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Understanding Small and Medium Enterprises (SMEs) Growth: a compendium literature review and standpoints of studies

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ABSTRACT

The desire to grow is the sole channel through which Small and Medium Enterprises (SMEs) can become big organizations. SME growth is vital for its survival and subsequent expansion. This present paper made attempt to identify the understanding of SME growth issues captured in the prior related literature and standpoint of further studies. A thorough literature review was undertaken to outline issues surrounding firm growth in accordance with the definitions of growth, theoretical perspectives of growth focused on RBV the most authoritative growth theory, measurements of growth, stages of growth, determinants of growth and finally constraints to growth.

Key Words: *Growth, Resource-based view, Small and Medium Enterprises and SME Growth*

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I. Introduction

SME growth is one of the most crucial demonstration of entrepreneurial behaviour (Dividsson et al. 2010). Entrepreneurship has placed growth at the hub of firm enquiry (Steffens et al. 2009). Prior scholarly studies have revealed that growth of SMEs are anticipated to combat the growing unemployment and development challenges in the near future (Storey 1994; Delmer et al. 2003; Coad, 2007). Amini (2004) suggests that SME growth is imperative for creating national wealth and generating jobs. Notably, SME growth is closely linked with employment (Coad et al. 2013). The desire for growth is the only medium through which SMEs can become big organisations. The issues of SMEs growth have been extensively examined within the entrepreneurship. However, one critical issue that often comes out is that most SMEs do not grow during their life span (Dividsson et al. 2010; Mckelvie and Wiklund, 2010). For instance, the mortality rate of new SMEs particularly in developing countries stand at 5 out of 7 new SMEs collapsed within the first year of establishment (Adcorp, 2014). Also, the phenomenon of SME growth demands further studies since there is uncleared argument about the measurement of growth. The prior literature has reported various divergent growth measurements (Delmer et al. 2003; Coad, 2007). Additionally, a comprehensive study conducted by Achtenhagen et al. (2010) identify 56

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published articles of growth, majority of which geared toward the explanation of growth as outcome variable. Others explained growth strategies, growth decisions, growth processes and growth intentions. Few of the articles however studied growth stages and constraints. Notwithstanding, another justification for more research into SMEs growth surface on the theoretical grounds. Thus theories used to explain large scale firm growth cannot be adopted for the same phenomenon in SMEs (Dividsson et al. 2010). The debate on growth theories is still unresolved approaching several directions intruding on growth determinants factors and constraints and explication models. Nonetheless, academic researchers must still undertake further studies to interpret whether owner-mangers of SMEs take resolutions to further or not to further their business growth (Wright and Stigliani, 2012).

The present paper attempts to discuss SME growth. Followed by the various theoretical perspectives with emphasis on RBV the most authoritative growth theory. The next section of the paper highlights the other factors of growth focussing on growth measurement, stages of growth, determinants of growth and growth constraints. However, this paper identifies the scope of SME growth published in the related prior studies and points out the standpoint for future analysis.

II. Growth definition

It is argued that as a firm gets older it is generally expected to increase in both economic and financial variables which include firm size, number of workers, sales, profit and assets (Delmar et al. 2003; Coad, 2007). Firm growth is neither irresistible nor inevitable. According to Penrose (2006) a firm growth is the product of an internal process in the development of an enterprise and increase in quality and expansion. In a sharp contrast, Dobbs and Hamilton (2007) argue that firm growth is a changed in size during a determined time span. Similarly, Achtenhagen et al. (2010) conduct research into entrepreneur's ideas on business growth and revealed the following findings: increase in profit, sales, assets, firm's value, number of employees and internal development. However, increase in the number of employees was not necessarily considered as a sign of growth (Achtenhagen et al. 2010). In the same wavelength Brush et al. (2009) define firm growth as "geographical expansion, increase in the number of branches, increase in the number of products and services, inclusion of new markets and clients, fusions and acquisitions." To Nelson and winter (1982) they considered a firm growth as an outcome of careful mixture of firm-specific resources, capabilities and routines within organisational set up. These authors considered a firm growth as social construct factor which largely depends on certain dynamics built by entrepreneurs based on the assessment made on their firms and on the market and other agents involved such as clients and suppliers (Brush et al. 2009). Indeed, most often a firm growth is determined by a remarkable improvement of some parts of the success of an enterprise not limited to but also is an essential indicator of a successful economy (Mckelvie and Wiklund, 2010; Yao Wang, 2016). Firm growth is a complex phenomenon and also influenced by the personal ambition of the entrepreneur. For instance, not every entrepreneur considers growth as an objective of his or her enterprise. A survey in the Netherlands reported that sixteen percent of SMEs owners do not aim to grow (Mosselman et al. 2002).

