



Untangling the relationship between small and medium-sized enterprises and growth: a review of extant literature

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Abstract

The importance of small and medium-sized enterprises (SMEs) increased in the recent years, particularly since 2007, with the intention to promote growth. This study aims to analyse the relationship between growth and SMEs and the different elements influencing this linkage. For this purpose, a systematic literature review was implemented. The analysis identifies seven factors affecting SMEs' financial performance: size, age, internationalization, network, innovation, public institutions, and capital structure. These elements are significantly related with smaller firms and growth, influencing firms' aptitudes towards performance. In addition, there seven factors could influence each other increasing the possibilities to grow. Further research investigating this literature gap is recommended.

Keywords SMEs · Growth · Performance · Systematic literature review

Introduction

Small and medium-sized enterprises (SMEs) are the most common type of business in the world. In the European Union they are not only the predominate businesses, but also the primary driver of employment, gross domestic product, and innovation (European Union, 2021). Due to their specifications, small companies act differently in comparison to large corporations. In particular their known liabilities create restrictions with regards to secure financing (Freeman et al., 1983). This situation leaves SMEs in a vacuum on the question about how growth and increasing performance can be achieved.

Growth and performance became one of the most frequently investigated research topics in the management domain (Bouncken et al., 2015). Researchers focused on SMEs investigated the foundations of growth over the last 20 years. The importance

of both SMEs and growth for the economy evidences the need to further analyse their relationship (Beck & Demircuc-Kunt, 2006). Due to their importance on the general economy, it is key to properly understand how growth in SMEs is fostered and how it can be driven. The identification of some essential determinants affecting SME performance by previous investigations (e.g., (Keizer et al., 2002)) suggests the possibility to identify some key factors that are growth drivers.

Research focusing on SMEs increased considerably over the past 20 years. The increasing literature on the field provides a foundation to be synthesized. Existing literature reviews already investigated growth constraints for micro-business (Gherhes et al., 2016). This research showed how they are different from larger SMEs, and the major factors preventing these companies to grow and become larger firms. Other reviews analysed small firms' pathway to internationalization (Dabic et al., 2020), risk management (Falkner & Hiebl, 2015), and their innovation capabilities (Saunila, 2020) – different fundamentals to growth. However, a clear understanding of SME growth specifically is still missing as a holistic synthesis. Prior research already outlined the first factors influencing growth for small enterprises, such as firms' size and age (Rodriguez et al., 2003). Nonetheless, there is a lack of a structured analysis on the growth/SME relationship. Therefore, this article investigates the question “*What are the factors that drive SME growth?*”

To answer that question this paper conducts a systematic literature review (e.g. (Kraus et al., 2021; Kraus, 2022)) to holistically understand the elements influencing the SME and growth relationship. The article follows the systematic literature review framework developed by Kraus et al., (2020). Accordingly, this article analyses research articles that have been published over the past 20 years with the intention to investigate SMEs and growth. The synthesis identifies seven key growth drivers for SMEs and therefore strongly contributes to a better understanding of the SME research domain. Moreover, it analyses possible relationship within these seven drivers.

Theoretical background

This review paper follows the European Commission's (2021) definition of an SME, limiting those to less than 250 employees, acknowledging that individual definitions of some publications can be slightly different due to country specifics. For example, in the case of the United States, SMEs tend to be defined as firms with fewer than 500 employees as reported by the US Small Business Administration (2016). At the same time, SMEs can be divided in three categories: micro-firms being the smallest type of firm (<9 employees), small firms (10–49 employees), and medium-sized firms (50–249 employees).

In 2019, more than 22 million SMEs were active in the European Union, in comparison with only 40 thousand active larger firms. SMEs accounted for approximately 99.8% of all enterprises in the European Union (EC, 2020). At the same time, SMEs are the major driver of the economies gross domestic product, and the largest employer for both the European Union and worldwide. As per the European Commission report, SMEs were the most valuable contributor to the European Union

Table 1 Comparison of SMEs and large firms. (Source: European Commission (2021); Bank (2021))

	Companies in the EU-27		Companies worldwide	
	<i>SMEs</i>	<i>Large Firms</i>	<i>SMEs</i>	<i>Large Firms</i>
Total companies	99.8%	0.02%	90%	10%
Total employment	65%	35%	50%	50%
New job creation	85%	15%	70%	30%
GDP creation	56%	44%	40%	60%

economy among all enterprise categories. Additionally, as exhibited on Table 1, around two thirds of the common market workforce was employed by all SMEs together. The importance of SMEs increased over the years as their number as well as their contribution to the gross domestic product, and their contribution to employment increased. Analysing the data of the European Commission survey, it can be inferred that the European economic wealth is strongly driven by SMEs.

Growth is defined as “an increase in the size or the importance of something”¹. It has been proven that there is a significant relationship between SMEs performance and economic growth. For this reason, it can be inferred that SMEs can generate growth in economies (Dabic et al., 2020). In general, growth can be achieved with new products and services, new market development, new marketing strategies, new market niche exploitation, innovation and R&D implementation, or external resources (Gibb, 2000; Bodlaj et al., 2020).

Different factors can negatively influence firms’ growth, for example, demographic instability due to uncontrolled migration (Crawley and Skleparis, 2018), climate change, pandemics (Nicola et al., 2020), or scarcity of resources (Lavrnić et al., 2017). Additionally, SMEs can lack necessary financial resources to achieve growth. In this sense, governments have emplaced different programs promoting innovation for SMEs (Cin et al., 2017). Furthermore, SMEs in the European Union tend to concentrate their activity in their regional market with fewer international transactions: only 23% among all SMEs export to other countries in the European Union, and only 3% to non-European Union ones (European Commission, 2020). Approximately 74% of the sales occur in the common market. Taking into consideration that the vast majority of the enterprises in the European Union have 9 or less employees, and growth being the economic situation indicator, it seems evident that there is a need to analyse the elements affecting SMEs’ relationship with growth.

According to prior research, several factors have been identified that influence SMEs’ growth. Researchers recognized innovation as a source of growth (Bodlaj et al., 2020). Three types of innovation have been investigated: organizational innovation, product or service innovation, and marketing innovation. Growth showed to be driven by the development of new products or services, the expansion to new markets, or the integration of technology in the processes (Ribeiro-Navarrete et al., 2021). Furthermore, Nunes et al., (2010) suggest that size positively influences firms’ performance. The

¹ Cambridge Dictionary.

bigger firms are, the better are their growth rates. These findings suggest that SMEs are influenced by some elements promoting or impeding growth. These unstructured results are going to be synthesized in this article to show an overall picture of growth drivers for SMEs.

