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**A Review of Small Business Literature
Part 2: Birth, Growth and Death of The Small
Business**

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Biography

Jane Tonge is a full-time PhD student funded by a studentship provided by Manchester Metropolitan University. Her research area is public relations, and her current research interest is public relations and small businesses, in particular the business relationship between public relations agencies and small professional service firms. She previously gained an MA in Public Relations from Manchester Metropolitan University, with a particular focus on the strategic role of public relations in local government. Prior to joining MMU's Business School, she worked for seven years as a public relations practitioner. Jane also teaches on the full-time and part-time MA in Public Relations course in the Department of Retailing and Marketing.

Foreword

This is the second of two papers which form part of an initial literature review concerned with small business in preparation of a thesis which aims to examine the development of business relationships between small professional service firms and public relations agencies. Part 1 considers the role and importance of small business, and the various attempts at definitions offered from a number of quarters, such as commercial, political and academic. This paper, Part 2, examines the birth, growth and death of the small business and considers the range of factors identified as impacting on these aspects of small business development.

Abstract

Small business scholars have devoted much effort to examining the variations in the birth of small firms over time, space and sector (Storey, 1994) as well as the factors which impact on small business growth and demise.

A review of small business and entrepreneur literature reveals many determinants of business success and growth including entrepreneurial and environmental factors. At the same time, the 'barriers to growth' literature (Storey, 1994) identifies key barriers and problems for small firms.

However, no clear understanding, predictive theory or interrelated model emerges from the small business literature which can determine whether a small business will start up, grow, succeed or fail. Similarly, no simple pattern or ideal-type personality for pre-determining characteristics of business success or demise is identified (Ray 1993). Rather, the literature points towards a complex set of interrelated situational and contextual factors (Fielden *et al.*, 2000) that increase or decrease the probability that an enterprise will become a successful and growing small business.

1. Birth, Growth and Death Of The Small Business

The birth and death of firms occurs on a huge scale. The total number of businesses in the economy at any one time is referred to as the 'stock' of businesses. Over time, this stock changes as a result of new firms being created - births - and firms ceasing to trade – deaths. Estimates for the number of businesses in the UK registering and deregistering each year for VAT are often similar in size (Storey, 1994) and so the net gain of contribution to stock is relatively small.

For example, in 1999, there were 178,500 registrations in the UK and 172,000 deregistrations – or one in ten of the businesses registered at the start of the year (DTI, 2000b). There was a net gain of 6,500 registered enterprises during 2000, increasing the stock of VAT registered businesses to 1.66 million at the start of that year (DTI, 2000b).

A simple equation provided by the DTI (2000b) makes this point explicit. In 1999, there were 38 registrations for every 10,000 people aged 16 or over in the UK, and there were 37 deregistrations for every 10,000 people aged 16 or over.

The following sections consider why so many small businesses start up, and the reasons for their growth and success. It also considers the reasons for the high number of failures and the barriers to growth and success for the small firm.

2. The Birth of The Small Business

Small businesses can be difficult to identify. To consider the birth of small businesses is, by definition, to look at those which are new, and also both very small and likely to have a short lifespan (Storey, 1994). For all these reasons and more, they are less likely to appear in public records. However, there is no comprehensive list of all enterprises in the UK economy or in any other developed country. Even the VAT-based statistics on births and deaths of businesses in the UK are incomplete (Storey, 1994).

Bannock and Partners (1989) estimated that less than two-thirds of UK businesses are registered for VAT. The UK reflects the general pattern that, while there is generally excellent coverage of larger firms within an economy, neither government

statistical services nor taxation authorities find it cost effective to maintain records on all firms. The longer an enterprise has been in business, however, the higher the probability of it appearing in official records.

Although identification may be problematic, small business scholars have still devoted much effort towards examining the reasons why small firms are created. Various approaches to explain this will now be examined, together with the factors which influence small business start ups.

2.1 Why Do Small Firms Start Up? The Theory of New Firm Births.

Researchers have provided a number of explanations for variations in the birth of small firms over time, space and sector (Storey, 1994). This research can be seen to fall into two distinct arenas. One of these is the work of industrial economists, focusing on the Structure-Conduct-Performance (SCP) paradigm (e.g. Acs and Audretsch, 1989) which assumes that the structure of an industry influences the conduct of its firms, which in turn influences their performance (Clarke, 1985).

