

# DETERMINANTS OF THE GROWTH OF SMALL AND MEDIUM ENTERPRISES

*Determinanty rastu malých a stredných podnikov*

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## ABSTRAKT

Malé a stredné podniky (MSP) majú významný podiel na výkonnosti národného hospodárstva a ešte väčší podiel na celkovom počte podnikov vo vyspelých aj rozvojových krajinách. MSP sú pomerne zraniteľné vzhľadom na svoju veľkosť a pravdepodobne najzdravším spôsobom, ako prežiť, je udržateľný rast. Kvalitatívny terénny výskum sa uskutočnil na vzorke 146 MSP. Zdrojom poznatkov o skúmaných MSP sú osobné skúsenosti a vyjadrenia zaznamenané v dotazníku. Najdôležitejším vonkajším determinantom rastu MSP je dopyt, ktorý výrazne prevyšuje ostatné externé akcelerátory rastu. Najdôležitejším vnútorným determinantom rastu MSP je spokojnosť zamestnancov, no nemožno opomenúť podiel interných inovácií, ambície zamestnancov a dostatok zdrojov. Najvýznamnejšou vonkajšou prekážkou rastu MSP je konkurencia a pomerne významnou prekážkou rastu sú ceny vstupov. Najvýznamnejšou vnútornou prekážkou rastu MSP je nedostatok pracovnej sily a jej fluktuácia, rastu bráni aj nedostatok prevádzkových financií a kapitálu. Najrýchlejšie rastúce firmy vo vzorke sú viac poháňané inováciami ako zvyšok vzorky a ich rýchly rast vytvára ešte väčší nedostatok pracovnej sily ako zvyšok vzorky. Získané poznatky môžu byť vodítkom pre rozširovanie identifikovaných rastových akceleratorov a tlmenie alebo odstraňovanie rastových prekážok. Empirický kvalitatívny výskum MSP priniesol originálne výsledky, pretože nedefinoval explicitné predstavy o raste MSP a nepredpisoval respondentom kognitívne usmernenia a hranice.

**Kľúčové slová:** Malé a stredné podniky (MSP). Rast. Akceleratori rastu. Prekážky rastu.

## ABSTRACT

Small and medium-sized enterprises (SMEs) have a significant share in the performance of the national economy and an even larger share in the total number of enterprises in both developed and developing countries. SMEs are quite vulnerable due to their size and probably the healthiest way for them to survive is sustainable growth. Qualitative field research was conducted on a sample of 146 SMEs. The source of knowledge about the examined SMEs is personal experience and statements recorded in the questionnaire. The most important external determinant of SME growth is demand, which significantly exceeds other external growth accelerators. The most important internal determinant of SME growth is employee satisfaction, but the share of internal innovation, employee ambitions and sufficient resources cannot be overlooked. The most significant external obstacle to the growth of SMEs is competition, and a relatively significant obstacle to growth is input prices. The most significant internal obstacle to the growth of SMEs is the lack of labour force and its fluctuation, growth is also hindered by the lack of operating finance and capital. The fastest-growing firms in the sample are more innovation-driven than the rest of the sample, and their rapid growth creates even greater labour shortages than the rest of the sample. The knowledge gained can be a guide for scaling up the identified growth accelerators and dampening or removing growth obstacles. Empirical qualitative research of SMEs produced original results because it did not pre-define explicit ideas about the growth of SMEs and did not prescribe cognitive guidelines and boundaries to the respondents.