Methodology

To investigate the relationship between SMEs and growth, this study conducted a systematic literature review. This established methodology is used to synthesize a wide variety of literature and identify general structures and underlying models (Kraus et al., 2020; 2012; Lim et al.; 2022). As exhibited by Kraus et al. (2020), systematic literature reviews follow a pre-defined process to analyse literature in a form that can be reproduced by others. This approach improves the understanding of a research domain by synthesizing the existing state of literature. For this reason, a systematic literature review is an often-used methodology to gather a better understanding of a full research domain, integrating its results and to create more evidence informed knowledge.

This article reviews literature from 2000 to 2020 on the relationship between SMEs and growth. As the initial step for the research, relevant publications were gathered from two wide covering online databases: EBSCO host and Scopus. The keyword combination “growth” (synonym: “performance”) and “SME” (synonyms: “small and medium-sized enterprise” or “small and medium-sized enterprise” or “small and medium enterprise” or “small firm” or “small and medium firm”) were searched in title. Further restrictions to the keywords were applied to ensure the quality of the results (Kraus et al., 2020): Only scientific articles, and only those in English language were part of the sample. The selected from 2000 to 2020 period offers the possibility to obtain a longitudinal overview on the evolution of the relationship. The entire literature review procedure can be found in Table 2.

The EBSCO database was examined finding a total of 1,356 articles enhanced with another 1,823 journal articles from Scopus. As a result, a total of 3,179 articles were gathered from the search on both databases. After deletion of duplicates (832 articles), a total of 2,347 papers could be retained. Aiming to improve the quality of the selection, only articles published in recognized journals were put to the next step (Bouncken et al., 2015; Kraus et al., 2020). This refinement took into consideration the German ranking “VHB-JOURQUAL 3”, the Association of Business Schools ranking (ABS), and the Journal of Citation Report (JCR IF) from Clarivate Analytics, as outlined in Table 3. Articles were classified in three different categories depending on their grade. Publications obtaining in all three rankings the maximum grade, shown in Table 3 in the “yes” column, were selected for the final filter. Additionally, articles achieving a grade ranged as “conditional” in one of the three rankings in Table 3 but the maximum grade on the other two rankings, were also considered for the following step. All other articles were dismissed².

² If two or more grades from any of the three rankings fell in the “Yes” category, the article would be selected. If one grade fell in the “Yes” category and, at least, one in the “Conditional” category, the article

Table 2 Systematic literature review procedure. (Source: own elaboration)

1 – Online literature review:	
Databases	EBSCO host Business Source Premier and Scopus Elsevier
Keywords	Growth (TI) OR Performance (TI) AND SME (TI) OR Small and medium-sized enterprise (TI) OR Small and medium-sized enterprise (TI) OR Small and medium enterprise (TI) OR Small firm (TI) OR Small and medium firm (TI) Growth (AB) OR Performance (AB) AND SME (AB) OR Small and medium-sized enterprise (AB) OR Small and medium-sized enterprise (AB) OR Small and medium enterprise (AB) or Small firm (AB) OR Small and medium firm (AB)
Search options	Period 2000–2020 Source type Academic journals Language English
TOTAL: Σ 3,179	
2 - Duplicate elimination: maintaining only one copy per article found on both databases. Eliminating duplicates for articles found on both databases EBSCO and Scopus.	
TOTAL: Σ 2,347	
3 - Quality threshold: eliminating articles according to the quality threshold for the publication journal (see Table 3.).	
TOTAL: Σ 512	
4- Additional restrictions: reviewing suitability examining titles, abstracts, summary, aim of the research, research field, and availability of the full document.	
TOTAL: Σ 154	

Table 3 Journal publication selection²(Source: own elaboration)

Ranking	Yes	Conditional	No
VHB-JOURQUAL 3	A+ - B	C	D - E
ABS	4* - 3	2	<2
JCR IF	10.75–4	3.99–0.75	<0.75

would be selected. For cases with two grades on the “Conditional” category and one in the “No” category, depending on the number of publications for that particular year, the article could be selected. If there were very few publications, an exception would be implemented selecting articles with a lower grade than previously described.

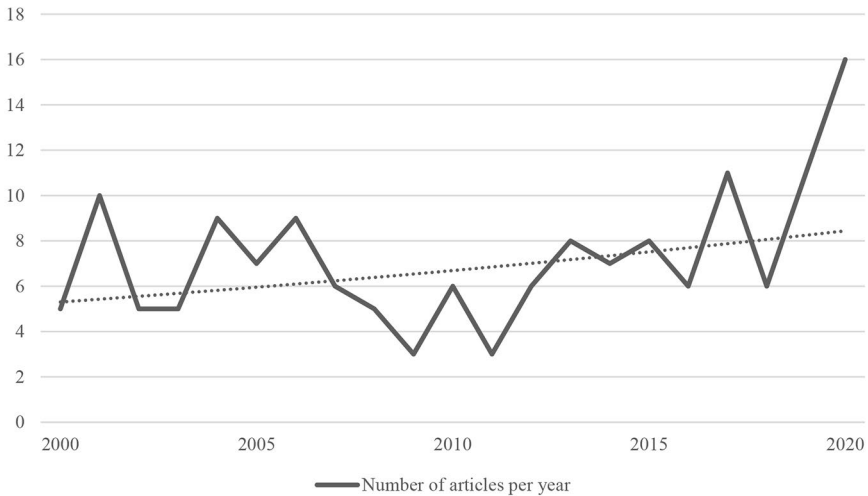


Fig. 1 Articles included in the final review per year of publication, 2000–2020 (n= 154) (Source: own elaboration)

After excluding articles based on the quality threshold, 512 articles remained. All articles were added to an Excel table to summarize all relevant information. During the pre-review phase, 358 publications were eliminated as their focus subject did not lay on growth and its relationship with SMEs. This filter was applied on basis of an abstract review. Some articles included the selected keywords in their title and abstract, but their core analysis discussed different topics not related to the focus of this article. A final number of 154 articles remained after excluding irrelevant publications. For the final review, a second Excel table, including the main topics covered in each of the 154 publications and the findings discovered during the review process, was created to ease the comparison of information among all listed articles and to improve transparency and objectivity. This final list was reviewed and scanned to find the most popular discussed topics and their trends.

