Holistic Model for SMEs Growth Studies: A Conceptual Overview

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Abstract—There have been extensive studies on firm’s growth. The determinants of growth are widely discussed among scholars. However, previous studies in context of small and medium enterprises (SMEs) growth are still limited and tend to focus on specific factor that affect firm’s growth. This approach can specifically measure the direct contribution of the factor to the growth, but it has been criticized due to its limited perspective and applicability. In this study, we investigate related studies on firm’s growth, specifically on SMEs growth, and proposing a holistic model to get a thorough understanding about the success or the failure of SMEs to grow. Based on a thorough review of the extant literature, we have identified several main theories/concepts on firm’s growth studies. Finally, we offer a conceptual overview for SMEs growth studies.

Keywords—Determinants of Growth, SMEs, Whole Understanding about the Success or Failure, Several Theories/Concepts on Firm’s Growth.

I. INTRODUCTION

Entreprises sustainability is one of the key that boost the economy of a country. Small and medium enterprises (SMEs) and large-scale enterprises (LSEs), generate significant contribution to the development of regional, as well as national economy. Focusing only to the development of large-scale enterprises absorbs the workforce with special education and competencies. Hence, the development of SMEs should be considered as a top priority of country. SMEs, in particular, will sustain the country’s economy through the creation of jobs for the workforce that is not employed in the large-scale enterprises.

SMEs have a great importance in many countries. Besides as economic equalizer in rural areas, SMEs have contributed in developing the talents of villagers [1]. On the other side, SMEs also face many problems that affect their sustainability. All stakeholders are forced to think strategically and act in effective manner. Unfortunately, there are different perspectives among scholars and business owners related to business growth. They have their own aspirations, expectations, and agendas.

As indicated by [2] and [3], if we conduct study about business growth, there should be an eagerness to see from the right perspective. Hence, the business growth must be defined, measured, and studied in a proper way so that being beneficial to the enterprises.

The failure in growing SMEs will affect not only to the diminishing economy, but also to the decreasing number of SMEs. This condition, definitely, will lead to the escalating number of unemployment in a region or country. Particularly in Indonesia, where as of 2010, SMEs comprise for 99.99% of all enterprises and employ more than 96.85% of the total workforce, requires an enormous effort to ensure the SME sustainability. The number of enterprises and labor in Indonesia can be seen in table 1. [4] argued that understanding how to grow the business is far more important than focusing to the growth rate only. This assertion is supported by [3], which also concluded that studies on business growth must be focused on the process of growth as a whole.

Considering the assertion of [4] and [3], this paper reviews studies on business growth, specifically in SMEs context. By carefully studying previous studies, we find the need to propose a holistic model for SMEs growth studies. As also stated by [5], previous firm’s growth studies are mainly focused on one theoretical perspective explicitly or implicitly. Consequently, these researches only provide partial explanations of firm’s growth rates [6]. This research fills the gap of previous firm’s growth studies by providing a holistic model which elaborate dominant perspectives simultaneously. The model discusses the main factors and actors for SMEs growth. Using different firm’s growth theories/concepts, we subsequently integrate them in one model to get thorough understanding about the growth success or failure of SMEs. Each theory/concept will be discussed to highlight its importance to business growth. In the end, we draw conclusion and suggest future research directions.

II. THE GROWTH OF SMEs

A. The Need to Grow

Enterprise is under pressure to grow [7]. To survive in the competition, an enterprise must maintain its growth by improving its capability. On the other side, the external challenges should also be considered continuously. In recent decade, the business environment experienced instability condition due to the changes of the economic, social, and technological issues. These conditions are exacerbated several aspects, such as the presence of free trade, strict regulations, natural disasters, and world’s economic crisis that has caused many enterprises experience the downturn and bankruptcy.

Managers need to pay more attention in formulating enterprises’ strategy and activities to ensure the business growth. In line with that, how to pursue a growth is one of the interesting topics among the scholars. As a result, various theories and concepts have been formulated and discussed in several books and published papers.

The growth of businesses is critical issue due to several reasons. [8] stated that in long term, business growth will stimulate economic evolution. From
enterprises’ perspective, business growth is a crucial indicator in assessing the health and market potential of organization [9]. It also can be used to measure the success of the enterprises [10].

