

SMEs' Growth Stage Model: A Literature Review and Development Model

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Abstract

Growth Stage Model (GSM) is essential especially for Small and Medium Enterprises (SMEs) in order to know their position in the industry, setting their growth strategy to forecasting their future movement. The development of GSM evolves over time with a modest 4 (four) stages to the current 6 (six) stages. The measurement, variable used and indication of each model also develop. This article is a literature study article which will compare, summarize and synthesize the literatures about GSM. Finally, this article find a challenging moment created by industrial revolution 4.0 that effected business especially SMEs in their growth stage. Hence, this article provides the proposed model of modern GSM as an answer of industrial revolution 4.0 challenge to business world.

Keywords: Entrepreneurship; Growth Stage Model (GSM), SMEs, Industrial Revolution 4.0, Entrepreneurs, Entrepreneurship,

1. Introduction

Alike a product that has a life cycle, business also possesses a growth stage model which similar to product life cycle that aims to indicate the stages of business life until it dies/declines. As product life cycle elaborates product life from the development stage, introduction stage, growth, maturity to decline stage (Tekic, Tekic, & Anisic, 2013), Growth Stage Model (GSM) also has similar stage. However, it focuses to the business life which means it possesses higher impact than specifically to a certain product only.

Understanding GSM is very substantial to the business due to its strong relation to company strategy both for Small and Medium Enterprise (SME) and Large Organization (LO). By recognizing it, the company may regulate suitable strategies and upcoming possibility strategies in order to maintain their business position in the industry, counter the competitor and increasing their income.

Nevertheless, GSM is not only related to business strategy. Furthermore, it also corresponds with the business forecasting, business expansion and depreciation also revenue and earning level. Hence, it is significant for every company to identify its GSM.

On the other hand, development of business is rapidly changing nowadays, especially in industrial revolution 4.0 era where technology and network change the face of each industry in the world and create unstoppable trend in customers' behavior that affect business directly and indirectly . Business becomes more complex, more customize and more unpredictable. Hence, company needs an effective tool to identify their business position to be able to set their future move.

The first GSM model introduced in 1969 and until now it has enriched several times by different researchers. The model itself started with only 4 (four) phases to finally the last development in 2010 consists of 6 (six) phases. Initially, this model used to identify the critical phase encountered by business and cultivate into business strategy. Each GSM development bring out the same basic perspective that every business will go through phases from first created until it dies. However, the process to the final stage enlarges over time. Besides the different number of stages, each theory also emphasizes different point which will be elaborated more in the main body of this article.

There are numerous literatures discussed about GSM so far. Stainmetz (1969), Greiner (1972), Galbraith (1982), Churcill and Lewis (1983), Queen and Cameron (1983), Miller and Friesen (1984), Smith and Summer (1985), Flamholtz (1986), Scott ad Bruce (1987), Adisez (1989), Kazanjian (1988), Hanks et al (1994), Storey and Greene (2010). However, this article will focus to the article which are provided an actual framework or model in order to summarize, distinguish and synthesize the literatures found to finally present an extended and developed model of GSM to be implemented. This article will focus to discuss GSM for SMEs to assist them in pursuing their growth and existence in the industry. Lastly, as mentioned above, this article will present more specific GSM as an extension to the previous literatures

2. COMPARISON OF EACH GSM

In this part of the article, every model proposed in literatures since 1969 to 2010 will be elaborated.

Table 1. Emerging pattern of Growth Stage Theory in Literature

Emerging Pattern	Discovery	Authors
4 growth stages	Each stage requires different control and supervision and business will face big obstacle or crisis before jumping	Steinmetz, L (1969)

	to next stage	
5 growth stages and revolution stages	This model employs size and age of company as the measurement variables. It delivers specific crisis in each stage and elaborated the strategy to reach growth in every stage	Greiner (1972)
5 growth stages and management decision	This research argued previous model in measurement variables and management decision by delivering extended model and changing the growth line from straight line to curve and specify each growth stage	Churchill and Lewis (1983)
5 growth stages and crisis	The research proposed possibility way when the business failed certain stage. Authors also emphasised the slow movement of early stage in the business	Scott, M and Bruce, R (1987)
6 growth stages	The growth model was broaden, revenue and earning time were included as an assistance to business owners/entrepreneurs	Storey, D and Greene, F (2010)