Results

Descriptive results of research

The number of publications per year shows that the period from 2007 to 2011 includes less literature than in the other years, while there is an overall positive trend for publications on this relationship. A strong increase can be seen from the year 2012 onwards. A general positive trend can be seen with a strong increase in recent years, as Fig. 1 outlines.

More than one third of the articles included in the final sample originated three countries: the United Kingdom, Spain, and the United States. The largest number of publications (n=20) was from the United Kingdom, followed by those from Spain

Table 4 Articles per journal.
(Source: own elaboration)

Journal	N° of articles
Small Business Economics	51
Journal of Small Business Management	21
Journal of World Business	8
International Business Review	7
Journal of Business Venturing	6
Entrepreneurship & Regional Development	5
Journal of Business Research	5
International Journal of Production Economics	4
Journal of Banking & Finance	4

($n=17$) and the United States ($n=9$). 24 other papers originated from multiple locations, such as the Middle East, various European states, and several African countries, where no specific tendency could be identified (see Table 4). Articles constituting the sample have been published in a total of 39 different journals. The journals *Small Business Economics* ($n=51$), and the *Journal of Small Business Management* ($n=21$) are the two major journals publishing such research, confirming that the research topic remains entrenched to specific studies primarily focusing on SMEs.

The main subject of the sample was examined to better understand the specific research foci. For this reason, the publication subject for each paper was identified. This information provides a picture of the current topics and the evolution of these fields. In this regard, a total number of 74 articles were identified under the *small business* subject. Promoting growth for SMEs became a major topic, especially during the most recent years, as Fig. 1 outlines. This trend was confirmed by 23 publications that were found under the *internationalization* subject, as entering in new markets is considered as a strong strategy to promote growth for enterprises. Furthermore, 12 articles were found for the *business success* category and 8 for the *entrepreneurship* domain. Further articles covered the *finance and economics* topic range.

Most articles analysed in the systematic literature review adopted qualitative methodologies ($n=67$) with a focus on case studies and expert interviews. In addition, 58 studies applied quantitative methods, while only five articles used a review methodology. A total of 24 articles covered a conceptual approach.

SME and growth relationship

A total of seven main growth drivers could be identified from the review: SME size, SME age, exporting and internationalization, network, innovation, aid and barriers from public institutions, and capital structure. Each category includes findings about the effect of a specific particularity of firms on growth. In this regard, SME size category covers the influence of SMEs size on growth. SME age comprises the influence of small firms' life cycle phases' on growth and the influence of their experience. Internationalization focuses on the effect from the development of internationalization strategies. The network category refers to the influence a partner or a good network can have, while the [innovation](#) section covers the impact of firms' technological strategies and innovation investment. Aid and barriers part encompasses the impact of subsidies and bureaucracy from public institutions, while capital structure

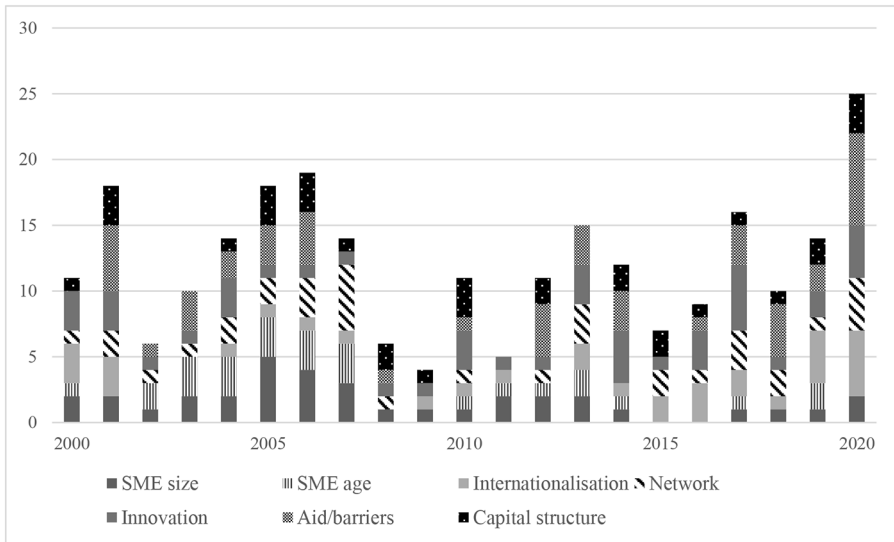


Table 5 Number of articles covering each topic per year of publication (Source: own elaboration)

includes the effect of SMEs financial capabilities. Table 5 exhibits the number of articles addressing the main topics per year of publication. Articles can be reflected in several shades if more than just one topic is covered.

SMEs size

Size is the principal determinant of firms' type, differentiating firms between being SMEs or large firms. Firms' size is defined with the number of employees, turnover, and capital. The importance of size emphasizes the requirement to analyse the relationship between firms' size and its effect on performance and growth. In this regard, studies are divided in those supporting size as a constraint for enterprises (Crick et al., 2000) or those promoting size as a source of opportunities (Bennett & Robson, 2003). Not only is size a factor directly influencing SMEs' performance, but it also has direct influence on other elements that drive growth. It is a key determinant for innovation, particularly on R&D investment and technology adoption, being crucial for growth (Sogorb-Mira, 2005). Size also has an impact on the network as, for example, smaller firms tend to use more external advice than the bigger ones (Kotey & Folker, 2007). At the same time, SMEs are more likely to encounter barriers to finance their activity, and long bureaucracy procedures (Karlsson, 2021).

Aw (2002) demonstrates that not only large firms can obtain favourable growth rates, but there is also a relationship between SMEs' size and growth. Nunes et al., (2010) add that size is not a restrictive determinant of growth, but that growth depends on firms' size: smaller firms tend to expand and grow more than the larger ones. This is explained by smaller firms needing to reach a minimum size that allows them to survive. Small firms tend to organically obtain certain size to maintain their activity, otherwise, firms are advocated to their disruption (Nunes et al., 2010; Golovko

& Valentini, 2011) identified a negative relationship between size and growth after analysing more than 8,800 companies. They identified that small firm size rather is an opportunity to grow and not a boundary. Contradicting with the negative relationship between firm size and growth, Taymaz (2005) found a positive relationship between entry size and efficiency. Companies bigger at their creation achieve greater growth rates than firms born smaller. SMEs born bigger tend to accomplish a better performance but, at the same time, smaller firms grow more.