**Key words:** Small and medium-sized enterprises (SMEs). Growth. Accelerators of growth. Obstacles of growth.

## INTRODUCTION

Small and medium-sized enterprises (SMEs) attract attention not by their individual size, but by their share in the performance of the national economy. Small and medium-sized enterprises in Slovakia in 2021 accounted for 99.9 % of the total number of enterprises SBA (2022) and their share of gross production in the non-financial business sector was 45.3 % SBA 2022. Their role in the economy cannot be overlooked. In the era of economic globalization, SMEs are recognized as an engine of sustainable economic development in both the developed and developing world Prasanna et al (2019); Gallo (2022). Even in developed countries, there are high expectations for the growth of SMEs, because the country's economic growth relies on them Heilmann et al. (2018). Small and medium enterprises are still an interesting topic to study because they play a significant role in both employment and gross domestic product Sarwoko & Frisdiantara (2016). Small and medium-sized enterprises are key to local economic development, contributing to job creation, poverty alleviation and economic growth, but they face many barriers to financing. Research results also show a positive impact of the number of active micro-enterprises on territorial economic growth Gherghina et al. (2020).

The survival rate of new SMEs in Slovakia after five years of existence is 46.8 %. Compared to EU countries, it is at the level of the EU average (SBA 2022 ). The existence of SMEs can be solved by various methods, but probably the healthiest way is to achieve sustainable growth. The sources of sustainable growth are traditional (domestic production factors and later foreign investments) and newer (innovations, especially technological ones). Investments in research and development are considered to be a fundamental driver of the performance of high-tech SMEs. However, the same driving force can limit the growth of non-technological SMEs as it increases the level of risk faced by such enterprises Bootink & Saka-Helmhout (2018). International sales are crucial for the prosperity of SMEs due to the limited size of their domestic market, but can be difficult to achieve for a number of reasons (Battaglia et

al 2018). Business growth has received considerable attention in business research. Most researchers have focused their research efforts on organic growth, although SMEs can achieve growth in other ways, e. g. acquisitions (Mezulic and Juric 2020).

## 1 Factors of business growth of small and medium enterprises

The most cited factor for SME growth is technology in various combinations with other factors, as technology without organizational inclusion and support has no impact. That's what Yoo et al. (2018) meant when they linked technological innovation capability and organizational metacognition. The results of a study by Surya et al. (2021) suggest that economic growth associated with technological innovation will increase business productivity and increase human well-being. Based on the results of this study, an economic growth strategy based on technological innovation is recommended for government decision-making as an effort to increase the productivity of community enterprises Surya et al. (2021). The impact of technology and innovation on SME performance is linked to finance, labour, infrastructure, regulations and taxes Ndiaye et al. (2018).

Technological progress in SMEs correlates with improving the survival of SMEs in global competition. Prasanna et al 2019 identified six drivers, namely social capital, linkage with multinational corporations (MNCs) and transnational corporations (TNCs), innovation, sharing and networking, information technology, and productivity-enhancing technology. They also identified two conditions for successful technological adaptation in the SME sector, namely the availability of a technologically skilled workforce in the economy and the identification of new technology opportunities among competitors Prasanna et al. (2019). Digital technologies have brought the need to assess the level of digital maturity of SMEs, which will demonstrate whether they can effectively support growth North et al. (2018). SMEs have the potential to grow through technology, innovation and exports. Technology is a powerful source and medium for growth, but in many cases, it is

too costly for SMEs. If SMEs want to grow, they need to take innovation and creativity to the next level, and entrepreneurs need to improve their expertise accordingly Madonono & Barnard (2020).

Another factor in the growth of SMEs is investment. The research results support the positive impact of investments on turnover. The link was confirmed for all active enterprises at the national level, for micro, small, medium and large companies Gherghina et al. (2020).

Human resources and their actions are an important factor in the growth of SMEs. Like technology, they are only effective in conjunction with other factors. Agile, innovative and productive HR practices increase the profitability and growth of SMEs Heilmann et al (2018). The manager's experience, training, financing, network relationship and size of the business have a significant relationship with the growth of the business Rafiki (2020). The industry experience of top managers, product and process innovations, access to finance have a positive effect on the growth of SMEs Erdogan 2023. Kiyabo & Isaga (2020) identified an indirect effect of entrepreneurial orientation on SME performance through competitive advantage. Entrepreneurial orientation is considered an intangible resource that combines the following entrepreneurial characteristics: proactivity, risk-taking, competitive aggressiveness, autonomy, innovativeness. SMEs that have greater EO and LO have higher international growth. The previous business and industry managerial experience of the founder/CEO positively influences these relationships. New and small enterprises operating in high-tech environments need a strong entrepreneurial (EO) and learning (LO) orientation to increase international growth D'Angelo & Presutti (2019).