III. Theoretical perspectives of firm growth

Generally, it is argued that large scale enterprises growth theories are no applicable to the same phenomenon in small businesses (Davidsson et al. 2010). Indeed, various attempts have been made both theoretically and empirically viewpoints to study firm growth. In the dominant view (Gupta et al. 2013; Habib and Yazdanfar, 2016; Wiklund, 1998) four different theoretical standpoints can be adopted to explain firm growth namely: resource-based view, strategic adaptation, motivation and configuration. In another development papers credited (Dobbs and Hamilton, 2007; Coad, 2007; Churchill and Lewis, 1983; Scot and Bruce, 1987) review the most popular approaches to firm growth. These authors explained six growth approaches comprise of stochastic, descriptive, evolutionary, learning, deterministic and resource based-view theory (RBV) based on Penrose's (1959) seminal book "The Theory of the Growth of the Firm." Thus the issue of theoretical determinant of a firm growth is diverse and controversial for common consensus. It is this quest for a prescriptive theory of firm growth that motivates so many studies of this calibre. The difficulty nature of these theories have however led some scholars to interrogate if such an extant theory of firm growth can be developed (Barringer and Jones, 2004; Davidsson et al. 2002). In this regard, RBV is introduced as the most existing growth theory.

The RBV concept was originated by Penrose (1959). Indicating that a firm gains competitive advantage over its competitors through the way firms organize its resources and the competitors cannot duplicate the strategy (Barney and Hesterly, 2012). Referring to RBV the focus is on the firm as a package of resources and the activities it can undertake is contingent on these resources. Therefore it is most suitable to use RBV when studying firm growth and use business activity as the unit of analysis. Growth in this sense would mean expansion of business endeavours made possible by unique combination of resources. RBV provides a comprehensive framework to explain how firms achieve competitive advantage (Shafeey and Trout, 2014). Likewise, Wernerfelt (1984) reports that the internal resources such as assets, finance and capabilities of the organization will determine the success of an organization. Notably, the theory of RBV reached its apex by Barney (1991) when he critically analysed the available potential resources which the firm owned as a prerequisite to obtain a sustainable competitive advantage. Interestingly, if competitors find it challenging to emulate or duplicate the resources, a firm stands to benefit from competitive advantage (Barney and Hesterly, 2012). Nevertheless, RBV theoretical framework has developed four conditions used to determine whether a resource can generate competitive advantage. However, these conditions are that, the resource must be valuable, rare, inimitable, and exploitable by the organization (Coleman et al. 2013). According to Kozlenkova et al. (2013) resources become valuable if they help the firm to minimise costs and maximise revenue. Similarly, Barney and Hesterly (2012) claim that valuable resources are resources that support a firm to minimize external threats and rather exploit or take advantage of external opportunities. Nonetheless, exploiting external opportunities are not significantly enough to accomplish competitive advantage because competitors may imitate or possess the resource (Barney and Hesterly, 2012). Resources that are valuable and rare can lead to attaining competitive advantage. This competitive advantage can be sustained and progressed over time through protection against resources transfer, imitation, and substitution. RBV further argues that valuable, rare, inimitable, and exploitable resources result in competitive advantage, but the firm must have an exceptional infrastructure in place to appreciate the full competitive potential of the resources (Barney and Hesterly, 2012). Hence, organizations constantly attempt to exploit and implement resources that produce competitive advantage. Furthermore, firm's owners are seeking for other sources of competitive advantage that are difficult for competitors to achieve (Shammot, 2014), because they have recognised that most of the traditional ways firms compete are transferable and imitable. Barney and Hesterly (2012) consider resources as the fundamental construct in RBV that denote to things firms draw on to achieve objectives. They further indicate that resources are the inputs that help the daily operations of the organization (Amit and Schoemaker, 2012). Resources could be tangible or intangible and consist of elements that include assets, dynamic capabilities, organizational processes, financial, marketing, firm attributes, information and knowledge which are controlled by a firm that enables the firm to consider and implement strategies to improve their performance (Kozlenkova et al. 2013). Table 01 presents theoretical perspective of firm's growth, different unit of analysis and rankings of their suitability within different theoretical perspectives.