Four factors that have an effect on growth are influenced by SMEs' size: age (Wynarczyk & Watson, 2005), networks (Lu & Beamish, 2006), innovation (Mole et al., 2004) and capital structure (Romano et al., 2001). Wynarczyk & Watson's (2005) study identified a linkage between firms' size and age. The study supports that there is a negative relationship between growth and firms' age and size: the older and bigger the firm, the lower growth rates it will acquire. In contrast, young small firms are more likely to grow. Size determines partnerships and alliances with other firms, and therefore their performance. Partners' size has a positive effect on SMEs longevity (Lu & Beamish, 2006). SMEs with a large partner tend to survive longer than those with smaller partners. Additionally, size influences the use of advice: smaller firms adopt external advice more frequently than bigger ones (Rodriguez et al., 2003). Size is also identified as a determinant for innovation and technological adoption (Mole et al., 2004). Innovation is a foundation for growth in size and therefore growth in general. The bigger the firm, the faster it will adopt new technology into products and services, helping larger firms to grow further. Moreover, Sogorb-Mira (2005) suggests that R&D and growth are directly related to firms' size until a certain threshold, from which a firm could grow in size but not in performance. Ultimately, size relates to firms' capital structures (Lu & Beamish, 2006). Smaller firms are more likely to use less debt to finance their activity. Findings suggest that the reason for the low ratio of SMEs using debt proceeds from the greater number of barriers in accessing external financing resources encountered by smaller firms (Lu & Beamish, 2006). Banks perceive SMEs activity riskier than larger firms, therefore, financial institutions refuse lending money to SMEs (Romano et al., 2001). Smaller firms finance a larger share of their investment using informal sources of finance, such as moneylenders or family and friends' savings (Beck & Demirguc-Kunt, 2006). The lack of debt in the SMEs capital structure seems to be the result of a perceived risk by financial entities (Karlsson, 2021).

Contrary to the trend suggesting that size positively affects growth, only two studies support a null or negative relationship between firm size and performance. Crick et al., (2000) suggest that size does not impact export sales. Large firms and SMEs are in equal conditions to pursue growth as size is not relevant. Both the non-significance of Crick et al., (2000) and the fact that only one article in the sample supports a non-relationship between size and growth highlights the importance of size on firms' growth.

SME age

Another foundation for growth is age (Foreman-Peck et al., 2006). Increasing age indicates that firms usually follow a sustainable model that allows it to grow to a

significant size. Older firms therefore are more likely to survive and can grow, so the OECD (2004). This report illustrates how important age is for firms to succeed: maturity strengthens SMEs towards survival.

Firms' life cycles appear to be a key determinant to pursue growth rates (Masurel & van Montfort, 2006) detected an increase in sales diversification with the advance of a firm within its life cycle. During the different phases of a firm's life cycle, it would develop a progressive increase of performance until their very last phase. During the last phase, the end of its existence, sales diversification decreases, and with it declines the performance. A more diverse product and service portfolio allows to have different client groups and therefore offers more potential to innovate and grow. During the first phase, labour productivity tends to increase, contrary with the ending phase when labour productivity decreases. Research identified the importance of age over firms' growth depending on their life cycle phase (Masurel & van Montfort, 2006; Matos Ferreira et al., 2011). Younger firms have all their life journey to improve and grow. SMEs gain the necessary experience to succeed over time. Age positively helps firms to obtain the fundamental maturity to improve productivity, resulting in growth (Foreman-Peck et al., 2006). Newly born firms generally commence small and tend to be less efficient than those with more years and maturity (Taymaz, 2005).

As a continuation of the life cycle analysis, some authors concentrated their research on start-ups. SMEs in the early phases of their life cycles focus on growth (Gibb, 2000) analysed an association between start-ups and failure due to their manager's poor experience and knowledge. The youth and inexperience of both firms and their management is crucial to understand the unsuccess and poor performance. It is necessary for the small firm to age and grow over the years to be in the need of new employees, which results in start-ups in their early years, not being able to support employee growth (Gibb, 2000). For this reason, start-ups need to implement new successful factors to promote growth during the upcoming phases (Feindta et al., 2002).

Not only has age a direct impact on growth, but it also influences other key factors having an effect on firms' performance: firms' size³, internationalisation (Zucchella et al., 2007), and capital structure (Vos et al., 2007). Age influences internationalisation for SMEs, particularly the precocity in developing internationalisation and exporting practices (Zucchella et al., 2007). Using the life cycle model, firms at the early stages of their life are more likely to commence foreign operations, particularly during the first three years of existence (Zucchella et al., 2007). Among firms planning to internationalize, younger firms would begin foreign activities earlier than older ones. At the same time, age influences SMEs in the access to financial sources. The more maturity and experience a small business acquires the more possibilities it will have to obtain loans (Vos et al., 2007). Banks and financial entities feel less risks offering loans to older SMEs than to younger ones. With age, firms strengthen their capabilities creating a more appealing profile. Experience and maturity facilitates access to loans. In consequence, younger companies generally hold much larger cash reserves than older companies. Younger firms that hardly have access to financial sources use their cash as their main source of financing (La Rocca et al., 2019).

³ See *SME size* category to find the relationship between firms' age and size.

Age together with size influence growth in a particular manner (Rodriguez et al., 2003). Young and small enterprises seem to obtain better growth rates than older and bigger enterprises. In addition, the owners' age seems to impact SMEs' performance (Foreman-Peck et al., 2006). The older the firm's owner, the lower growth rates are.

Internationalization and exporting strategies

Developing exporting activities and internationalisation practices also influences SMEs' growth (Robson & Bennett, 2000). Aiming to expand to new markets, the need to increase sales, or saving costs are the main reasons for firms to develop business overseas (Robson & Bennett, 2000; Veronica et al., 2020). Opening the business to new markets is suggested to be an opportunity for firms to increase their target demand and enjoy sales expansion. On the other hand, some companies need to open to new markets as their local one is saturated and without space for new firms. Research suggests that international growth is a key factor for SMEs to survive (Veronica et al., 2020). In addition, international research and outsourcing strategies development allow small enterprises to improve sales and gain competitive advantages that can be used to boost growth (Gylling et al., 2015; Rodriguez & Jesus Nieto, 2016). Additionally, Robson & Bennett (2000) found that SMEs exporting grow faster and greater than those not addressing exporting strategies.