2.1. 4 (Four) stages of GSM by Lawrance Steinmetz (1969)

The first model of GSM introduced by Steinmetz (1969) discussed 3 (three) life-threatening phases faced by small business in order to pursue its growth. Apart of that, the article also mentioned the specific time and the strategy need to be fulfilled by entrepreneurs or the business' founder/founders in every phase they dealt. The model also indicates the number of employees and asset possess by business in every stage.

Stage 1 of the model explained the starting condition of a business. This stage is fully one man show where the owner does absolutely everything. This stage also indicates by the lack of income received (it is even minus in revenue), the sales escalates deliberately but it will continually bring profit to the business.

Problem arises when the business grow to the limit where the founders cannot control it themselves. Business will be in condition where it is too big to be handled alone and it is still small to be managed by some division managers. the insufficient supervision may provokes employees' dishonestly and disloyalty

to the company. Above is only one problem, another external issues arise from the market and competitors. In this stage, market seems to be uninterested anymore to the unique product/service provided and tends to shift to another. One of the reason is due to the presence of followers business whom see the product/service offered by the company is saleable and finally offer the similar product/service.

Lastly, this stages is signified by the critical time when founders realize that their business cannot stay small and stagnant forever, they have to grow or else they will die. In this stage, founders skill and ability to manage, control and direct will determine whether the business can jump to next stage or close down forever. Below is the illustration of the 3 stages GSM:

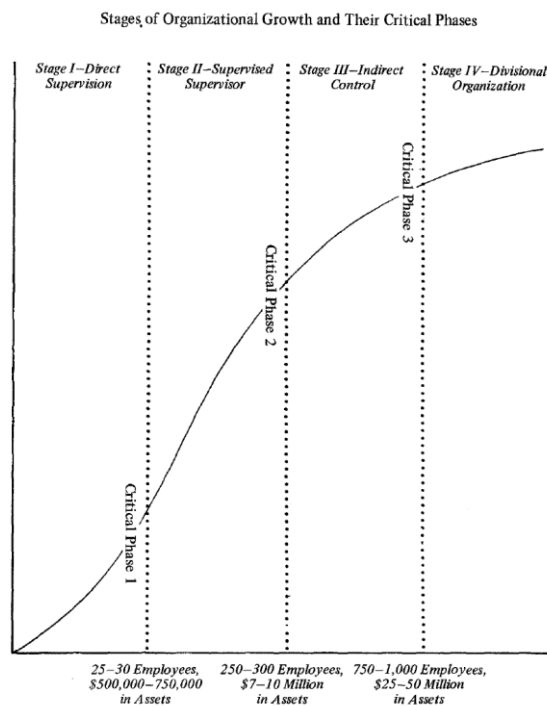


Figure 1. 3 Stages in SMEs Growth (Steinmetz L. , 1969)

2.2. 5 (five) stages of GSM by Larry E. Greiner (1972)

Larry E. Greiner in his article *“Evolution and Revolution as Organizations Grow: A Company’s past has clues for management that are critical to future success”* in 1972 argued that company’s past activities held a significant role in order to develop company future. For that, author suggested several crucial instruments related to company future development, such as: age and size of organization, stages of company evolution and revolution and lastly, growth level of the industry.

Related to that, the author presented 5 (five) phases of company growth and emphasized that each stages is relevant to each other both the previous and the next stages. According to the article, phase 1 of the growth called creativity phase where founders focus to create and sell new product. The phase indicated by the founders orientation that fully entrepreneurial and technically. However, this stage will not pass without restriction. The restriction or crisis faced in this phase according to the author is the leadership crisis where increasing production, sales, number of employees, and internal conflict between employees required leadership skill. When founders are capable to act as a leader in dealing the problem occurred, this phase will be conveniently surpassed

Next, phase 2 (two) of the model named direction phase. This phase characterized by the separation division of activities, the emerge of work and incentive standard, and centralized hierarchy where manager and key supervisors hold most of the responsibility. As mentioned in the article, the autonomy crisis will be encountered in this phase where low layer employees feel disturbed with the centralized hierarchy and wish to have direct knowledge to execute a decision.