In today's complex and rapidly changing markets, there is constant pressure on SMEs to engage in business model innovation to quickly meet customer expectations and successfully compete for survival Cosenz & Bivona (2021). The results indicate that although the direct link between BMI (business model innovation) and firm performance is not significant, this path is

fully mediated by efficiency growth, organizational capabilities and revenue growth Latifi et al. (2021).

A comprehensive concept of the causes of growth explicitly enumerates and stratifies the factors. Research shows that SME growth is determined by the characteristics of the owner/manager (personal approach) and the choice of strategy (managerial approach). Sarwoko & Frisdiartara (2016) empirically tested three determinants of small business growth, namely individual factors, organizational factors and environmental factors. Individual factors directly affect the growth of the company, and organizational factors indirectly. Individual factors reflect the entrepreneurial experience and motivation of owners/managers. Environmental factors have the greatest impact on SME growth Sarwoko & Frisdiartara (2016).

Another complex phenomenon is the dynamic capabilities of SMEs, which influence the degree of their internationalization and indirectly their growth. They indicate a positive impact of internationalization on growth, provided that the intensity of research and development and the cooperation of SMEs are proportional. By cooperating with other enterprises, SMEs gain access to resources that they lack due to their limitations Fredrich et al. (2022).

A rare, non-systematic cause of growth may be a temporary drop in growth due to a crisis, which may actually provide an opportunity to regain balance and coherence in the SME resource system. This realignment allows the enterprise to move to the next stage of growth Lim et al. (2020). Another rare cause of growth is acquisitions, which are an under-researched topic in SME research, as well as barriers preventing acquisition growth Mezulic 2020.

Impediments to growth receive significantly less attention than determinants of growth. Enterprises do not grow because they want to maintain their SME status, which offers them various benefits and concessions Tsuruta (2020). They are also not growing due to financial constraints Moscalu et al. (2020) and the combination of large investments in research and development and large export activities,

especially in the first decade of existence Battaglia et al. (2018).

## 2 Research objectives and methods

The analysis of the literature showed that the main reasons that help SMEs to grow are technology, human resources, innovative business models and internationalization of business. The quality and size of these factors is conditioned by investments and access to investments. Growth determinants always influence growth only with other factors, with which they create networks and stratified verticals. These systems of resources, factors and relationships should change dynamically and at the same time be in a state of internal dynamic balance. The obstacles to the growth of SMEs are at the edge of scientific research, only the lack of funds and lengthy preparation for growth are worthy of attention.

The aim of the research is to identify the determinants of the growth of small and medium-sized enterprises in local domestic conditions using the method of qualitative research. The specific determinants are not predetermined. Contrary to the results of the cited researches, the determinants are divided into external and internal and positive and negative. Respondents (founders, senior managers) answer open questions: 1. What are external growth accelerators? 2. What are the external obstacles to growth? 3. What are the internal growth accelerators? 4. What are the internal obstacles to growth?

Qualitative research is primarily exploratory research, because it is not burdened by the experience, ideas and prejudices of the researcher, it allows to obtain unexpected and unusual knowledge, it is not limited by metrics, it can penetrate into the depth of the researched practice Creswell 2012.

The research was conducted between October and November 2022 in 146 small and medium-sized enterprises in the territory of the Slovak Republic. The only condition for selecting a company for the sample was its size. Industry affiliation was not a requirement, although it was recorded. The research was conducted in the form of a structured interview based on a questionnaire in direct contact between the

respondent and the researcher. The questionnaire also asked about differently formulated conditions for the growth of SMEs, but these answers are not presented in the paper.