SME's capabilities and its local environment characteristics are key determinants when developing internationalisation (Urata & Kawai, 2000). According to Urata & Kawai (2000), the local environment and its particularities affect small firms in their decision making, especially when investing in developing countries. Being based in a rich country could be beneficial to obtain the necessary resources and support needed to internationalize or export. Nevertheless, being from a particular country and culture could benefit firms in approaching a foreign market with a similar culture. But not only are SMEs' own competitive advantages essential to develop internationalization strategies, also the externalities from their local market are (Mariotti & Piscitello, 2001). Research identified that SMEs capabilities can be improved if they perform domestic and foreign operations simultaneously (Hernandez & Jesus Nieto, 2016). Having various simultaneous businesses in the same country impacts growth more than if the operations were in different countries: simultaneous operations inwards and outwards can improve SMEs growth (Hernandez & Jesus Nieto, 2016).

Age (Naldi & Davidsson, 2014), network activities such as alliances with other firms (Hoffmann & Schlosser, 2001) and innovation (Golovko & Valentini, 2011) all can influence internationalization and export activities. Naldi & Davidsson (2014) identified that age negatively influences internationalization. International knowledge acquisition is positive only in younger firms. Older firms tend to accumulate knowledge from prior international experiences, creating an excess of resources and bias that SMEs would potentially employ in future market expansions (Naldi & Davidsson, 2014). Young firms would be more proactive to try new practices in developing international strategies due to their limited experience. In addition, the CEO's previous experience in the industry is positively linked with SMEs' growth (Alayo et al., 2019). Contrary with firms' age and internationalization, the CEO's previous knowledge could benefit SMEs in developing new international activities.

Alliances with other firms, another factor influencing internationalisation, represents a major strategy used by SMEs intending to expand their business to a new country (Robson & Bennett, 2000; Hoffmann & Schlosser, 2001; Lu & Beamish, 2006; Li et al., 2018). Alliances with competent firms can provide SMEs with the necessary capabilities and resources to develop their activity in a foreign market (Hoffmann & Schlosser, 2001). SMEs might lack some resources that could be found in another company through a partnership or alliance. International joint ventures, a partnership with a local partner, have a positive effect on firms' profitability (Lu & Beamish, 2006). An alliance with a firm based in the target market could offer the missing knowledge to develop proper strategies in that particular country. Contrary, with the positive effect of alliances to developing international strategies, these alliances could increase firms' dependencies on an external firm to develop their activity (Saarenketo et al., 2004). Even if international businesses help developing positive skills for firms, these become more dependent on alliances and networking than those only making businesses in the domestic market. External firms could also help SMEs aiming to internationalise without having any partnership or alliance. For example, preceding international experiences help establishing a good network in foreign locations, helping SMEs in their internationalisation path, particularly for younger firms (Zucchella et al., 2007).

Lastly, innovation also influences internationalisation and vice versa: innovation is complementary with exporting (Golovko & Valentini, 2011). SMEs could obtain new sources of innovation from foreign markets, and innovation can help firms with the necessary resources to develop businesses abroad. For example, a modern logistic procedure could facilitate exporting to diverse and distant countries.

Network

Firms can benefit from having a strong network (Scott et al., 2022). Networking activities appear to promote market extension growth, for example through exporting and importing (Havnes & Senneseth, 2001). At the same time, Havnes & Senneseth (2001) showed that SMEs working together with other firms can stimulate growth. SMEs with strong networking activities tend to acquire a significantly higher productivity than those maintaining a weak network (Biggs & Shah, 2006). Comparing firms without having any alliance partnership or a strong network with those that enjoy alliances with another firm or a good network, SMEs retaining good alliances and network grow faster than those making businesses by their own (Moreno & Casillas, 2007; Bi et al., 2017). SMEs in a partnership with another firm are more likely to obtain greater profitability and become successful (Foreman-Peck et al., 2006).

One of the principal reasons for SMEs to develop a good network and alliances with other firms originates in the need to fill a lack of necessary resources (Saarenketo et al., 2004). Partners can provide with the missing and indispensable knowledge or technology. Partnerships with other companies can help SMEs to learn how to enter in new foreign markets (Danis et al., 2010). SMEs having good and early relationships with their suppliers tend to obtain greater opportunities to grow and also tend to grow earlier (Wynarczyk & Watson, 2005). Obtaining counsel from other firms can positively influence performance (Robson & Bennett, 2000). In both pri-

vate and public sector, advice can help SMEs supporting growth (Robson & Bennett, 2000). Advice for managers is essential and contributes to success together with their experimental learning, erasing the organization's knowledge gap. On the other hand, formal training for all employees has a negative effect and results in employees owning too specialist skills in the same field, delaying the taking of decisions (Kotey & Folker, 2007).

As a different type of alliance and partnership, clusters can be beneficial for firms. Firms conforming a cluster can save costs related to the production by subcontracting other firms within the cluster (Aw, 2002). Being part of a cluster or developing alliances with large firms can make it easier for SMEs starting a new business and obtaining support. Nevertheless, clusters formed by SMEs tend to be weaker than those constituted by larger firms, having lower salaries for the employees, and lacking important resources (Aw, 2002).

Additionally, social relationships, both employees inside and outside the firm could influence the firm's productivity and performance (Vos et al., 2007). At the same time, Vos et al., (2007) recognized a positive relationship between happiness and social connections, motivating employees and improving the performance.

A strong network can be beneficial when SMEs aim to develop business in international markets (Paul et al., 2017), to obtain the necessary financial resources to develop their activity (Wynarczyk & Watson, 2005), and to promote innovation (Hoffmann & Schlosser, 2001). As stated by Zucchella et al., (2007), a strong network would be more beneficial for the development of internationalisation strategies than for firms' performance. A good network would be directly beneficial for internationalization and therefore also be indirectly beneficial for SMEs' growth. Firms having a solid network have a higher likelihood to succeed exploring new activities (Paul et al., 2017). Nonetheless, local partners can help small firms to obtain access to the necessary knowledge and technology, which is key to successfully make businesses in a particular market (Lu & Beamish, 2006). Ultimately, SMEs could benefit from their network and relationships by obtaining financial support for their business activities (Wynarczyk & Watson, 2005). SMEs considered as risky for financial institutions could use their network to access financial support.