Table 01. Theoretical perspectives of firm growth. Different unit of analysis and rankings of their suitability within different theoretical perspectives

Resource-based view	Strategic Adaptation	Motivation	Configuration
1.Business Activity	1. Governance Structure	1. Individual	1. Governance Structure
2.Individual	2. Activity	2. Activity	2. Activity
3.Governance structure	3. Individual	3. Governance Structure	

Note: within each theoretical perspective the number 1 denotes the most suitable unit of analysis 2 the second most suitable and so on [Davidsson et al. (2006)].

IV. Measuring firm growth

Generally, firm growth can be variously measured (Delmar et al. 2003; Coad, 2007; Achtenhagen et al. 2010; Davidsson et al. 2010). Particularly speaking to satisfy government policy in research firm growth is measured in terms of using increase in employment (Delmer and Davidson, 1997). Policy makers value employment as growth indicator because they consider business growth as a conduit to diminish unemployment. Likewise, firm growth has been measured by increased in sales and turnover

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(Achtenhagen et al. 2010; Rauch and Rijskik, 2013). For instance, Gray (1997) finds SMEs in UK prefer to measure growth in terms of sales or turnover. Further, he argues that SMEs in UK do not use employment as indicator for growth because they regard fresh employees as additional cost instead of investment. Notwithstanding, there are various indicators for measuring firm growth. For example, assets, market share, physical output and profitability (Shepherd and Wiklund, 2009; Achtenhagen et al. 2010; Davidsson et al. 2010). However, employment and sales are mostly used in operationalising growth. The ultimate reasons being that employment and sales are within the interest of policy makers and entrepreneurs respectively. Also, their data are available, accessible and relatively indisputable methodologically (Delmar et al. 2003). Other growth indicators have their shortcomings that can only be used for specific situations. For instance, the use of assets value is highly related to the capital accumulation of the industry and is subjected to change over time (McKelvie and Wiklund, 2010). Prior related studies have extensively used both absolute and relative firm growth indicators in their analysis (Coad, 2007; Davidsson et al. 2010; McKelvie and Wiklund, 2010; Smellborn et al. 1995). However, it is opined that the usage of both absolute and relative measures have great influence on the study outcome. For instance, in the detailed review work conducted by Delmer and Wiklund (2008), absolute indicators appear to support SMEs growth compared to relative indicators. Additionally, some factors found to be positive support to absolute growth have been identified unrelated to growth in relative terms and vice versa (Delmer et al. 2003). Nonetheless, having identified the shortcomings of the application of these growth indicators, it is therefore becomes a big challenge to determine one suitable measure for growth. A blend of different indicators have been reported to result in different findings (Janssen, 2009). For example, Delmer (1997) study both increased in employment and sales and found that the factors affecting employment were not the same factors affecting sales. Conventionally, a firm can grow by increasing sales and employment at the same time but another firm might however increase sales while in the real sense reducing employment. Accordingly, a number of academic studies have underscored the need to use multiple indicators in the study of firm growth (Delmar et al. 2003; Dobbs and Hamilton, 2007; Davidsson et al. 2010). They argued that the use of multiple indicators are most likely to produce a clear and comprehensive model of any empirical correlations and at the same time providing appropriate method to test the robustness of the theoretical model (Delmar et al. 2003). Table 2 depicts the relationship between appropriate growth indicators and their unit of analysis

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Table 2. The relationship between appropriate growth indicators and unit of analysis

Indicators	Individual(s)	Activity (organisation)	Governance Structure
Sales	High suitability	High suitability	High suitability
Employment	Low Suitability	Limited suitability	High suitability
Assets	High suitability	Limited suitability	High suitability

Source: Davidsson et al. (2006).