B. The Growth Indicators

The growth of business is measured using several indicators. In general, researchers measure the growth of the business through some common indicators, such as sales, employment, and asset. [2] conducted a literature review on entrepreneurship four journals between 1997 and 2008. Of the 55 papers studied, indicators (and percentage) that were used included: sales/turndover (23%), employment (15%), growth willingness/intention of growth (10%), profitability (4%), a combination of several indicators earlier (9%), growth strategies (9%), others (4%), i.e. assets, added value, and which are not reported (5%). The same findings also indicated by [11]. Through a literature review of the 82 papers, they identified five commonly used indicators of growth, i.e. growth in (1) sales, (2) labor, (3) profit, (4) asset, and (5) equity.

C. The Studies on SMEs Growth

The studies conducted to the SMEs are continued to grow. There are many scientific publications which addressed the critical issues faced by SMEs. Model of development, success factors, partnership, and the internationalization of SMEs have been discussed and analyzed by the researchers. Based on these facts, there were also several research methodologies employed in the studies.

Some literatures, for instance, provide solutions in developing the SMEs through the use of information technology. [12] conducted a study of the impact of the use of e-commerce in market penetration. Their findings showed several situations where e-commerce technologies can significantly affect the sales of the product. Associated with the use of information technology, [13] conducted a study on the factors that influence SMEs in adopting the use of the internet. They concluded that there are two factors, internal factor and external factor, affect the internet adoption. Internal factor includes the ability or the habit in using the internet. External factor is the pressure of competition in providing services to customers. Those findings demonstrated that using the information technology properly will affect the development of SMEs.

Another research concerning on the SMEs growth is the adoption of knowledge management in SMEs. [14] examined several factors that influence SMEs in adopting knowledge management. The finding indicated that the use of information technology applications, the complexity of management and marketing, and the degree of documentation and mechanisms of knowledge acquisition were the dominant factors for the implementation of knowledge management. [15] examined the effect of employee empowerment in improving employee productivity. The finding showed a positive effect of employee productivity to the success implementation of knowledge management. However, it required more effort to empower employees in SMEs.

More comprehensive studies have been introduced by scholars. They are commonly using several factors which identified from several theories/concepts of firm’s growth. [6] conducted a case study research to SMEs and explained the dynamics of SMEs growth. They drew on several firm’s growth theories and employed simulation approach as their research methods to describe the growth. However, this research is still limited to specific theories and industry sector. Another theories and methods can be elaborated to enrich the findings.

III. TYPES OF FIRM’S GROWTH STUDIES

The firm’s growth studies can be categorized in three types. First, the researches on specific factor(s) that affect firm’s growth. Some examples have been given in previous session. Second, the researches about firm’s growth distribution (i.e. [16], [17], and [18]). Third, the researches to explain the processes of firm’s growth or how the firms grow (i.e. [19] and [5]).

The researches about firm’s growth distribution are continue to grow since the work of [20], later known as Gibrat’s Law or Law of Proportionate Effect. His great achievement when he concluded that the logarithms of some economic variables are approximately followed a normal distribution [21]. [22] stated that research about firm’s growth distribution is important as a prelude to formulating policies which support business growth.

The researches of how the firm grows, which this research is belongs to this category, are begin to grow. In context of SMEs growth, the numbers of research are still limited; specifically that has proposed a holistic model. This type of SMEs growth studies, will be discussed in a next section.

IV. PREVIOUS MODELS ON SMEs GROWTH

As have been discussed earlier, the studies on SMEs growth are limited to specific theoretical perspective. This will led to specific factor(s) or variable(s) used in the research. In the end, this approach are not capable to see other factor(s) or variable(s) from others theoretical perspectives.

To overcome the limitation of previous research on firm’s growth, [5] proposed an integrative model of small business growth. The model combined five primary perspectives of small firm’s growth, namely entrepreneurial orientation, the environment, strategic fit, resources, and growth attitude. The model can be seen in figure 1. This model can give wider insight of the determinants of SMEs growth. However, the model are tend to see from internal (enterprises) perspectives. The model also took account of the environment factors, which are outside the firm. Thus, It could not be controlled by the SMEs. There are several theoretical perspectives on firm’s growth, specifically from external perspectives that have not been elaborated in the model.
V. MODEL DEVELOPMENT

A. Methodology

To develop a holistic model, we explored related studies on business growth. We used keywords “firm’s growth” and “SMEs growth” in research databases, including sciencedirect, scopus, and springerlink, as an initial filter. Further search conducted to find research that specifically discusses the growth of the business, both conceptually and empirically study, and observe the various theories that are commonly used in the study. Based on the theories, we then identify the main actors in SMEs growth, as well as define the main factors.