The second is the labour market economists' approach. They examine new firm formation as a decision exercised by the individual in the context of the labour market. This is influenced by a variety of factors, such as work experience, motivation, personality, family environment societal 'norms' and status. These influences have also been the prime focus of explanations of new business formations provided by non-economists (Storey, 1994). These two distinctions will now be explored in greater depth.

i. The industrial economists' approach

The main focus of the industrial economist's attention is upon the pricing and output decisions of firms already in industry, rather than upon new firms entering that industry, using the vocabulary 'entrants' rather than 'new firms'.

Both these points are illustrated by Mueller (1992) who argues that an entrant is defined as a firm which manufactures a product in a given four-digit industry in a year, but did not manufacture it in the preceding year. Here, there are five main categories of entrants:

- a newly-constituted firm
- an existing firm that builds a new plant in the industry
- an existing firm that buys a plant already in the industry
- an existing firm that alters the product mix in the existing plant
- a foreign-owned firm which enters in one of the above ways as opposed to a domestic firm

Entry by a newly-constituted firm, although generally not the most frequent form of entry, is not necessarily of dominant importance. Indeed, Storey (1994) posits that it is possible to argue that economists are less interested in entry by the newly-constituted firm because of its lower impact on incumbent firms than other types of entrants.

In explaining the formation of new firms as opposed to entrants, Acs and Audretsch (1989) point out that there is little reason to assume that small firm entry is an exact replica of large firm entry. Their studies show that small firm entry, which is primarily through new firms, differs in one major respect - that in highly-concentrated industries, the incidence of small-firm births is lower than that of large-firm births. This suggests that large firms have a relative advantage in entering concentrated markets, and that industries in which innovation plays an important role are more accessible to large than to small firms (Acs and Audretsch, 1989).

ii. The labour market approach

Historically, the study of entry of firms has been the province of industrial economists while the study of self-employment tends to have been the province of labour economists (Storey, 1994). Even the terminology of the two groups differs, with industrial economists using the term 'entry' and labour market economists using the term 'self employment' (de Wit 1993).

The move into self-employment is probably the single most important source of new firm foundation, yet there has been little attempt to link the two approaches. As Storey (1994:62) comments: "This reflects the assumption of entry theorists that there is a queue of entrants outside industry, just waiting for price to persistently exceed long-run average costs."

In becoming dissatisfied with this assumption, labour market economists have begun to address issues that have been a central focus of the study of entrepreneurship by other disciplines. Case studies of leading entrepreneurs have pointed to certain characteristics that appear to distinguish these individuals from the rest of the population. Such individuals have powerful personalities, may have failed in business before, have considerable personal drive, have a family background in business, are more likely to come from certain ethnic or cultural minorities, and are not 'team players' (Rassan, 1988).

Therefore, where the industrial economist is interested in the sectoral distribution of entrants to the economy and the impact which that entry has upon prices, other groups including labour market economists, are interested in the total number of new firms. In this sense, the supply of entrepreneurs and the factors that influence this are of central importance (Storey, 1994).

iii. The labour market approach and self employment

Research using the labour market economists' approach is derived from the work of Knight (1921) who argued that an individual could exercise choice in terms of being in one of three stages – unemployment, paid employment or self-employment. Changes in the relative prices of these three states would induce some individuals to move from one state to another. Therefore, an individual has to consider income levels associated with seeking new paid employment, becoming self-employed or remaining unemployed. If unemployment is high, that person will be more likely to consider either self-employment or unemployment.

While the Knight framework is useful for the derivation of hypotheses (Storey, 1994), it does not explicitly take into account the fact that some groups of individuals may be more likely to choose one of the three states (paid employment, self-employment, or unemployment) than others. Knight's framework draws our attention to the influence of 'push' factors in the decision to start a new business (Watson *et al*, 1998). Similarly, Mayes and Moir (1990) argue that the relative attractiveness of self-employment and setting up small businesses increases as it becomes more difficult for the unemployed to find employment.

Labour market economists and small business theorists are interested in the question of occupational choice, where the choice of a self-employed occupation can be seen to be different from the choice of any other occupation (Storey, 1994). There are three main influences upon this decision – personality, human capital and ethnic origin. These three perspectives are discussed in the next three subsections.