A great delegation is one key strategy in dealing with above phase. Hence, the next phase which is phase 3 (three) is called delegation. This phase is eventually a moving forward time for small business as result of growth evolved by decentralization structure. This phase is described by the greater managers responsibility, larger market zone, and new acquisitions begin to be a consideration. Alike the other phase, this phase also confronts specific crisis which is control crisis. Top management has to embrace a solid control otherwise the freedom to control plan, capital, technology and human resource given to low layer management and/or employees able to turn them into parochial individuals.

The upcoming phase is coordination phase where executives initiate and manage a new system. This new system can cause a merge between some division in creating new project group. Following to that, inclusive planning procedure, deliberation in capital expenditures, and massive recruitment are part of this phase. Nevertheless, the organization turns to be too big with a high complexity and cause a red-tape crisis. This analogy arises due to the excessive regulation and rigid program that hinder and prevent certain decision making and action.

Finally, the last phase of the proposed model is the collaboration phase. Collaboration is significant to overcome the red-tape crisis. In this phase, spontaneous action, social control, self-discipline and skillful individuals tend to be substantial. We regularly meet dual organization structure in this phase and finally the declining and saturation start to occur and become the main crisis of this phase. This 5 (five) stages GSM can be seen in figure below:

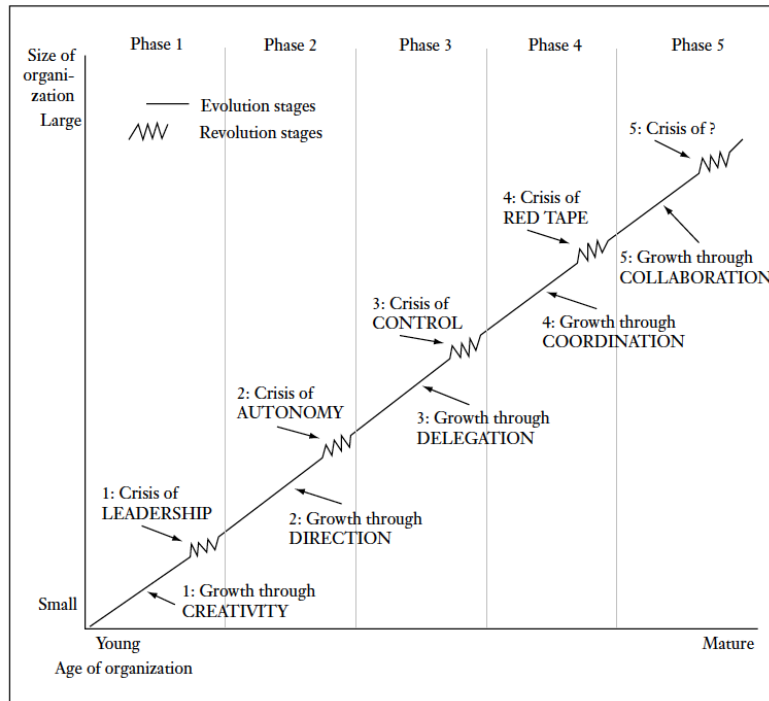


Figure 2. 5 Phases of GSM (Greiner, Evolution and Revolution as Organisations Grow: A Company's past has clues for management that are critical to future success, 1972)

Model above also presents evolution and revolution stage for the business evolution stage involves the course of the business and revolution stage involves the crises faced in those courses. Apart of presenting the developed model, the article also propose the organization practice of those 5 (five) phases as can see in figure below:

Category	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Management Focus	Make & Sell	Efficiency of Operations	Expansion of Market	Consolidation of Organization	Problem Solving & Innovation
Organization Structure	Informal	Centralized & Functional	Decentralized & Geographical	Line-staff & Product Groups	Matrix of Teams
Top Management Style	Individualistic & Entrepreneurial	Directive	Delegative	Watchdog	Participative
Control Systems	Market Results	Standards & Cost Centers	Reports & Profit Centers	Plans & Investment Centers	Mutual Goal Setting
Management Reward Emphasis	Ownership	Salary & Merit Increases	Individual Bonus	Profit Sharing & Stock Options	Team Bonus

Figure 3. Organization practice during the 5 (five) phases of GSM (Greiner, Evolution and Revolution as Organisations Grow: A Company's past has clues for management that are critical to future success, 1972)

Above figure can be a suitable guidance especially for small business owners to fit their activity to the phase they are dealing. At last, as closing statement of the article, authors suggested that every small business owners has to be aware with their own growth phase, they have to recognize the solution and finally, they have to realize that all solutions taken either for big or small problem will create another new problems.

2.3. The(5) five stages of small business growth by Neil Churchill and Virginia Lewis (1983)

This research argued previous model by claiming that size of the business and stage of growth is inappropriate for small business. the authors provided 3 (three) main reasons behind their statement. Based on the authors, the previous model underline that businesses have to grow or die, it does not provide another option. Secondly, the previous model does not emphasize the importance of early stages in company's growth. Lastly, the previous model only use annual sales as measurement tool without considering value added, complexity of the product offered, technology, and number of locations. Below is the figure of the model:

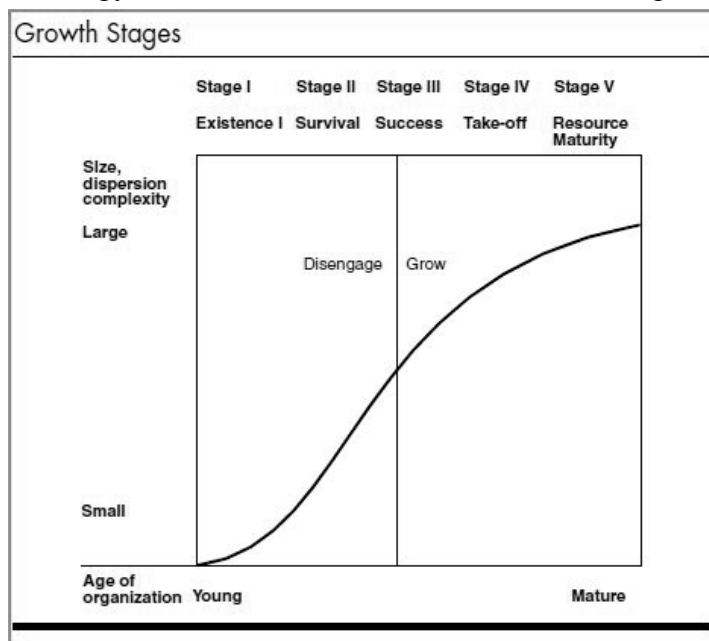


Figure 4. Five stages of small business growth (Churchill & Lewis, 1983)

As illustrated in figure 4, the authors suggested a different approach in GSM by combining the managerial style, structure of the organization, formal system, main strategic goals, and founders/owners involvement in the business. Alike the prior model, this one has 5(stages) as well. First stage is existence stage where the major concentration is for obtaining more customers and delivering product/service to the customers. First stage identically with a very simple organization where the owner does everything. The core strategy run in the company is simply remain alive. The company has not considered formal system and planning yet.

Stage 2 of this model called survival stage, where the business condition slightly increases due to the enhancing number of customers, in spite of the modest organization and limited number of employees. Some issues appear in this stage include: how to generate more money to reach BEP (Break Even Point) and how to generate more money to stay in the industry.

Move forward to stage 3, this stage named success stage, where company start to actualize explore and exploit strategy within company. Explore means company tries to expand its business both in its scope and scale and exploit means company tries to employ its resource to the maximum, it includes human resource, capital, asset and else. the authors divide this stage into 2 (two) sub stages which are: success-disengagement sub stage and success-growth sub stage.