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V. The five stages of firm growth

Birth stage

The first stage of growth is the birth stage. This stage is also known as existence or the entrepreneurial stage (Churchill and Lewis, 1983) that marks the inception of a firm's development (Quinn and Cameron, 1983). At this stage the business is entirely small, owner oriented and the business environment tends to be friendly and less competitive. Notably, at this stage the primary focus of the firm owner is searching for opportunities and gaps in the existing market to secure and fill. Here the organisational structure is short and simple with centralised administration made up of negligible delegation of authority to subordinates. Additionally, at this stage the firms owner business insight tends to be limited (Oakey, 1984) and the main concern is financing. Clearly, since SMEs are regarded as risky ventures by formal financial institutions like banks they are pushed to depend on other available alternative source of informal external finance such as family and friends and suppliers credit besides the internally generated funds to fill the gap between investment opportunity and internal resources (Quinn and Cameron, 1983). Decision making at this stage is fast because entrepreneurs act base on their own intuition without any tall consultation of other people's views. According to Bedeian (1990) firms at this stage tend to construct their own unique environment.

Growth stage

According to Adizes (1979) and Downs (1967) as firm moves into the growth stage it begins to look for survival, develop some formalization of structures and creates its own idiosyncratic capabilities (Quinn and Cameron, 1983). At this juncture the business now operates under competitive and heterogeneous environment as compare to the birth stage. Business goals are framed regularly. The generation of sufficient capital to continue operations, stay competitive and growth become the prime motive of the enterprise (Churchill and Lewis, 1983). Also, profits are ploughed back into the business for more growth prospects at this stage. Interestingly, the growth stage exhibits numerous exciting manifestations. Thus, some firms grow rapidly and thrive to enter the next stage, some hit and miss in action and rather turn back to birth stage. However, at this stage strategy changes to innovation and early diversification instead of a niche strategy focused.

Maturity stage

The maturity stage is also referred to as the success stage (Churchill and Lewis, 1983). Firm in this stage consider control and formalization through bureaucracy as customs (Quinn and Cameron, 1983). Generally, in this stage there are formal relationship among policies and procedures, hierarchical reporting, and job descriptions. Further, the structure of the firm becomes more centralised and less delegation of authority compared to the growth stage. However, the top management team concentrates on long term strategy and planning, leaving daily operations to middle managers. SMEs that find themselves in this stage have passed the survival test and now concentrating on guarding what they have achieved instead of aiming new territory. Notably, there is a common setback at this stage of growth called “red tape” (Miller and Friesen, 1984). Thus a circumstance of walking through hierarchical and bureaucratic structures of the organization before getting anything accomplished. At this stage of growth cycle if proper plans and strategies are not crafted and well implemented there is high possibility for the firm to escape the revival stage and abruptly enter into the decline level.

Revival stage

Relatively speaking firms in the revival stage are the largest in size and have greatest disseminated ownership than in the maturity stage. At this stage divisional structures have been created and divisional heads have been appointed mandated with authority and power to manage their own divisions and are held answerable to their performance (Miller and Friesen, 1984). Notwithstanding, at this stage the firm finds itself in a hostile and dynamic environment where high level of heterogeneity and decision-making process takes different dimension which is more analytical, more participative and cohesive to diminish the level of risk involved (Miller and Friesen, 1984; Adizes, 1979). Instructively, workers are encouraged to work within the confines of the bureaucratic system without addition. The needs of customers are prioritized above those of organizational members. SMEs at this stage focus on strategies, follow extensive diversification and major innovation which lead to a broader range of products compared to the maturity stage. The revival stage of growth is the safest point where firms stay for their last time before entering into the decline stage for their ultimate demise (Donald et al. 2008).

Table 3. Management role and style in the five stages of small firm growth

Stages	Top management role	Management style	Organisation structure
Birth	Direct supervision	Entrepreneurial, Individualistic	Unstructured
Growth	Supervised Supervision	Entrepreneurial, administrative	Simple
Maturity	Delegation coordination	Entrepreneurial, co-	
ordinate	Functional, centralized		
Revival	Decentralization	Professional, administrative	Functional, decentralized

Source: Scott and Bruce (1987).