Innovation

In agreement with Gibb's analysis (2000), analysis, businesses embracing innovative practices can be defined as firms conceiving new products, developing new markets, executing managerial changes, using new technology in both the production and the product itself, or changing their procedures. Also, innovative SMEs have three aspects in common (Keizer et al., 2002). First, they are in contact with knowledge centres, for example, business schools, research centres, or clusters. Second, they make use of public subsidies aiming to promote innovation. And finally, they distribute a great part of their budget in R&D practices.

SMEs in the manufacturing sector aiming to ensure a prosperous prospective performance should develop strategies promoting innovation (Keizer et al., 2002). Investing in R&D, particularly process and product innovation, promotes growth (Rolfo & Calabrese, 2003). Additionally, R&D investments positively support the

development of innovative capabilities and impact long-term performance (Lee & Kwon, 2017). As stated by North & Smallbone (2000), innovative strategies promote growth of SMEs. From their research, it can be inferred that firms aiming to grow must innovate. Rural SMEs are a good example of innovation actions boosting performance. The majority of innovative rural firms are the best performing ones: They tend to grow faster, in terms of sales and employment (North & Smallbone, 2000). Employment and growth is positively related to both process and product innovation.

Contrary with the main trend of innovation promoting growth, Nunes et al., (2010) recognized that R&D strategies do not help promoting growth, but instead can be a restricting factor for growth. The positive influence of innovation on firms' performance only happens until a certain point. The relationship between technological innovation and the international growth of a SME follows an inverted U-shape trend (Bagheri et al., 2019).

Dibrell et al., (2008) exhibit the importance of investing in innovation. SMEs continuously failing in proper invest in innovation develop a higher risk of being overtaken by their technologically superior competitors. During declining periods of economic crisis, firms decrease their investment in innovation, particularly small firms in the manufacturing sector (Madrid-Guijarro et al., 2013). This null investment results in a loss of competitiveness. Nonetheless, during both expansion and recession phases, innovation is positively related to an increase in performance. In addition, the lack of competition in the local market could also negatively impact innovation in a firm (Mariotti & Piscitello, 2001). SMEs lacking local competitors, paradoxically, decreases the competitiveness that could be necessary to develop their activity in foreign markets against competitors.

Internationalisation (Saarenketo et al., 2004) and network (Hoffmann & Schlosser, 2001) are two factors affected by innovation in different manners. On the one hand, innovation can be beneficial to international companies to efficiently develop their activity. Firms can benefit from economies of scales and save costs (Saarenketo et al., 2004). On the other hand, SMEs could obtain the lacking knowledge and experience necessary for the development of their business from a robust network (Hoffmann & Schlosser, 2001).

Public institutions

SMEs face more growth constraints than large firms (Beck & Demircuc-Kunt, 2006). For this reason, public institutions aim to help and benefit firms to boost economies by strengthening and improving firms' capabilities. This aid occurs in two major forms: subsidies supporting businesses' activity and help to fight possible barriers preventing firms to grow. For example, in 2000 the OECE created the Bologna Process (Schlögl, 2004) and in 2020 the European Union developed the Europe 2020 Strategy program, both focusing on employment creation and sustainable economic growth stimulation. The implementation of these programs intended to increase the level of innovation in SMEs (Triguero et al., 2014). However, governments themselves can create barriers preventing firms to properly develop their activities. Extensive bureaucracy, high taxation, lack of state support, and late payments from customers

and government, are the principal barriers for SMEs when developing their business activity (Bartlett & Bukvič, 2001).

Government support, tax facilities, and subsidies with good conditions are crucial for SMEs to grow (Bennett & Robson, 2003; Rodriguez et al., 2003; Paul et al., 2017) recognised a positive relationship between the continuous use of institutional support and the probability for a small business to succeed. On the other hand, an excess of support from public institutions could develop contrary effects than the intended positive results (Honjo & Harada, 2006) and negatively impact on performance. SMEs could become dependent on external financial facilities. In addition, SMEs encounter difficulties in granting the subsidies resulting in many not even applying for aid to avoid long and tedious processes (Rolfo & Calabrese, 2003). Bureaucracy and the complexity on applying to subsidies become a barrier for firms aiming to obtain some economic support (Keizer et al., 2002). Firms need specific knowledge to confront the complex regulation to access subsidies from public institutions.

Even if governments develop politics and subsidies to provide firms with the necessary tools to fight against these barriers, Veronica et al., (2020) criticize institutional support for not being continuous over the entire life of a SME. Institutions tend to only facilitate support during the first years of existence but not once the business matures. Furthermore, SMEs only receive the smallest portion of the public investment (Josifovska, 2004). European Union institutions offer insufficient resources to sustainably promote growth for SMEs even if they conform the majority of the firms in the region.

Two factors are influenced by the public institution aid: the internationalisation and the access to financial resources (Mambula, 2002). Scarcity of available financial and managerial resources constraint SMEs from internationalisation (Riding & Haines, 2001). SMEs encounter different barriers when exporting and developing into foreign markets. The main constraints for them are the lack of resources and the poor implementation of public politics trying to help (Mambula, 2002). Therefore, SMEs would need a better support from the governments to effectively promote international growth. Furthermore, banks are afraid of giving loans to SMEs. Financial difficulties conform one of the greatest barrier for a firm to expand (Mambula, 2002). Together with the institutional boundaries this reduces possibilities to grow.

Capital structure

A strong capital structure is essential for SMEs to develop their activity. Having the necessary financial resources is key for firms to expand, and grow (Rasheed, 2005). For this reason, obtaining financial resources is critical for SMEs that encounter important difficulties accessing external resources. These difficulties impede the development of their expansion strategies, and sometimes even their day-to-day activity (Wynarczyk & Watson, 2005).

SMEs are confronted by more barriers in obtaining financial resources than bigger firms. Financial institutions classify them as being riskier, demanding more requirements to lend money. The arduous process of accessing external financial resources results in an extended use of internal resources by SMEs to develop their activity (Lopez-Gracia & Sogorb-Mira, 2008). As per Lopez-Gracia & Sogorb-Mira (2008),

banks and other financial entities claim their refusal to SMEs' lack of information and the low quality of it. The absence of transparency inhibits SMEs from obtaining outside financial resources (Van Caneghem & Van Campenhout, 2012). Additionally, depending on where SMEs are located, this also influences the degree of difficulty in accessing financial resources. For example, Belgian micro-sized enterprises seem to be less sensitive to inside financial methods than Slovenian micro-sized firms (Hutchinson & Xavier, 2006).