A. Personality characteristics

Personality characteristics are examined by a number of scholars (e.g. Blanchflower and Oswald, 1990; Blanchflower and Meyer, 1991). They argue that one factor influencing the probability of an individual starting a business is entrepreneurial vision, as reflected in the personality of the entrepreneur at a young age. According to economic psychologists such as Chell, Haworth and Brearly (1991), entrepreneurs are alert to business opportunities, are proactive rather than reactive, innovative and easily bored.

B. ‘Human capital’

‘Human capital’ is a further influence upon the decision to become self-employed. Here, educational attainment levels are positively associated with a move into self-employment and new business formations (e.g. Pickles and O’Farrell, 1987; Evans and Leighton, 1990). The probability of entry into self-employment increases with education (e.g. Bates, 1991; Townroe and Mallalieu, 1993). A further ‘human capital’ characteristic which an individual brings to entrepreneurship relates to work experience. Here, several studies of manufacturing firm founders, such as those by Cross (1981) and Gudgin *et al* (1979), have shown that an individual formerly employed in a small firm with less than ten workers was between seven and twelve times more likely to become an entrepreneur than an individual employed in a firm with 500 or more employees.

However, research by Keeble *et al* (1992a) of founders of business service firms, indicates precisely the opposite results. They show that individuals previously working in large firms are significantly more likely to establish their own firm in the same sector than individuals previously working in a small firm. This serves to emphasise the point made consistently by Curran, Blackburn and Woods (1991) that generalisations about the small firm sector can be hazardous and that, at a minimum,

a sharp distinction has to be made between the service and the manufacturing sectors (Storey, 1994). For example, the difference may reflect the greater niche market possibilities in services, or the greater level of customer/client contact amongst large service sector firms than is the case for manufacturing firms - an illustration of the economies of scope rather than scale (Storey, 1994). A final human characteristic variable is believed to be individuals' managerial experience, which is thought to provide a positive incentive to encouraging the individual to become an entrepreneur (Bates, 1991).

C. Ethnic origin

The third factor which has been argued to influence the choice between self-employment and paid employment is that of ethnic origin. There is a long tradition throughout history of immigrants to a country entering into business. In the UK, this includes the Jewish immigrants of the 1930s (Loebl, 1978) and more recently the high self-employment rates of the Indian, Pakistani and Bangladeshi communities (Jones, McEvoy and Barrett, 1993). There is evidence that in-migrants are much more likely than the resident population to be self-employed. Support for this hypothesis is also provided by Keeble *et al* (1992) in a study of business in the countryside, which shows that founders of rural businesses are much more likely to have been in-migrants than are the founders of urban businesses.

2.2 Factors Influencing Small Business Start Ups

Explanations for variations in the birth of small firms over time, space and sector, have been joined by consideration of the important factors which influence the start up of small businesses. Much of the literature on start-up businesses relates to entrepreneurship as "the creation of new enterprise" (Low and McMillan, 1988:141). This definition reflects a growing awareness that entrepreneurship is a "process of becoming rather than a state of being" (Bygrave, 1989:21). Starting a business is not an event, but a process which may take many years to evolve and come to fruition (Mazzarol *et al*, 1999). Scholars such as Mazzarol *et al* (1999) argue that the driving force in the modern economy for the past ten years and the foreseeable future is entrepreneurship, which meets our economic needs through the creation of thousands of new businesses each year. Entrepreneurial research has developed along two main

lines - the personal characteristics or traits of the entrepreneur, and the influence of social, cultural, political and economic contextual factors. These two perspectives are now briefly explored.

A. The models and studies focusing on the entrepreneur

Before organisations, there are pre-organisations (Katz and Gartner, 1988; Van de Ven *et al* 1984). Initially, they exist only as thoughts, ideas or dreams of an individual. Through the start-up process, the founder's thoughts are sometime (but not always) translated into a pre-organisation (an attempt to found), and then sometimes (but not always) an organisation (Mazzarol *et al* 1999).

Central to this process is the founding individual, and early research in entrepreneurship focused therefore on the entrepreneur. It sought to determine what personality characteristics distinguished entrepreneurs from non-entrepreneurs, and examined the influence of these characteristics on organisation formation rates. For example, such factors as the need for achievement (McClelland, 1961); risk-taking propensity (Brockhaus, 1980); locus of control (Brockhaus, 1982); tolerance of ambiguity (Schere, 1982); and desire for personal control (Greenberger and Sexton, 1988) have been identified and examined as possible traits associated with entrepreneurial behaviour. Numerous other background factors related to individual personality have also been discussed, such as previous employment, (Storey, 1982); family background (Scott and Twomey, 1988); gender (Buttner and Rosen, 1989); education (Storey, 1982); ethnic membership (Aldrich, 1980) and religion (Weber, 1930). Altogether, the combination of psychological traits with background factors makes some individuals more likely entrepreneurial candidates than others (Mazzarol *et al* 1999).