## 3 Results

The external accelerator of SME growth with the largest share (58.2 %) in the research sample is demand. Other determinants have a much smaller occurrence. These are external innovation opportunities (8.2 %), offers from external investors (6.8 %), various forms of state support (6.8 %), favourable legislation (3.4%), offers to create partnerships (3, 4%). Other factors with a very small share (a total of 8.9 %) are the energy crisis, the supply of suitable labour, higher competition in the sense of a call for further growth, the departure of competitors, favourable weather, an attractive commission, the acquisition of another company and the development of the region. The rest are incorrect and unidentified factors (4.0 %).

The external obstacle to growth with the largest share (26.7 %) in the research sample is competition. A more significant obstacle to the growth of SMEs are input prices with a share of 18.5 % in the research sample. Other obstacles to growth occur in smaller proportions. They are unfavourable legislation (8.9 %), unclear future (8.9 %), weak demand (8.9 %), lack of labour (6.8 %), insufficient or delayed supply of inputs (6.8%), unreliable partners (3.4 %). Other factors with a very small share (a total of 9.6%) were low output prices, local market constraints, late market entry, adverse business environment, seasonality, pandemic, difficult foreign market entry, sustainable fashion, and in two cases, none obstacles to growth were recorded. The rest are incorrect statements (1.4 %).

The internal growth accelerator with the largest share (28.1 %) in the research sample is employee satisfaction. Other factors occur in significantly smaller differences. These are internal innovations (19.8 %), employees' ambitions (15.1 %), sufficiency of resources (12.3 %), the right product (6.8 %), original know-how (6.2 %), profit (5.5 %). Other favourable factors with a very small share (total of 6.2 %) were the

company's reputation, suitable location, sustainability and stabilization, customer care.

The internal obstacles to growth with the largest share (42.5 %) in the research sample is the lack of labour force and its turnover. Other factors occur in significantly smaller shares. These are a lack of operating finance and capital (14.4 %), deficiencies in internal processes and inflexible actions (7.5%), insufficient production or operating capacity (6.8%), insufficient internal communication (4.8%), insufficient advertising and promotion (4.8%), insufficient interest in growth (4.1%). Other unfavourable factors with a very small share (10.3 % in total) were low wages, outdated product, obsolete technology, outdated business management, high age of employees, high workload, high price of products, high energy costs, high personnel costs and high development costs. Obstacles to growth that were explicitly labeled as insufficient resource, process or ambition accounted for a total of 84.9 % of internal obstacles. Incorrect and no expression factors had a share of 4.8 %.

From the research sample, the companies with the largest growth rate were selected. The purpose of the selection was to find out what are the differences between the growth determinants of the entire sample and the most growing enterprises. Sixteen enterprises were identified that recorded a double-digit growth in income from economic activity between 2016 and 2021. Half of the enterprises operated in the wholesale and retail industry, two enterprises were from the manufacturing industry, two enterprises were engaged in computer programming, and four enterprises were engaged in construction, insurance, provision of human resources and sports.

The most growing businesses were driven by external accelerators demand (56.3 %), energy crisis (12.5 %), external investors (12.5 %) and other factors (18.8 %, partnerships, competition, legislation). They were constrained by external barriers, which were competition (25.0 %), input prices (18.8 %), labour shortage (12.5 %), other diverse factors (31.3 %) and some had no barriers (12.5 %). Internal accelerators were

innovations (31.3 %), employee satisfaction (25.0 %), sufficiency of resources (18.8 %), ambitions (12.5 %) and other factors (12.5%, know-how, profit). The main internal obstacle was lack of manpower and turnover (62.5 %), followed by lack of finance (12.5 %) and other factors (25.0 %).

#### 4 Discussion

*The most important external determinant of SME growth is demand, which significantly exceeds other external growth accelerators.*

Due to their size, SMEs are more likely to establish themselves in a growing market than to compete for market share with larger or approximately large competitors in a saturated market. Demand is a growth factor that is not considered by research on explicitly determined determinants. However, the existence of demand, especially growing demand, sounds from the conducted research as a serious, strategic factor. Demand must be found or created, unsatisfied needs must be found, or needs hitherto unknown must be created. Perhaps the closest to the demand factor is the internationalization of business resulting from other research (Fredrich et al. 2022), which is often the only solution for growth in the conditions of a small national market. The creation of completely new needs depends to a large extent on innovations based on difficult, lengthy and risky scientific research. However, this is the subject of a special category of enterprises based on new technologies.

