



**THE RELATIONSHIP BETWEEN INDUSTRY LIFE CYCLES,  
COMPETITIVE STRATEGIES AND SMALL FIRM PERFORMANCE**

**(CASE STUDY)**

**SMALL SERVICE FIRMS IN PADANG**

A Thesis Draft for the Bachelor's Degree

by

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**The Relationship between Industry Life Cycle, Competitive Strategy and Small Firm Performance  
A Case Study : Small Service Firms in Padang**

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**ABSTRACT**

The objective of this research is to examine the relationship between industry life cycle, competitive strategy and small firm performance of small service firms in Padang. The data used for this research is primary data which collected by field survey from the owner of small service firms in Padang. The amount of sample used is 132 respondents. Dependent variable for this research is small firm financial performance and independent variable for this research is Industry life cycle which consisted of introduction stage, growth stage, maturity stage and decline stage. Competitive strategy is mediating (intervening variable) both relationship. The results show that growth stage and maturity stage influence firm financial performance significantly. While, introduction stage and decline stage do not influence firm financial performance. Then, competitive strategy mediates relationship between growth stage and firm financial performance partially and it also mediates relationship between maturity stage and firm financial performance fully. The research implication is discussed more in this thesis.

Skrripsi ini telah dipertahankan di depan sidang penguji dan dinyatakan lulus pada tanggal: 15 Juli 2009.

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## CHAPTER I

### INTRODUCTION

#### 1.1 Background of the Research

Small Enterprise is one of force power for economic growth. Its movement is significant to create growth and Job's vacancy faster. Small Enterprise is also flexible enough, adaptable with market demand fluctuation, diversified, and could give significant contribution for national economic growth.

In Padang, Small Enterprise becomes one of living source of society. Based on data Economy Survey 2006 of BPS (Badan Pusat Statistik) of West Sumatra, there are 18.634 small enterprises spreading in form of various business sectors in Padang or approximately 25.04% of total small enterprise in west-Sumatra. This amount of enterprise could absorb labor for 57,791 peoples or approximately 27, 67% of the total labors are absorbed by small enterprise in west-Sumatra.

BPS(2006) categories business sectors included small enterprise in some business categories, namely Mining and Digging (C), Processing Industry (D), Electricity, Gas and Water (E), Construction (F), Wholesaler and Retailer (G), Accommodations and Food Beverage (H), Transportation, Warehousing and Communication (I), Financial Agent (J), Real Estate, Rent service (K), Educational Service (M), Health Service and Social Activity (N), Societal service, Social & Culture, Entertainment and Sole proprietorship (O) and Sole proprietorship service for household (P).

Then based on data from Dinas Perindustrian, Perdagangan, Pertambangan dan Energi (DISPERINDAGTAMBEN) Padang (2008) in file growth of business units, start from 2002 to 2008, there was an increasing of the number of small enterprises in Padang about 4 to 5 % per year. By increasing of the number of small enterprise every year, it signs competition in this sector become fiercer currently. For keeping growth and exist in facing competition, an enterprise must have competitive strategy in order to differentiate their business with competitor then can achieve firm superior performance.

In business movement, Industries experience a similar cycle of life. Just as a person is born, grows, matures, and eventually experiences decline and ultimately death, so too do industries. The stages are the same for all industries, yet industries cycle through the stages in various lengths of time. Even within the same industry, various firms may be at different life cycle stages. Strategies of a firm as well as of competitors vary depending on the stage of the life cycle. Some industries even find new uses for declining products, thus extending the life cycle. Others send products abroad in hopes of extending their life (Encyclopedia of Small Business, 2nd ed., 2002)

In each stage of an industry's life cycle, companies seeking to outperform their competitors face the challenge of selecting the most effective competitive strategy. Competitive environments and firms' performance objectives may vary considerably across industry life cycle stages. Thus, competitive strategies that perform the best may also differ. For example, firms competing in the introduction stage face a high degree of uncertainty as to who their competitors and target customers are and the amount and nature of demand for their products.

## CHAPTER V

### CONCLUSION, LIMITATION, AND RECOMMENDATION

#### 5.1 Conclusion of the Research

According to the data analysis and the result performed within this research, writer concludes that the research is conducted to observe the relationship between industry life cycles and firm financial performances which is mediated by competitive strategy. The respondents are the owner of small service firms in Padang. From 132 respondents is found that most of the respondents are in societal service, culture and entertainment business sector. The most level of firm age < 5 years old. Most of the respondents are in growth stage of life cycle and emphasize low cost strategy.

Result of hypotheses testing using multiple regression analysis shows Industry life cycle significantly influences firm financial performance. Partially, Growth stage and Maturity stage influence firm financial performance. Then, Industry life cycle significantly influences competitive strategies. Partially, all dimension variable of Industry life cycle significantly influence firm financial performance

Result of hypothesis testing using simple regression analysis found that Competitive strategy significantly influences firm financial performance. Furthermore the result of hierarchical regression to test mediation function of competitive strategy are found that competitive strategy mediates relationship between Industry life cycles and firm financial performance. It found that first, competitive strategy mediates (partial mediation) relationship between growth

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