Loans are one of the most frequent financing facilities used by firms to develop their activity. The use of long-term loans by SMEs is positively related with growth (Hall et al., 2004). Nevertheless, firms achieving greater growth rates seem to be the ones paying the higher interest rates on bank loans as banks are only interested in firms' cash flow generation to pay back the loan.

Motivated by the difficulty to access external financing, small firms tend to use family savings or retained profits (Romano et al., 2001). Holding cash by SMEs, usually, has a positive effect on their performance (La Rocca et al., 2019). The use of debt is pricier for smaller firms for two reasons: the difficulty of obtaining loans and the high interest rates imposed as a result of higher risk. As per La Rocca et al., (2019), holding cash is beneficial and cheaper for small firms. Therefore, small enterprises facing rapid growth usually encounter barriers in obtaining the necessary resources to accompany their increase in activity as they are penalized with higher borrowing costs (Brown & Lee, 2019). The unavailability of financial resources impedes the materialisation of SMEs expansion.

Firm age influences SMEs' capital structures (Romano et al., 2001); taking as an example the case of family business during the earlier stages of their life cycle, the start-up phase, such firms showed to be more likely to use family loans to develop their activity or any expansion plan. On the other hand, capital structures, particularly the financial resources from a SMEs, have an effect on innovation (Keizer et al., 2002). In this sense, financial resources are necessary for developing innovative activities and strategies, and these are typically supported by public subsidies (Keizer et al., 2002). Also, there is a relationship between internationalization and capital structure in both directions (Rasheed, 2005): the internationalization degree has an effect on the type of financial resources used, and the capital structure determines if there are sufficient resources to expand internationally.

Discussion and implications

Discussion

A large number of studies analysing the elements influencing and promoting growth for SMEs evolved over the past decades. From 2007, papers shifted from developing conceptual frameworks to more analytical research, aiming to understand the possible strategies to promote growth in the smaller enterprises and boost the deprived economy. For example, authors focus their analysis on SMEs' size and age in the years preceding the economic decline, and on network, innovation, and barriers in the subsequent years. Nevertheless, there is a consistency over most of the studies, even

when taking into consideration the evolution of the topic over the years. Firm size, age, internationalization, network, innovation, institutional support, and capital structure significantly influence SMEs' relationships with growth. The particular characteristics of a small firm illustrates its progression and performance in the future. The importance of SMEs on the economies, especially on the developed ones, exhibits the need to further investigate better practices that benefit the smaller enterprises and strengthen the economy.

This article targeted to answer the research question “*What are the factors that drive SME growth?*”. The aim therefore was to identify the foundations of SME growth and how these different factors are interlinked with each other. The growing research field shows the interest of research and also practitioners in how SMEs can grow over time. A total of seven factors were identified in the existing literature and synthesized. This synthesis shows interesting results for the wider research community and identified the shape of different underlying variables. Therefore, the following paragraphs outline the core contributions of this article by improving the general understanding of how growth works in SMEs, how it is fostered and how this research contributes to the SME literature base, especially by pointing out solutions for necessity entrepreneurs.

Age and size of companies have a close relationship. The older a company gets, the more time it had to grow and therefore, size of the organization increases. However, within older and larger firms growth rates start to decrease (Nunes et al., 2010). In general, it is smaller firms on the growth relationship that grow with higher rates, but require time to grow to larger ones. This growth, however, is not just happening. It requires further factors that come into play. Firms that from the beginning start with strong growth paths and increase their size due to it, grow bigger in general (Taymaz, 2005). This indicates that the underlying strategy of a company is already a clear determinant of growth. Companies that are founded for early growth have different business plans than others. This is a question that is often driven by the initiation of entrepreneurial activity as either necessity or opportunity (Salmony & Kanbach, 2022).. This differentiation could also be a clear indicator for the resource gap among smaller firms and future studies should pay close attention when investigating small firms. Firms born out of necessity are known to be less innovative and focus more on existing business models that are imitated (Angulo-Guerrero et al., 2017). This makes it harder for smaller ventures to get to required capital, as known small company financiers are looking for growth companies rather than imitational companies. The difficulties to access financial resources impacts SMEs' innovation and internationalization plans. Therefore, the study results clearly show that in the future a stronger understanding of the underlying population is required to prevent bias in the results. This makes clear that a difference among entrepreneurial venture building and non-entrepreneurial venture building is a key factor in this field.

While for opportunity entrepreneurs the institutional strategy already plans long-term growth and their business models and structures are planned for these scenarios (Angulo-Guerrero et al., 2017), the question arise if also necessity entrepreneurs are able to overcome their liabilities. This is where the results on how growth is fostered in SMEs help these companies to outgrow their potential. While age comes over time, other factors can actively be managed by the SMEs and their managers. When