Following to stage 4 or take-off stage. As a stepping stone to the stage 5, take-off stage prepares the company to shift from SMEs to LOs. Significant issue includes how to rapidly grow the business and how to finance it. Hence, there are 2(two) important elements need to be solved in this stage such as: delegation and cash. The founders have to decide to delegate the responsibility appropriately. On the other hand, they have to manage the cash by keeping the cash flow in order and decreasing the inadequate expenses.

Lastly, the highest position of company growth-stage 5 of the model or called as resource maturity stage. The management becomes more systematic and professional. Company gains advantages from its rapid growth and use more tools in maintaining its position in the industry. The only obstacle faced in this stage is the threat of lack innovative decision within company that hinder them from move forward.

Completing the research, authors also provide an illustration to show the characteristics of SMEs at every stage of their growth or development as shown below:

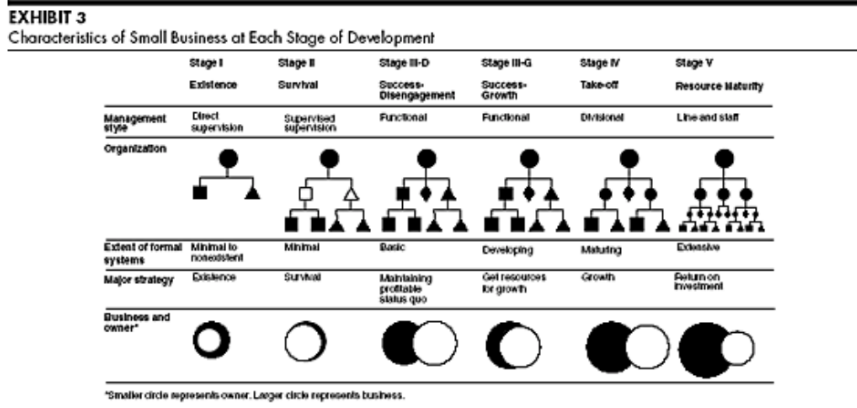


Figure 5. SMEs Characteristics (Churchill & Lewis, 1983)

Based on the figure above, it is clearly confirmed that SMEs development move forward through the stages they passed as seen in SMEs organization that getting richer through time, as well the strategy, system and the owners position in the business. closing their research, authors stated 8 (eight) key management factors in order to pursue company's growth and development. They are: financial resource, personal resource, system resource, business resource, owner's goals, owner's operational abilities, owner's managerial and strategic skill.

2.4 The 5(five) stages of growth in Small Business by Scott and Bruce (1987)

As a response of the previous model by Greiner (1972), argued that the GSM should be shifted in 2 (two) ways. However, before discuss more about that, this part will give a short brief about the article. This article aims to enable small business' founders/manager to plan their upcoming growth. The article also added the ambition of entrepreneurs/founders of the business may impact the business survival. The authors also stated that their proposed model is actually only a diagnostic tool to assist the decision making process within company, not the decision itself.

By this research, the authors found out that there is a need of changing the shape of the curve from straight line into curve line based on the business real condition. Secondly, the raising importance of each crisis that may bring the company down. Hence, the proposed model will be as shown:

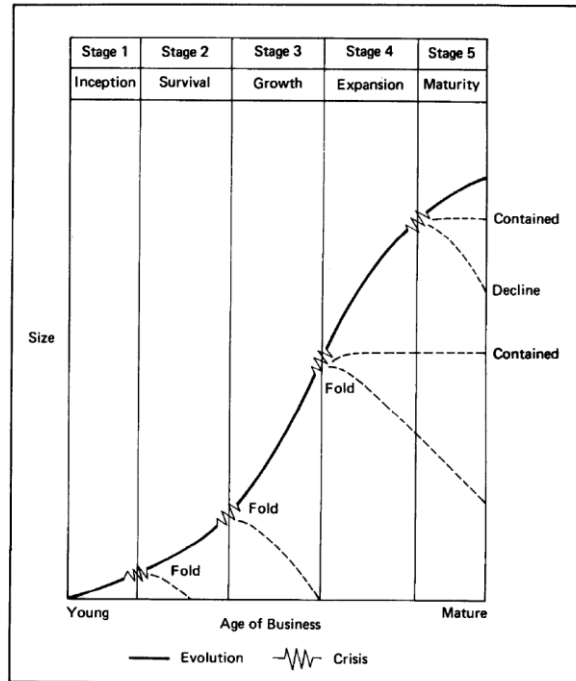


Figure 6. GSM Extended version (Scott & Bruce, Five Stages of Growth in Small Business, 1987)

As seen in figure above, apart of the difference in curve shape and crisis emphasizing, the model also establish a certain name of each growth stage from inception, survival, growth, expansion to maturity. Aside from that, it is clearly stated about business condition every time it encounters crisis. In the end, two variables used as the measurement are size of the company and the age of business.

To begin with, stage 1 or inception stage is specified by the value of the founders when they started the business. This is a one man show business with a single product, limited market and high level of uncertainty. The crisis confront in this stage include profit generation - the condition when business start to maximize profit to survive, administrative demand - the condition when business start to formally administrate all their record and system, and the escalation of activity and demands - more product, more sales, more customers make business need to enlarge their management style and organization structure to cope with all the demands.

Next, stage 2 or survival stage. This stage is indicated by the entrance of new competitors due to the attractiveness of the business run by the company. Company in this stage normally still sell one single product with larger market but still find difficulties in the market expansion. Crisis dealt in this stage such as: overtrading - the condition when the product/service offered by company

fascinate a lot of customers and the growth escalates quickly. If the company cannot control its growth, it will find the business collapse in no time. Another crisis comes from the expanding of distribution channels due to company's wish to develop its market. Founders/top management of the business have to aware that operating in different location/city/country requires different approach as well. When they do not consider about it since the beginning, they will just burn their money for nothing. The final crisis in this stage involves strategy reconsideration in the basis of competition. The tightness of the competition in the industry become the main reason why company has to reconsidering its strategy especially marketing strategy.

The following stage is stage 3 or growth stage. Company in this stage has experienced profit increasing and market penetration. During this condition, bigger crisis need to be overcome, simply and solely the entrance of the LOs in the industry. This crisis will be entirely faced by all SMEs, again, due to the attractiveness of the business and industry they are in. LOs with all their advantages in capital, distribution, scope and scale will use all their dominance to market the similar product/service with the cheaper price and larger distribution channel. They most likely will use economic of scale strategy as their powerful weapon. Next crisis relates to the necessity to expand into new market or new product/service. Answering the previous crisis, company has to expand its market or product/service to gain more revenue and spread the risk. However, the way itself is somewhat challenging to the business and need a lot of resources in its execution.

Stage 4 of this model called expansion stage, where formal system has been applied to mostly all activities within business. With the enlarging scope of the business, company politics start to take place for the first time. If the company is not managed properly, it will drag back to previous stage. There are 2 (two) crises arise in this stage. Firstly, top management is not the actor anymore. It means that all activities will be executed by the lower level manager, supervisor and employees and leave the top management only as a watch dog. Secondly, concentrate to external focus. At this time, company has to go out of its shell and research more to what customers want and needs. Product will adapt to customer needs. Lastly, final stage of this model is stage 5 or maturity stage. Company in this stage is ready to jump from being a SMEs to be LOs.

2.5 The 6(six) stages of growth in Small Business by Storey and Greene (2010)

The most update growth stage model comes from Storey and Greene (2010) that delivered 6 (six) stages of GSM. Alike the other authors in this article, Storey and Greene also argued the model presented by Greiner (1972). They stated that the previous model at least carried 6 (six) important limitations, include: instead of growth, the reality faced by SMEs is actually early closure. Next, SMEs and entrepreneurs are heterogeneous, hence there is no general

model to fit all conditions. The always upward curve in previous model, also become one limitation based on the authors because the life of the business is not climbing up only but shrinking and going down become habitual in a business. Number of stages and number of crisis are also consideration from the authors. Lastly, the model failed to discuss the networking value between management team and management culture which is significant to business growth.