*The most important internal determinant of SME growth is employee satisfaction, but the share of internal innovation, employee ambitions and sufficient resources cannot be overlooked.*

A satisfied employee is a stable and loyal worker who has connected his existence and future with the company and understands that his satisfaction will increase with the growth of the company. The satisfaction and ambitions of employees are in line with the results of other researches, which, however, mention human resources without specifying their characteristics or motives (Heilmann et al. 2018). Innovations may or may not have a technological basis, while their emergence is probably related to the ambitions of employees and sufficiency of

resources. Abundance of resources is a bit of an oxymoron, because resources are always in short supply, although without resources no business can be established, much less innovated.

*The most significant external obstacle to the growth of SMEs is competition, and a relatively significant obstacle to growth is input prices.*

Although competition is the main external obstacle to the growth of a company, it is also a natural feature of a market economy, for that reason its emphasis sounds a bit alibi, but its existence is considered serious and therefore strategic by the examined companies. Strong competition is the consequence of differences between large and small companies or too fragmented industry. It can be solved by the growth of demand (unsatisfied and new needs) and innovations that will reduce input prices, or by searching for less competitive market segments and locations. Identifying competition as an external obstacle is a concretization of the environmental factors mentioned so far (Sarwoko and Frisdiantara 2016). Reducing the price of inputs is a difficult problem for an individual SME, given its bargaining power.

*The most significant internal obstacle to the growth of SMEs is the lack of labour force, and its turnover and growth is also hindered by the lack of operating finance and capital.*

A common feature of almost all internal barriers to growth is deficiency. Until now, research has generally only focused on the lack of financial resources (Moscalu et al. 2020). Lack of resources of any kind is an inherent characteristic of SMEs. They can quickly overcome it only through associations, alliances, networks or mergers, thus negating the smallness of the company. The lack of manpower can be perceived as a combination of external (insufficient supply of quantity and quality) and internal (dissatisfaction and turnover) causes. As a rule, SMEs cannot influence the insufficient supply of labour force, or they have to approach the labour force, e. g. by choosing a suitable place of business operation, if possible. However, it can maintain a dissatisfied and fluctuating workforce with appropriate measures.

*The fastest-growing companies are mainly driven by demand, innovations and employee satisfaction. The fastest-growing enterprises are being slowed by competition, rising input prices and shortage and turnover of manpower.*

More significant differences between the entire research sample and the selected sample of the fastest-growing enterprises are a slightly larger share of innovation on internal growth factors (31.3 % versus 19.8%) and an increase in the share of shortage and turnover of manpower on internal growth obstacles (62.5 % versus 42.5 %). The fastest-growing firms are driven by more innovation than the other firms in the sample, and the rapid growth creates even greater shortage of manpower than the other companies in the sample.

## CONCLUSION

The results of the research expanded and deepened knowledge about the determinants of SME growth, which were divided into external and internal factors and factors accelerating and slowing down growth. The growth of SMEs is supported by demand, satisfied employees, internal innovations, employee ambitions and sufficient resources. The fastest-growing companies are distinguished by greater innovation, but at the same time by a greater shortage of manpower. The conducted research expanded or deepened these reasons to include innovation growing demand and sufficiency of resources. However, the conducted research also identified obstacles to growth, the reduction or complete elimination of which can also contribute to the growth of SMEs, although many of them are naturally linked to the size category of the investigated enterprises.

The quality of research is always affected by the size of the research sample, but the qualitative method of data collection and individual contact with each researched enterprise places high demands on the limited working capacity of the research team, thus limiting the sample size. However, qualitative research has yielded insights that would not have been available through quantitative research. Further research could continue to verify the qualitative results using quantitative research, thus

increasing the objectivity of the results achieved.

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