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Decline stage

Although firms are likely to exit the growth life cycle at any specific stage. However, the decline stage is predictably earmarked to trigger their final demise. This stage is regarded as the most defenceless stage and characterized by politics and powers (Mintzberg, 1984). Notably, firms in this stage are exceptionally conservative and less likely to engage in innovations because failure of any product line could lead to the final collapse of the business (Flamholtz, 1986). Overtime, entrepreneurs become more concern with personal goals than they are with business goals. Here, the structure is typically centralised while ownership is firmly held. Likewise, power to make decisive decisions are centred in the hands of top management, and decision-making tends to be short-term oriented. According to Donald et al. (2008) if a firm could not stay at this stage for the rest of its life span on the growth life cycle then it ceases to exist. Table 3 indicates the management role and style in the five-stage model of a firm growth.

VI. Determinants of firm growth

Recently there continuous to be substantial empirical research on determinants of growth. Growth is perceived to be the resultant effect of good leveraging of resources. These resources include business capacities, acquired information, and financial resources (Coad et al. 2013). Nonetheless, there are many determinants like entrepreneur characteristic, access to financial resources and manpower which affect SMEs growth and dichotomised it from non-growing SMEs. It is argued by many scholars that firm growth is one of the major decisions taken by the entrepreneur. Thus where to grow domestic market or foreign market, how to grow internally or externally and when to grow present or future (Lumpkin and Dess, 1996; Freel and Robson, 2004). Therefore, the entrepreneur's competence to get involved in the growth network is highly recommended (Davidsson et al. 2010). Equally, there are several theories that addressed many variables underlying growth of SMEs. One theory identified SME age and size as influential factors that determine growth (Evans 1987; Heshmati, 2001; Moore and Testa, 2008). Additionally, Mateev and Anastatov (2010) indicate that SME growth is associated with size as well as other specific features like productivity and financial structure. The other theory deals with factors such as the organisation, strategy and characteristics of owner-manager (e.g. Lorunka et al. 2011; Fazzari et al. 1988; Lumpkin and Dess, 1996; Freel and Robson, 2004). Several classifications of determinants of growth have surfaced in the academic literature. For instance, Storey (1994) in his detailed review work identified three growth determinants namely: entrepreneur, firm and strategy. Similarly, Buem et al. (2001) classify determinants of growth into three different dimensions namely individual, organizational and environmental dimensions. Contrastingly, Smallbone and Wyer (2000) also categorised firm growth determinants into four classifications namely, management strategies, entrepreneur characteristics, environmental and industry specific factors and firm characteristics. While Wiklund et al. (2009) employ an integrated model and explained SME growth associating the variables into three classifications: the agent (entrepreneur), firm (organisation) and setting (environment). Table 4 illustrates the detail determinant factors of SME growth.

Table 4. Determinant factors of growth

The Entrepreneur	The Organisation	The Environment
Education and level of experience	Firm size	Market and demand-supply conditions
Experience in the sector	Firm age	Dynamism of the sector and entrance impairments
Experience with other enterprises	Choice of site	Investor and venture capital
Previous successful experiences	Learning and experience	Technology transfer
Rank in personal carrier	Mission and commitment of the firm with regard to growth	Availability and access to facility resources
Insertion of social networks	Innovation and development in products and service	Availability of human resources and prime matter
Age	Hiring experts and counsellors	Importance of stakeholders
Fear of being a failure	Development of management competence	Importance of family ties
Personal aim and internal locus of control	Strategies of financial and human resources	Network, alliance and firms network

Growth aspiration and previous growth aspirations	Marketing strategies	Public policies and national or local support policies to enterprises
Motivation to grow in normal enterprises	Network and joint venture with suppliers	
Growth intentions	Export and internationalisation	
Growth expectations	Business format	
Equilibrium between labour and family	Fusion, acquisition, joint ventures and strategic alliances	

Source: Machado H.P.V (2016).

