historical narratives collected through 13 in-depth case studies of companies including management consulting firms, law firms, accounting firms and actuarial firms in Great Britain. The key perspective of this study is governance change over time. The stages are *founder focused*, *collegial*, *committee*, *delegated* and *corporate*.

The comparison of key characteristics of the nine models analysed are presented in table 4.

Table 4 Comparison of the key characteristics of the models

Author(s), Year	Focal Firms	Key Perspective(s)	Stages
Shim et al., 2000	Service firms: small US Hispanic-owned retail and service businesses	management style, structural complexity, operational systems, strategic planning & owner involvement	(1) existence (2) survival (3) success (4) take-off (5) resource maturity
Greiner & Malernee, 2005	Professional service firms: consulting firms	strategy, structure, systems and rewards, management style, decision process, culture & sources of conflict	(1) exploring (2) focusing (3) diversifying (4) institutionalizing
Masurel & Van Montfort, 2006	Service firms: Dutch architectural firms	sales diversification, labour differentiation & labour productivity	(1) starting (2) growth (3) maturity (4) decline
Teeter & Whelan-Berry, 2008	Professional service firms: US-based accounting firm	organizational change, change management, & cultural change	(1) start stage (2) growth stage (3) mature stage (4) decline stage
Auzair, 2010	Service firms: Australian retail and wholesale, health services, education, hospitality, etc. firms	management control systems	(1) formation (2) growth (3) maturity
Van Tonder & McMullan, 2010	Service firms: South African franchisees	organisational change	(1) gestation (2) entrepreneurial (3) methods and systems (4) maturation/decline (5) renewal
Witmeur & Fayolle, 2011	Service firms: IT service firms in Belgium	entrepreneurial team, activities, resources, structure, environment & growth strategy	(1) start-up (2) early growth (3) continued growth or (1) seed (2) start-up (3) early growth (4) continued growth

Ferreira et al., 2011	Service firms: hotel and restaurant service industries of Cape Verde	context, structure, strategy, decision-making style & level of resources	(1) birth (2) expansion (3) maturity (4) diversification (5) decline
Empson, 2012	Professional service firms: management consulting, law, accounting and actuarial firms in UK	governance & complexity	(1) founder focused (2) collegial (3) committee (4) delegated (5) corporate

The three models proposing “decline” as a separate stage are typical deterministic life-cycle models assuming the decline stage to be part of a natural growth cycle comparable to the other developmental sequences. In the probabilistic stages of growth or states of growth models, there is no need for a separate decline stage as the potential for decline and “death” is present at every stage of growth/development.

5. DISCUSSION

The purpose of this study was to review growth configuration research, often referred as stages of growth or lifecycle perspective, from the perspective of service-based companies. This study explores the basic characteristics of the empirical growth configuration models focused on service-based businesses. The configuration perspective offers multiple frameworks for managing growth and supporting service-based companies in their growth paths. The research problem of this study was condensed in the following research question: What are the basic characteristics of the recent empirically based studies focused on the early stages of service-based firms?

The research question was answered in sections 3 and 4. First, the preliminary sample of recent empirically based models providing value to service based-companies was selected from the broad availability of configuration literature and was divided into two episodes for analysis. The sample and two episodes are presented in Appendix 1. The basic characteristics of these models are presented in table 2. This preliminary analysis revealed that the number of service business-focused studies has increased dramatically in the recent models; most empirically based surveys were published among the recent studies, the recent studies showed more consistent stages than did the early ones and the new service business-focused studies (published since the year 2000) showed remarkable consistency compared to the generic models both from the perspective of the number of stages and the content. Based on these facts, the preliminary sample was condensed into the final sample of nine studies presented in section 4. A closer look was taken at the key characteristics of these models. The condensed results of this analysis are presented in table 4. This explorative analysis revealed the possibility of forming a synthesis of the nine recent empirically based configuration models.

The next logical step of this meta-analysis will be generation of a classification scheme and a preliminary self-evaluation framework based on the shared themes of the selected models and the shared views to sequencing of the stages. This framework can later be tested by for example multiple case studies and surveys in different industries of the service sector and different business environments.

There are several limitations associated with this study. To some extent, this study is interpretative, and therefore some subjectivity must be accepted. This study is meta-analytical in nature and in this sense does not contain any preliminary or secondary data. The data of this study consist of company-focused configuration studies published since 1980. This study is limited to configuration studies published between 1980 and 2012. There are configuration studies published earlier and later than the selected timespan, but these are not within the focus of this study.

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