The holistic model aims to bring together the factors and actors in SMEs growth. Thus, we are able to identify the relationships between the factors and actors. The model also enhance our understanding about the contribution of each factor, as well as each actor. In the end, thorough understanding of SMEs growth will provides the opportunity of better formulating business strategy and policy.

B. A Holistic Model

Relying on the extant literature, this study identifies several main theories/concepts on firm’s growth studies. The holistic model is based on the theories discussed earlier, namely Gibrat’s Law, Penrose’s Theory of Growth, Resource-based View, Stages Model, and Social Capital Theory.

Gibrat’s Law (GL) gives a preposition that the firm’s growth is independent with its size. This indicates that the opportunity to grow of firms in a particular period is the same for all sizes of firms, no matter of what size it is on the beginning [23]. In other word, small-scale enterprises have the opportunity to grow or to decline, in percentage per period, the same with large-scale enterprises [24]. This law is important for the formulation of industrial and regional policy [25]. Thus, many scholars are employed the law for firm’s growth researches.

Penrose’s Theory of Growth (PTG) is one the main theories used for firm’s growth studies. Penrose defined firm as a collection of resources [26]. The more firm creates the productive opportunities, the more firm has a chance to grow [27]. The focal point of this theory is the ability of manager or business owner to carefully identify and define those productive opportunities in the firm.

Resource-Based View (RBV) is the extension of Penrose’s idea [28]. It emphasizes the importance of managing resources to achieve higher business’ growth. The market performance is determined by firm’s resources [29]. Through the appropriate configuration of its resources, the firm is able to develop its competitive advantages.

Stages Model or Stages of Growth (SM) for SMEs is firstly introduced by [30]. He stated that the growth pattern of small business follow a S-shaped curve. The curve shows the stages and critical phases of business growth. These critical phases determine the survival of business. The failure to face these phases, resulting in the death of the business, and its operational activities will not benefit anymore. The stages model experienced many improvements. One of the most used stages model was proposed by [31]. The stages model showed the role of business owners or managers in each of the firm’s growth stages. Business owner and manager must be proactive and have the good knowledge to plan their business growth [32].

Social Capital Theory stated that social capital affect the firm’s growth. [33] argued that poor performance of business is caused by misalignment of the firm and its social communities. [34] developed model for firm’s growth through social capital, individual level social capital (internal and external organization) as well as firm level social capital (customer, business partner, and government agency). These social capitals will facilitate the transfer of knowledge and information needed in formulating business’ strategies [35].

As it has been discussed earlier in social capital theory, government is one of the actors that have contributions in firm’s growth. Government, more specifically, have the main role in creating supporting policies. [4] stated that policies have an important role in boosting the business growth. Furthermore, [36] and [37] stated that the SMEs become one of top priority to be developed by government through the supporting policies.

The proposed holistic model will encompasses two main actors, internal actors (organization resources) and external actors. These actors have their own role to SMEs growth and have relationship to each other, as depicted in figure 2. Based on these perspective, we can get a bigger picture and thorough understanding about the SMEs growth. It will refine the previous models of SMEs growth, which tend to explore on the internal actors.

From the figure 2, we can see that both internal actors (organizational resources: manager and or business owner) and external actors (for example: customer, business partners, and government) are playing important role for SMEs growth. The actors and their theoretical basis can be seen in table 2. All of the theories agree that manager and business owner is the main actor of firm’s growth. These actors, definitely, play significant role in creating and maintaining internal structure. [38] argued that internal structure of organization must be well design so that it can create business strategies that fit with business environment. Social capital theory (SCT), in addition, points out the role of external actors for firm’s growth, including customers, business partners, and government.

After we identify the internal and external actors in achieving higher growth for SMEs, then we define the main factors where each actor can play its role. The main factors and its relationship can be seen in figure 3. We point out also in the figure the role of actors in the factors.

As business environments always changing and level of competition getting strong, we believe that dynamic capabilities of firm are the determinant through it all, as also stated by [34] and [39]. Dynamic capabilities are associated with the firm’s ability to maintain market, adapt with business environments, and to have a future oriented. Government, in this case, also has significant roles, particularly in formulating strategic supportive policies for SMEs.