VII. Constraints to firm growth

Although, the aforementioned determinants generally stimulate growth. However, there are other factors that militate against growth prospects (Davidsson et al. 2010). Several past scholarly research have been conducted indicating the factors that affect growth (Muhammad et al. 2010; Samad, 2007; Abu-Bakar et al. 2006). These factors that impede growth include but not limited to the following: recession, lack of financial management, lack of managerial skills, lack of sources of finance, barrier from global sourcing, lack of technology, stringent regulatory burden, public corruption, lack of infrastructure, poor business development and poor location of business (Shakantu et al. 2007; Jones and Tilley 2003). In support of these assertions Krasniqi (2007) investigates into the barriers to growth of SMEs in Kosovo by conducting a survey research. It was found out that the growth of SMEs in Kosovo is drastically diminished by the presence of business environmental barriers such as unfair competition, tax burden, and inadequate financing. Furthermore, Anesta et al. (2004) and Ejembi and Ogiji (2007) discover that poor infrastructure hinders SMEs growth. Poor infrastructure includes erratic power supply, poor communication system, bad roads, and inadequate water supplies. Likewise, Bowen et al. (2009) support the claim that infrastructure as it relies on the provision of water and sewage, access roads, adequate power, and telecommunication services, poses a serious constraints to SMEs growth. Contrary, Jones and Tilley (2003) and Chong (2008) describe lack of information and communication technology can limit customer satisfaction and extremely affect SMEs growth. Again, it is noted that poor inventory control system greatly affects growth. This occurs because most SMEs do not provide no special promotions, they do not have daily contact with customers, change prices and lack new product features (Longenecker et al. 2012; Anesta et al. 2004). Kyophilavong (2011) conduct a survey to identify constraints to SMEs growth in Laos. The survey reported that sources of finance advance SMEs' performance. But Laos SMEs face various financial constraints such as business plan, rigid collateral demand, complex application processes, asset ownership and as well as limited economic environment. Additionally, Ejembi and Ogiji (2007), Jones and Tilley (2003), Thornhill and Amit (2003) argue that it become problematic to witness SMEs growth if their finances are not readily available or not well managed. In line with this, Bowen et al. (2009) confirm and support that SMEs growth are absolutely constrained if reliable and available finance sources are not in existence. Likewise, Alam et al. (2011) research on Malaysia SMEs and found that financial barriers have the most negative impact on their growth. In another survey by Okpara and Wynn (2007) in Nigeria discovered several factors that are accountable for SMEs failure in Nigeria. These factors comprise of lack of financial support, lack of management experience, corruption, inadequate of infrastructure, lack of training and inadequate record keeping. Similarly, Mambula (2002) reports lack of financing and regulatory issues such as government policies and attitudes of public officials and corruption adversely affect SME growth. Arguably, much have been written on constraints to SMEs growth in the literature. However, the most predominate constraint to growth commonly addressed in the literature is lack of financing.

VIII. Conclusion

This paper is about compendium literature survey work on SMEs growth, indicating that growth is a complex topical issue that demands further and better enquiry. The various related studies opined the extent of how growth issue has been analysed from different perspectives with reference to theoretical standpoints, determinant and consequence factors. Nonetheless, theories and unit of analysis may contribute towards growth and may consists of RBV (business activity, individual and governance structure), strategic adaptation (governance structure, business activity and individual activity), motivation (individual activity, and governance structure) and configuration (governance structure and

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business activity). However, the analysis of determinant factors of growth underscored a comprehensive entrepreneur, organisation and environment characteristics that may positively influence growth. Additionally, the analysis of growth factors with reference to measurement suggests that there is no consensus in measuring growth. Conventionally, growth is measured by the use of increase in sales and number of workers. Other scholars also used growth measures such as profit, assets and geographical expansion. Nevertheless, multiple growth measure is most likely to produce clear and appropriate measurement. In spite of the number of studies on firm growth stage models comprising of three-stage model, four-stage model and five-stage model. However, the five-stage model is classified as the most suitable model for SMEs (Hanks, 1990; Lester et al. 2003; Miller and Friesen, 1984). Arguably, much have been written on constraints to SMEs growth in the literature including poor location, lack of sources of finance, poor infrastructure, lack of information, lack of technology, inadequate managerial skills of entrepreneurs, inventory control system, environmental factors, institutional factors and corruption. However, the most predominate constraint to growth commonly addressed in the literature is lack of finance (Okpara and Wynn, 2007; Davidsson et al. 2010). Regardless of the heterogeneity and idiosyncratic nature of firm growth, studies conducted by most scholars indicated that there is a noticeable dearth of empirical studies on growth incident on difference methods that take into consideration variety of owner-managers and different context. Additionally, growth should be looked at from different perspectives of study instead of the conventional economic rationality (Seifert and Vizeu, 2015). Hence, lack of documentation on growth phenomenon with reference to Ghanaian SMEs was one of the major shortcomings in this current enquiry.

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