Hence, authors tried to deliver another extended model to complete the GSM, as seen in figure below:

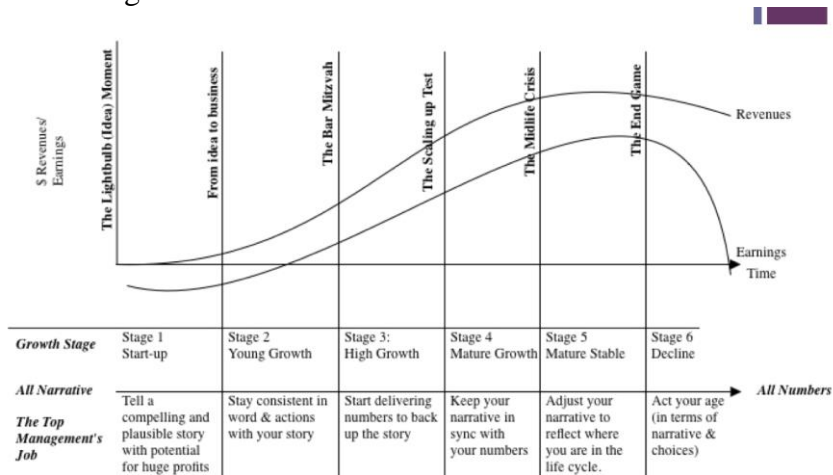


Figure 8. 6 (six) stages of GSM (Storey & Greene, Small Business and Entrepreneurship, 2010)

The model suggested that instead of 5 (five), business will pass through 6 (stages) where declining market is the last stage as it is a reality faced by all business and entrepreneurs. This GSM seems to summary and synthesize the prior models starting by putting grow stage in the model, include the top management's job per stage, strategy and condition faced in each stage and finally, insert revenue and earning time in the model and successfully give a value added to this model.

As a reflection to the former model, this GSM pays a carefully attention to the early stage business and place the earning time below the line to indicate that business still cannot make any income in stage 1 due to all obstacles and strategy run by company. On the other hand, harvesting time for the business based on this model is in stage 5. However, in the same time, this stage encounter one of the biggest crisis among all. Feeling too save is the major problem revealed by the authors, by feeling to save with their condition, company do not even think to innovate and in the end, other company will take their place and seize their market. this reality is not only dealt by small business, a lot of LOs have

experienced this moment and eventually bring them down, dieor being sold to other company. Nokia is a famous example for this, when its market seized by smart phone like Samsung and Apple when they felt on top with all of their saleable products in the market (Surowiecki, 2013).

2.6 Modern SMEs and its effect to their growth stage model

The shifting of SMEs way in doing business is highly experienced since the rapid change in technology maximizing in business where technology especially Internet of Things (IoT) presents in every layer of the business. Both customers and business depend their daily activities to the technology and IoT which make that intangible element becomes significant for all parties, finally bring world society to new era which is called Industrial Revolution 4.0 era.

Relates it to the business and product, both life cycles are effected severely. Nagy et al (2018) stated that since the 4.0 era, businesses quickly redirect themselves to network integration, data analysis and technology to improve the company development (Nagy, Olah, Erdei, Mate, & Pop, 2018). This is not happening only for LOs but SMEs as well, at least for both businesses 4.0 era change the way of the business, what to sell and their growth stage or life cycle.

From doing conventional business in mechanical era (as well-known as Industrial 1.0) to machinery era in industrial 2.0 to finally fully digitalized recently, complexity of doing business varies, human resources needed decrease from having permanent employees to outsource or having an associate business and disruption technology causes lower cost, large network and integration (Howard, 2018). Following to that, industrial 4.0 leads the transition from product based business to service based business. Nowadays, we can easily find a successful business that do not have any product at all. We are talking about you, Facebook, Amazon, Ebay and else. What these businesses do is only connecting the seller to the buyer. As simple as that, but they are positioned in top valuable brand in the world until last year (Forbes, 2019).