B. The models and studies focusing on the environment

Theory development and research into the relationship between the environment and organisation formation is a more recent event (Mazzarol *et al* 1999). Advocates of this approach believe that the entrepreneurial trait perspective has reached a dead end (Aldrich, 1990) and has partially contributed to the understanding of new firm formation. The study of the role of environment, the so-called rates or demand perspective (Peterson, 1980), is seen as a more viable approach (Mazzarol *et al*

1999). While not denying the role played by the founder's characteristics, the demand perspective proposes that the environment is more important in understanding organisation formation. This approach has a link with economics. The new firm has a central place in economics, and it represents a real or imaginary threat to firms currently producing goods and services within a given industry (Mazzarol et al. 1999). Here, the industrial economist's approach outlined above (Storey, 1994) is of relevance.

Beyond this perspective, many of the models and studies rely on environment characteristics to explain start-ups ((Mazzarol *et al.* 1999). Drawing on dependence theory, this approach proposes that the new firm needs some external resources and information to emerge. Here, five main environmental factors affecting organisation formation have been distinguished by Specht (1993):

- social
- economic
- political
- infrastructure development and
- market emergence factors.

Within the social environment, the impact of networks (Marett, 1980; Gartner, 1985, Aldrich and Zimmer, 1986; Johannisson, 1988) is of particular importance. So too is the support of socio-political elites, along with cultural acceptance (Gartner, 1985; Bull and Winter, 1991). The economic environment studies focus on capital availability (Cross, 1981; Storey, 1982; Gartner, 1985), aggregate economic indicators (Walton, 1977) economic recessions (Gould and Keeble, 1984; Shutt and Whittington, 1987) and unemployment (Pennings, 1982; Gould and Keeble, 1984). The political environment concerns mainly the support of public or semi-public agencies (Gartner, 1985; Young and Francis, 1989; Walker and Greenstreet, 1990).

Infrastructure development encompasses numerous variables such as the education system (Gartner, 1985; Romanelli, 1989; Bull and Winter, 1991), the nature of the local labour market (Pennings, 1982; Gartner, 1985; Mason, 1989), incubator organisations (Gartner, 1985; Young and Francis, 1989), information accessibility (Romanelli, 1989) and availability of premises (Cross, 1981; Storey, 1982; Gould and Keeble, 1984; Mason, 1989). Finally, market emergence theory integrates both

concepts of niche emergence (Boeker, 1988; Delacroix and Solt, 1988) and technological innovation (Cross, 1981; Gould and Keeble, 1984; Mason, 1989).

2.3 Two Visions Reunified

As outlined above, both personal characteristics and environmental influences have been identified as playing central roles in the small business start-up process. However, a number of scholars agree that rather than small business start up being attributable to either entrepreneurial characteristics or environmental influences, it can be argued that a combination of these factors impact of on the small firm.

Here, Gartner (1985) proposes a conceptual framework of new venture creation that portrays the process as an interaction of the environment, the individual, the organisation, and entrepreneurial behaviour. In the same vein, Greenberger and Sexton (1988) present a new venture creation as an interactive process in which personal characteristics, including personality, interact with an interpretation of salient events in the environment to influence decisions concerning new venture creation.

2.4 Summary of Factors Influencing Small Business Birth - a Comparison of Previous Research

To summarise the main factors influencing small business start ups, Table 1 shows the key findings from a number of influential studies.

In an empirical study of UK entrepreneurs, Blanchflower and Oswald (1990) found a significant and positive association between unemployment and a desire to see self-employment through small business establishment. Their study also found a similar association between personality and the possession of financial inheritance or liquidity and small business foundation. In a study of small business formation among graduates in the UK, Dolton and Makepeace (1990) found that age, gender and social class were all significant motivators to business foundation. A study of small business foundation in the USA (Evans and Leighton, 1990) found that marital status, education and financial support were all positive and significant influences on small business establishment among both employed and unemployed workers.