Dynamic capabilities of firm are supported by its operational capabilities. These include the capability of firm in management, technical, and marketing aspects. Operational capabilities of firm are supported by its
knowledge basis. Knowledge basis are associated with ability to design the internal structure of organization and to manage the firm’s resources in order to create competitive products and services. These capabilities also include the ability to identify productive opportunities. Government also can play a role in this case, by giving training to the SMEs.

As a foundation, individual capitals and social capitals are important factor to firm’s knowledge basis. Individual capitals include the knowledge and experience of manager and all the human resources in managing firm’s resources. Social capitals include the ability of firm in creating and maintaining relationship with the customers, business partners, and government. It also related to knowledge transfer from social capital to individual capital of firm. The knowledge basis will continue to grow over time.

VI. DISCUSSION

The model proposed in this study is elaborate two actors (internal and external actors) who contribute to the SMEs growth. A holistic model is developed from theoretical perspectives to identify the actors for the growth of SMEs. From figure 2, it can be seen that both internal actors and external actors are interconnected. The SMEs growth can be optimally achieved, if the actors can work together as one system to achieve higher growth of SMEs.

There are a number of advantages arising from a holistic model. First, it provides basic foundation in conducting SMEs growth studies, especially by showing the main actors for business growth. The model is developed from different theoretical perspectives, and has been used by many scholars. Second, the relationship of the actors in the model provides better understanding of the achievement of firm’s growth. This information will be helpful in formulating business strategy as well as supporting policies.

A holistic model gives a comprehensive view, both on the perspective of internal actors as well as external actors. Considering these perspectives, we are able to get a thorough understanding of SMEs growth. Yet, the model still needs to be developed. Further researches must be conducted to complement the model. Identification of construct and its variables based on the proposed model should be first determined. In the end, based on the constructs, the model can be examined quantitatively to get the model confirmation.

The model can be applied to any firm’s growth model. However, the adaptation of the constructs and variables should be undertaken to meet the context of each SMEs sector. For instance, the researches on SMEs growth of manufacturing and service sector have to be conducted separately. [40] argued that manufacturing sector should be distinguished from service sector due to its complexity in capital structure and product differentiation.

SMEs growth should be considered as a continuous process which requires collaboration of all stakeholders. Obviously, the research on SMEs growth should be conducted in comprehensive manner. As affirmed by [41] and [3], the study of firm’s growth is a complex phenomenon. This also needs a proper method. Based on these assertions, our model gives a direction on how to conduct SMEs growth study.

The proposed holistic model shows the actors who have contribution to the firm’s growth. These actors have their own role (main factors) and connected each other as one system to ensure the firm’s growth. Knowing each actor’s role and its relation will be more beneficial for SMEs growth studies.

REFERENCES


Figure 3. A holistic model of SMEs growth

### TABLE 1. TOTAL NUMBER OF ENTERPRISES AND ITS EMPLOYEES IN INDONESIA

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Enterprises (unit &amp; %)</th>
<th>Number of Employees (people &amp; %)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SMEs</td>
<td>LSEs</td>
</tr>
<tr>
<td>2005</td>
<td>47,017,062 (99.99%)</td>
<td>5,022 (0.01%)</td>
</tr>
<tr>
<td>2006</td>
<td>49,021,803 (99.99%)</td>
<td>4,577 (0.01%)</td>
</tr>
<tr>
<td>2007</td>
<td>50,145,800 (99.99%)</td>
<td>4,463 (0.01%)</td>
</tr>
<tr>
<td>2008</td>
<td>51,409,612 (99.99%)</td>
<td>4,650 (0.01%)</td>
</tr>
<tr>
<td>2009</td>
<td>52,764,603 (99.99%)</td>
<td>4,677 (0.01%)</td>
</tr>
<tr>
<td>2010</td>
<td>53,823,732 (99.99%)</td>
<td>4,838 (0.01%)</td>
</tr>
</tbody>
</table>

Source: National Agency of Statistics

### TABLE 2. THE ACTORS OF ENTERPRISE’S GROWTH FROM THEORETICAL PERSPECTIVES

<table>
<thead>
<tr>
<th>Actor</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GL</td>
</tr>
<tr>
<td>Internal Manager on Business Owner</td>
<td>√</td>
</tr>
<tr>
<td>Customers</td>
<td></td>
</tr>
<tr>
<td>Business Partners</td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>√</td>
</tr>
</tbody>
</table>

Source: National Agency of Statistics