However, we still can easily find conventional SMEs in this world whose still use the conventional GSM as Scoot and Bruce (1987) proposed. Hence, it will be normal that most SMEs will not survive in this modern world where Information Technology (IT) and IoT play a major role in industry that cause the shifting of the way of the business. There are some factors affect the product life cycle and surely GSM, they are:

1. Uncertainty. Lead by IoT development, uncertainty change the business environment from normal and predicted ones become unstructured and uncertain.
2. Change. Changing paradigm from company value to customers value. In customer value focus, product sold must have the best value of the product they used. Thus, companies start to make substitute product to

facilitate the customers to find the best product and provide the best value product in the market.

3. Continuous improvement. IoT and industrial 4.0 create new paradigm that improvement can be happened anywhere and anytime. Company focus turns to proactive system that consider any opportunities or potential opportunities either it will make small or big improvement.

Finally, recent literatures recorded that industrial 4.0 especially due to the technology disruption has shorten the product life style and in the same time cut down the growth stage of a business (Lasi, Fattke, Feld, & Hoffman, 2014), (Schimid, et al., 2016), (Khasali, Disruption, 2017). In fact, industrial 4.0 does not only provide easiness to business, in the other hand, it started to kill the traditional way of business, as well the common cycles and stages business commit so far.

Khasali (2017) stated that due to the multitude numbers of replacement products in the market, less business reach mature growth and/or mature stable. Addition to that, this article argues that most modern business are stuck in stage 3 of growth and directly jump to decline market due to the rapid innovation caused from technology development and integration.

3. Conclusion

The development of growth stage model especially for SMEs is evolving over time. The complexity of business and changing in the world lead rapid change to business both in the way of doing business and the business sustainability. Starting in 1969 with a highly modest model which have only 4 (four) stages, GSM develops to 5 (five) stages and finally the current model presents 6 (six) stages of business growth. In each development, each GSM model delivers different approach in completing the literatures at least at that time. These approaches cover the management approach, critical phases, evolution and revolution of the business to revenue and earning time.

4. The Development

Industrial revolution 4.0 carries a novelty approach specifically decreasing complexity in the business. However, industrial 4.0 potentially kills a lot of business and has been proven in cutting down the age of a business, as well the product life cycle. This article tries to deliver the novel GSM as the effect of industrial 4.0. Below is the proposed model:

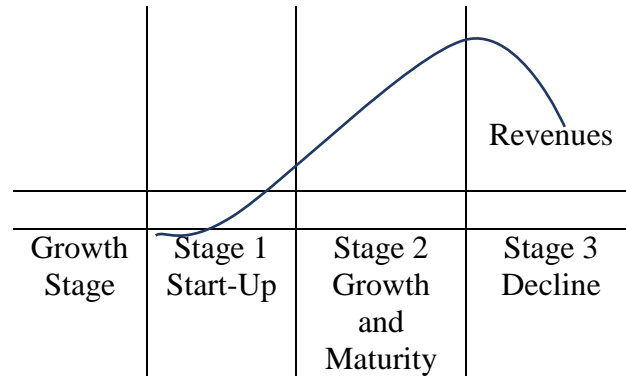


Figure 9. The 4.0 Growth Stage Model

This article proposed a modern GSM as an answer of 4.0 era where previously stated that eventually change the face of the business as well the way of doing it. The model indicates that modern business will have shorter growth stage than the business years ago. The product or service will also be replaced easily to the more innovative and sophisticated ones. Thus, businesses will still experience start-up phase as they start their business. Survival stage will be happening in stage 2 (two) alike the other model presented in this article where business struggles to maintain their position in the industry and in the same time, seek to get more income, increase sales and expand the market. this stage will be recognized as young growth stage. The highest position in this GSM is in stage 3 (three) where business reaches the peak point and it achieves the highest income ever.

However, the growth will stuck to that point. Businesses are forced to reconstruct by creating new product or establish a completely new business in order to get the owners (in this case, entrepreneurs) stay to the business world.

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