However, although each study drew on somewhat different samples, examining three different countries and including different levels of age and educational background, Table 1 also highlights a notable limitation of these studies. This limitation is the inconclusiveness of the results regarding the impact of demographic variables.

Table 1. Factors influencing small business formation

Factors	Evans and Leighton (USA)	Dolton and Makepeace (UK)	Blanchflower and Oswald (UK)	Blanchflower and Meyer (Australia)
Married	+	x	o	x
Divorced	+	o	o	o
Education	+	x	x	+
Children	x	x	x	o
Unemployed	+	x	+	o
Previous wage	-	x	o	o
Experience	x	o	o	+
Age	x	+	x	x
Ethnicity	x	x	x	x
Gender	x	+	x	x
Social class	o	+	o	o
School type	o	+	o	o
Region/urban	x	o	x	+
Inheritance/liquidity	+	o	+	o
Personality	o	o	+	o
Manager	o	o	x	x
Family in business	o	o	x	o

Source: Storey (1994)

Key: + = variable is statistically positively significant in the study
 - = variable is statistically negatively significant in the study
 x = variable included in the equation but not shown to be significant
 o = variable not included in the equation

As Storey (1994: 66) observes: “Several conclusions may be drawn from this table. The first is that although all four studies are addressing a broadly similar issue, there must be some risk of omitted variable bias, since none appeared to include all variables or even all variables which had been shown to be significant in other studies. Only four variables appear in all the studies – ethnic, sex, age and education – and only three variables appear with a significant coefficient in more than one of the studies. Thus, unemployment appears to be positively associated with higher levels of self-employment in two studies, as does higher levels of education and

being in receipt of some form of inheritance, enabling a liquidity constraint to be overcome.”

As with the arguments and theories examined above, these studies serve to show the variety and combination of factors which influence the start up of small firms, including those factors which are both entrepreneurial and environmental. The study of these factors has been the subject of extensive research, with scholars theorising that one factor or a combination of factors is more attributable than another to the start up of small business. This position is not exclusive to the study of start ups however. Indeed, a review of the literature concerning the growth of small business reveals a similar position.

3. Growth of Small Businesses

A review of small business and entrepreneur literature reveals that there are many determinants of business success and growth (e.g. Storey, 1994; Watson *et al*, 1998; Perren, 1999; Thompson and Gray, 1999). There is also a major diversity in the performance of surviving small businesses, emphasising that the small business sector cannot be considered a homogenous group (Storey, 1994).

A high proportion of firms are likely to cease to trade in the short term, while other firms which are currently small are moving towards becoming medium sized. Even so: “the numerically dominant group of small businesses are those which are small today and, even if they survive, are always likely to remain small-scale operations” (Storey, 1994:112).

Only a tiny proportion of small firms plan to and achieve growth in employment. Fast-growth firms are of particular interest to those providing advisory services – such as accountants and management consultants – because they are much more likely to be seeking a wide range of advisory services than is the case for firms experiencing only modest growth or no growth at all (Storey, 1994).

Not all small businesses are growth oriented (Curran, 1986; Stanworth and Curran, 1986). However, scholars have identified a variety of characteristics that an established small firm may possess in order to achieve high growth (Smallbone *et al*, 1995). As with the factors which are seen to influence the start up of small

businesses, such characteristics fall into distinguishable categories – those which are entrepreneurial, business based or integrated.

i. Key Influence - Entrepreneurial Behaviour

One of the most important factors in the growth of a small business is the commitment of the leader of the company to achieving growth (Smallbone *et al.*, 1995), together with the background and access to resources of the entrepreneur (Storey, 1994; Watson *et al.*, 1998).

Using the results of eighteen studies, Storey (1994) considers fifteen characteristics of the entrepreneur and examines how far these elements can be shown to relate to the growth of the firm. Many of these characteristics have been identified in the above section, which considers start up small businesses. The fifteen characteristics used by Storey (1994) are: motivation, unemployment push, education, management experience, number of founders, prior self-employment, family history, social marginality (ethnic), functional skills, training, age, prior business failure, prior sector experience, prior firm size experience, and gender.