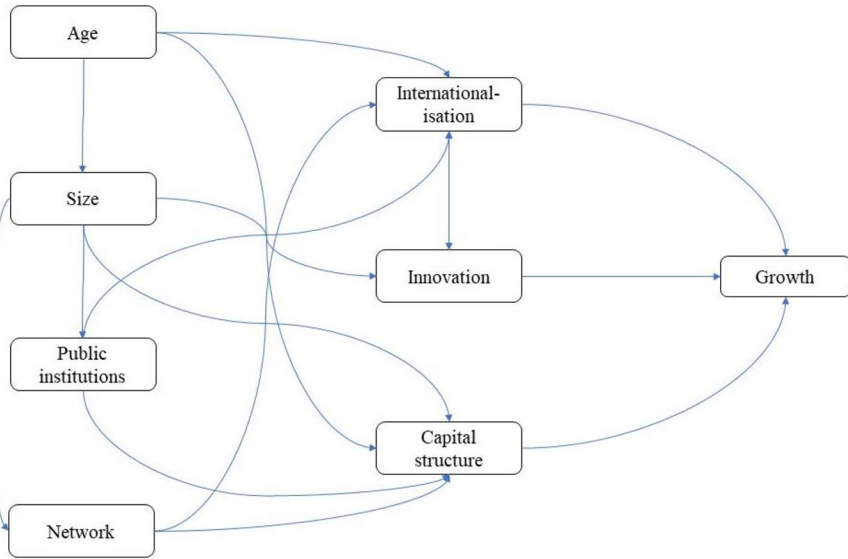


Fig. 2 First indicational structure of SME growth factors

necessity entrepreneurs start their growing experience in entrepreneurship can help them to move into new growth scenarios. These could be that with growing experience the network expands, which is described as a determinant of growth (Biggs & Shah, 2006). This expanding network also allows international growth (Lu & Beamish, 2006). For necessity entrepreneurs, this could be a foundation for success. As they primarily imitate existing business models, these could be new in other countries. Therefore, a growing network could lead to the development of a new innovation opportunity elsewhere. Literature suggests that these developments require free capacity in companies to think about strategic development (Breier et al., 2020). These free resources are a requirement to engage in innovation and rethink existing norms in the firm. Innovation itself is then another fundamental that helps companies to grow (Lee & Kwon, 2017).

The results of this SLR also show that the individual factors that lead to firm growth and improved performance are well investigated. However, the overall relationship among these factors is still an open question. Several links among the individual factors indicate that some of the factors are rather moderators or mediators to the overall relationship. This SLR is not finally sufficient to outline the internal connectedness of these factors, however, Fig. 2 tries to bring some of these connections into a several-level order. This order is not a final state of the research field but tries to bring some structure into the identified results. This way, it aligns prior research published so far on SME growth. This study contributes to SME research by explaining the relationship between SMEs and growth. Prior studies focused on analysing the relationship between a specific factor and growth. Not only laid these studies the focus on only one factor, but they ignored the linkage among these factors. In our research, seven factors were recognized to interfere in growth for SMEs (see Fig. 2):

size, age, internationalization, network, innovation, aid and barriers of public institutions, and capital structure. In addition, our article identified the relationship among these factors and how one could influence another one and, consequently, SMEs' performance. The analysis of these factor and their linkage should be taking into consideration to analyse SMEs and determine their possibilities to grow. At the same time, the factors could be used to measure businesses' strengths and weaknesses and develop customized strategies to promote a solvent performance. For example, public institutions could develop customized strategies for SMEs by analysing these seven factors among all small firms in a location. This analysis could be used as a tool to identify issues in different business fields. A picture of the SMEs' current situation could be obtained by analysing the different factors influencing growth for them. This tool could offer a fair picture of the current situation.

Limitations and research opportunities

Several limitations affecting this work should be recognized. As a first limitation, the present study potentially might not yet have identified all factors influencing growth for SMEs. The methodology used, a systematic literature review, could disregard some papers including other factors that were not covered in this research. Second, the methodology can only identify articles that were already published until 2020, and researchers might already have found since then or be in the process of identifying factors influencing SMEs' performance. Third, there is a potential limitation based on the adopted research keywords. The keyword choice could prevent finding all necessary articles and therefore, the factors mentioned in these articles. Finally, while authors followed the best practices, still some bias in the analysis could be present. The findings could just offer a partial view of the topic not offering some important information, requiring a further investigation to obtain a complete picture of the topic. For example, some relationships that seemed obvious might not have been discussed or analysed by any of the articles used in the research, such as age and network. Possibly there is no linkage between these two factors, but there is a chance this linkage has been ignored by researchers.

During the analysis, some gaps were identified exhibiting a need for further research. Future research could be beneficial to cover the limitations mentioned before. In recent years, authors started analysing growth from a different perspective, questioning the current strategies promoting growth as the only path for businesses. In particular, two concepts lead this new trend in the analysis of growth: degrowth and green growth (Buch-Hansen & Carstensen, 2021). The first one, degrowth, criticizes growth and suggests shrinking as the only solution to survive both the planet earth and companies. This concept criticizes extreme consumption habits, overproduction, and offshoring production. The second one, green growth, questions offshoring strategies and suggests local production as the best practice to develop a business (Rodriguez & Jesus Nieto, 2016). This new direction supports the idea that climate change will negatively impact firms' performance if strategies promoting growth do not change. More eco-friendly activities could be beneficial for both firms' performance and the environment. The little literature on this new approach displays a need to develop further investigation on the topic.

Additionally, qualitative research should be developed to analyse the SMEs' needs and intentions to succeed in their business activities. For example, information could be taken from a survey, including key questions such as their growth intentions, their growth ambitions, their resources, and their needs. Potentially, the results would contradict previous studies that were assuming growth as the only possibly to succeed.

Conclusion

This study aimed at creating a holistic understanding of the relationship between SMEs and growth. At the same time, this paper intends to understand the evolution of this relationship from 2000 to 2020. Understanding the factors promoting SME's growth is key to determine the future strategies to be taken by public institutions and firms' managers to avoid instability during, for example, periods of economic crisis. With the intention to identify the major factors influencing growth, the study identified seven important elements: firms' size, firms' age, firms' internationalization exposure, firms' network and alliances, firms' innovation strategies, aid and barriers by public institutions, and firms' capital structure.

In conclusion, these seven factors influence SMEs and their performance. Experience and size are positive attributes inferring SMEs' growth. At the same time, firms developing activities in foreign countries and international enterprises tend to obtain better growth rates than those only developing their business in the local market. In addition, alliances and social network can be beneficial for small firms to obtain the necessary resources, such as knowledge on how to do business in international markets, financial resources, or innovative procedures. Innovation helps firms to improve their productivity and grow their performance. On the other hand, smaller firms encounter many barriers, principally in obtaining financial assets, as they are considered riskier than larger enterprises. For this reason, public subsidies could support SMEs to acquire financial resources, implement innovative procedures, expand their business to new markets, and eventually achieve substantial growth rates. Not only do these seven factors have a direct effect on growth, but also are, size, age, internationalization, network, innovation, public institutions, and capital structure influencing each other and hence improve their effect on performance (see Fig. 2). For example, firms' age and size influence growth in a stronger manner than age by itself.

Most of the studies investigated the possibilities to promote growth without questioning if this was positive for SMEs or if it was requested by their managers. The analysis of these seven factors and their linkage could be used as a tool to identify a firm's possibilities to grow and to develop customized strategies according to its peculiar characteristics. From the literature review also several gaps were identified, suggesting the need to further research analysing the generalized assumption of growth as the principal goal for all SMEs.

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