Of these, motivation for establishing the business appears to be of some importance, with individuals being ‘pushed’ by such as unemployment being less likely to found a rapidly growing business than those attracted by a market opportunity. Rapidly growing firms are also more likely to be founded by groups rather than single individuals, by middle-aged owners and by those with higher levels of education and some prior managerial experience (Storey, 1994). Additionally, in considering entrepreneurship and small business management, Gibb (1996) identifies behaviours, skills and attributes which are normally associated with the enterprising person, including opportunity seeking, and persuading others.

However, Ray (1993) suggests that there is no ideal-type personality or marginal set of attributes that guarantee success for a new venture. In order to understand why some individuals become entrepreneurs and some are more successful than others, Ray (1993) suggests that three key elements must be addressed – personality or attributes, background and experience, and skills. Here, the probability of launching a successful business venture is not based on a fixed set of attributes but on an

infinite variety of combinations in which an individual's positive attributes might outweigh their negative attitudes (Ray, 1993).

ii. Key Influence – Business Concept and Capital

A number of authors view business success from an entirely different perspective. In a study of entrepreneurial success, Osborne (1993) rejects the idea that success is equated with entrepreneurial competence. Instead, Osborne recommends a shift from a focus on the personality or characteristics of the business founder to the firm's underlying business concept and capacity to accumulate capital.

In starting up a business, Osborne suggests that entrepreneurs should start or buy a business which has a hospitable environment, understand how customers assess product/service benefits, and avoid markets dominated by one or several companies with product or price leadership. Entrepreneurs should also understand the underlying economics in which the firm operates and be cautious about starting a business where capital requirements suppress or eliminate discretionary cash flow.

iii. Key Influence – Interaction and Combination of Factors

From an overview of the small business literature, Perren (1999) draws sixteen independent factors that may impact on growth for small business (see Table 2). Concerning the owner, these include the desire to be one's own boss and to succeed, being an active risk taker, possessing innovation, and having transferable personal capital, primary skills and support skills, as well as a transferable network of contacts. Also important are family and investing friends, key employees or partner, and active professional advisers. Further independent factors include the role of debtors and creditors, societal and outer factors, product sector and market segments, and competitive dynamics. The state of the economy and the government's management of the economy is also a factor.

Each of these factors may interact with four intervening growth drivers (Sekaran, 1992) which are the owner's growth motivation, expertise in managing growth, resource access and the demand for products or services. However, Perren (1999) argues that it is only possible to speculate from the existing literature about the importance of these factors and the nature of the interaction between the independent factors and interim growth drivers.

Table 2. Speculative framework of independent factors and growth drivers for small business

INDEPENDENT FACTORS		<u>Interim growth drivers</u>	DEPENDENT FACTOR
<u>Desire to be one's own boss</u> (e.g. Brockhaus and Horwitz, 1986; Caird, 1990; Chell <i>et al.</i> , 1991)			
<u>Desire to succeed</u> (e.g. McClland, 1961; Chell <i>et al.</i> , 1991)			
<u>Active risk taker</u> (e.g. McClland, 1961; Timmons <i>et al.</i> , 1985; Chell <i>et al.</i> , 1991)			
<u>Innovation</u> , (e.g. Schumpeter, 1934; Rothwell and Zegveld. 1982)			
<u>Transferable personal capital</u> (e.g. Bolton, 1971; Mason and Harrison, 1994)			
<u>Transferable primary skills</u> , (e.g. Stanworth and Gray 1991)		Owner's growth motivation (e.g. Stanworth and Curran, 1986)	
<u>Transferable support skills</u> , (e.g. Hofer and Charan, 1984)			
<u>Transferable network of contacts</u> (e.g. Johannisson, 1986; Blackburn <i>et al.</i> , 1990)		Expertise in managing growth (e.g. Penrose, 1959; Williamson, 1967)	
<u>Family and 'investing' friends</u> (e.g. Gill, 1985)	? →		? → <u>Growth of firm</u>
<u>Key employees or partner</u> , (e.g. Bosworth and Jacobs, 1989)		Resource access (e.g. Bolton, 1971; Mason and Harrison, 1994)	
<u>Active professional advisers</u> (e.g. Robertson, 1987)			
<u>Debtors and creditors</u> (e.g. Slatter, 1992)		<i>Demand for products or services</i> (e.g. Hassid, 1977; Birley and Westhead, 1990)	
<u>Societal and outer factors</u> (e.g. Andrews, 1980; Fahey and Narayanan, 1986)			
<u>State of the economy and the government's management of the economy</u> (e.g. Keeble <i>et al.</i> , 1993; Lean and Chaston, 1995)			
<u>Product sector and market segments</u> (e.g. Porter, 1980; Joyce <i>et al.</i> , 1990)			
<u>Competitive dynamics</u> (e.g. Porter, 1980; Cambridge Small Business Research Centre, 1992)			

Source: Perren (1999: 369)

iv. Key Influence - Integrating Key Models of Growth

Although it can be seen that the small business literature suggests a host of possible factors for the growth of such enterprises, less research has attempted to integrate the factors that influence the growth of small firms into some form of model. Indeed, a review of the literature (Perren, 1999) reveals only seven models:

- Durham University Business School's (DUBS) model (Gibb and Scott, 1985)
- Keats and Bracker's (1988) theory of small firm performance
- Bygrave's (1989) entrepreneurial process model adapted from Moore (1986)
- Covin and Slevin's (1991) entrepreneurship model
- Davidsson's (1991) entrepreneurial growth model
- Naffziger *et al*(1994) model of entrepreneurial motivation
- Jennings and Beaver's (1997) management perspective of performance.

Many models of influencing factors on the growth of small businesses itemise factors (e.g. Cragg and King, 1988; Box *et al*; 1993) or concentrate on a specific aspect of growth (e.g. Merz *et al*, 1994). The above seven models make a 'real attempt' to synthesise influencing factors into some form of meaningful integrative model (Perren, 1999).

However, there are a number of limitations with them. With the exception of Davidsson (1991), the models are not aimed at understanding the development of very small firms or micro-businesses. Secondly, there is a lack of empirical underpinning within the existing models (Perren, 1999). For example, the Keats and Bracker (1988) and Jennings and Beaver (1997) models all rely on existing literature and deductive logic without any empirical underpinning. Indeed, Keats and Bracker (1988), Bygrave (1989) and Covin and Slevin (1991) all explain that their model would be very difficult to test.

Thirdly, only the Gibb and Scott (1985), Bygrave (1989) and Jennings and Beaver (1997) papers attempt to address the full range of factors influencing a firm's development. The remaining models concentrate much more on the interaction of influences on the entrepreneurial process and behaviour (Perren, 1999). Fourthly, the models largely refrain from commenting on how the various factors identified actually interact together to influence the development of the firm. The factors are

identified and some form of causality suggested, but the models do not consider how, at the level of individual cases, the factors blend together or the process of their interaction (Perren, 1999). In conclusion, these integrative models (with the exception of Davidsson, 1991 and Jennings and Beaver, 1997) impose rather simplistic stages on the process of development (Perren, 1999).

Kimberly *et al.*, (1980) point out that there is no inevitable sequences of stages in organisational life, a criticism supported by Perren (1999), who suggests: “development is often much more a process of slow incremental iterative adaptation to emerging situations, than it is a sequence of radical clear steps or decision points” (Perren, 1999: 381). Firms do not move through a series of stages in incremental fashion (Smallbone *et al.*, 1995).

Rather, growth can be seen to occur as a result of a blend of factors, where the combined influence of factors on all four of the interim growth drivers must be positive for a business to grow beyond the micro-enterprise phase (Perren, 1999).

4. Barriers to the Growth of Small Businesses

An alternative perspective to addressing the question of growth in small firms is adopted in the ‘barriers to growth’ literature (Storey, 1994). This assumes that a proportion of small firms wish to grow but are prevented from doing so by ‘barriers’. The success or failure of new business is often dependent on overcoming a series of potential barriers, such as securing financial backing, adequate and appropriate guidance and training (Fielden *et al.*, 2000).

The literature on barriers to growth can be summarised under three headings: management and motivation; the sources; and market opportunities and structure (Barber *et al.*, 1989). One issue to emerge is the extent to which the fundamental barriers are ‘internal’ to the firm – such as lack of motivation – as opposed to being ‘external’ to the firm – such as shortages of finance, government controls and lack of skilled labour (Storey, 1994).

i. External factors

A survey undertaken by Cambridge Small Business Research Centre (CSBRC, 1992) asked 1,933 businesses to rank eleven possible constraints and their ability to meet their business objectives. The study found that the most important factors were 'external' to the firm, and particularly related to matters of finance. This was followed by the level of demand for the product or service, and the nature of competition in the market place. Owners of failed businesses themselves often point to shortages of working capital as the prime cause of business failure (Brough, 1970; Hall and Young, 1991; Hall, 1992).

ii. Internal factors

Money management is the barrier most often cited by those starting up a new business (Fielden *et al.*, 2000; Bevan *et al.*, 1987). This includes lack of understanding of tax, VAT, national insurance and bookkeeping, as well as difficulties with obtaining capital and concern regarding the absence of a guaranteed income. Lack of access to adequate start-up funds also has a 'knock-on' effect of restricting the development and growth of small business by reducing funds available for activities such as advertising, publicity and suitable premises (Fielden *et al.*, 2000). Such constraints are perceived as essentially 'internal' factors, identified in terms of access to marketing and sales skills, and management skills (CSBRC, 1992).

Studies which focus on the problems experienced by small firms, and how the successful owner-managers overcome such problems, lend some support for the arguments of Osborne (1993) above who rejects the idea that success is equated with entrepreneurial competence. Instead, Osborne recommends a shift from a focus on the personality or characteristics of the business founder to the firm's underlying business concept and capacity to accumulate capital. This especially concerns the managerial competence required to understand the nature of specific markets.

The strong desire of many small business owners to retain personal control and business independence has also been recognised as a key factor limiting the growth of many potentially successful small enterprises (Gray, 1990). Potential new business

owners also identified finding and making initial contact with potential customers as a concern relating to the operation of their enterprise (Fielden *et al*, 2000).

iii. Combined factors

These studies draw attention to the importance of internal and external situations impacting on the performance of the business. For example, in a study of male and female owners of young firms in the stage between launch and take off into sustainable growth (demarrage phase) Cromie (1991) found that young organisations experienced problems primarily in the external areas of areas of accounting and finance, and internal areas of marketing and the management of people. Similarly, when investigating the problems faced by new and small firms supported by a local enterprise agency in an outer London borough, Smallbone (1991) found that the most frequently cited problems were internal factors - marketing or selling the product or service - followed by financial control and unsuitable premises.

The overall pattern emerging for fast-growth small businesses is that the key constraints upon growth are related to both internal and external factors, which largely concern matters of finance, employment and markets (Storey, 1994), as well as poor products and inefficient marketing (Hall, 1992; Cromie, 1991; Smallbone, 1991; Watson *et al*, 1998).

5. Summary

Since the Bolton Report (1971), a mass of research has sought to discover if there are any clear characteristics shared by owners of small businesses that distinguish them from other members of the economically active population and what characteristics are conducive to small business success (Watson *et al*, 1998).

While the characteristics of an individual entrepreneur – such as age, gender, work experience, educational qualifications and family background – are frequently hypothesised to influence business performance, these do not, other than education, appear to be consistently verified in major empirical studies (Storey, 1994). This suggests support for the Jovanovic (1982) notion that neither the individuals themselves, nor other bodies, have a clear understanding of whether or not a particular individual will succeed in business.

It is only being in business and observing performance, that these matters can be clarified (Storey, 1994). Here, Storey (1994: 109) argues that the analogy of a rowing boat on a rough sea is particularly apposite: “the ability to keep the boat afloat, in the event of unpredictable external shocks, is not something which can be easily predicted from examination of an individual’s personal characteristics”.

While no simple pattern or ideal-type personality for pre-determining characteristics of business success has emerged from the small business literature (Ray 1993), key barriers and problems have been identified. New and small businesses encounter a number of barriers to success and growth throughout the start-up period and their first year of operation. These barriers are potentially life-threatening to new businesses. Finding and making initial contact with customers, marketing and selling the product or service, and dealing with the competition is seen to be a particular concern of owner-managers, (Fielden *et al*, 2000). In particular, concerns often centre around matters related to finance and marketing (Cromie 1991; Smallbone, 1991; Watson *et al*, 1998).

The success of any business is dependent on a range of situational and contextual factors (Fielden *et al*, 2000). So too is its demise. There is no clear understanding or predictive theory as to whether a small business will start up, grow, succeed or fail. Although scholars put forward a number of theories concerning the important elements of the growing firm – such as Perren’s (1999) sixteen factors for growth and Storey’s (1994) three necessary components: the entrepreneur, the firm and strategy - the conclusion appears to be that there is no simple pattern. Rather, the evidence points towards a complex set of interrelated factors that increase or decrease the probability that an individual will become the owner of a successful and growing small business.

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