

Analysis on the Factors that Determine Sustainable Growth of Small Firms in Namibia

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Abstract: The demise rate of small firms every year is high worldwide and mostly these businesses struggle for many years without significant growth. Therefore, this study focused on identifying factors that contribute to the sustainability of growth for small firms in a developing country. Small firms are vital in the development and growth of bottom billion economies and are part of solutions to social problems that Namibia experience, inter alia, high unemployment rate. In developing countries, it is estimated that 45% of formal sector workers belong to SMEs and about 24% of GDP is contributed by small firms. SMEs are known for the common characteristics such as responsiveness, strategic agility, and leanness in operations management that are often aimed to meet and exceed variations of market demands. Thus far, it is crucial to study such behavior of small firms responsible for their growth or demise in the contemporary markets where small firms are crippled by raspy competition from MNCs.

Keywords: SMEs; Sustainable growth; Business strategy; Hidden champions

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INTRODUCTION

Small businesses are seen as a significant source of employment in developing countries. Small businesses represent large portion of employment in Namibia, considerable emphasis is placed on the contribution that the SME sector can make towards relieving the high levels of unemployment in Namibia. The policy framework provides for an enabling environment for small business growth while renewed emphasis has been placed on measures to assist the development of this sector. The contribution of small business to employment creation or the impact and efficacy of the various policy initiatives and support are, however, not the subject of this study. The point of departure of this study is based on evidence that initiatives to promote small business need to be focused (Glancey, 1998). Policy makers are becoming aware of the economic and social limitations of policy initiatives that rely too intemperately on the small business sector as a whole. We posit that these initiatives should rather be aimed at firms and sectors with growth potential, otherwise is waste of supportive resources given to SMEs. It is maintained that most of the additional jobs created comes from a relatively small number of small businesses in Namibia. To target and identify such firms and sectors, the factors likely to influence their behavior need to be identified. The success of any business be it small or large enterprise is dependent on a range of situational and contextual factors (Fielden et al, 2000), so too is its demise. In literature, there is no clear predictive theory, guidelines or understanding as to whether a small business will start up, grow, succeed or fail. Although scholars posit 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 to follow. Instead, the evidence points towards a complex set of interrelated behavioral factors that increase or decrease the probability of a successful and growing small business in a holistic manner.

Small businesses are an important mechanism and integral part of every nation's economy and have been long recognized as different from large businesses (Hambrick and Crozier 1985). In Namibia, SMEs significantly contribute to the national economy in various ways: inter alia, employment creation, adding value to the gross domestic product of the country, assisting towards the realization of the Namibia's vision 2030. In order to grow, small firms must evolve their organization, incorporating changes to management structure, operational planning, control, and communication processes (Hanks 1990), without impairing the firm's competitive advantage. Failure to make these changes may result in harm to the business through stagnation, negative growth, loss of customers, and failure to introduce new products, potentially closing the business (Churchill and Lewis 1983; Hambrick and Crozier 1985). The essence of innovation towards growth of small businesses have been quite noted in developed countries, but the opposite in developing countries that lack significant radical innovations besides entrepreneurial creativity to lead the market. Information systems are also often relied on to assist growth, although small businesses often find technology difficult to implement due to resource constraints (Raymond 1985). The hidden champions' factors are considered to be the key factors that determine business prosperity. The success of a small business is therefore guided by the integration of the intentions of the owner/manager, assisted by factors associated with the capability and opportunity of the specific business to grow. The aim of this article is to make use of a multiple logistics regression model to determine the variables that impact positively on

sustainable business growth. In addition to customer closeness factor, it was established that smaller and younger businesses are the ones that grow faster as they study and understand very well the specific needs of their customers. A successful business also shows a positive correlation between business strategies and organizational leadership.

This research focused on ways in which the factors that significantly contribute towards sustainable growth of small businesses can be identified and quantified. The results can indicate which factors are important for the growth of firms. Particular emphasis was placed on the role of leadership in small business growth.

METHODOLOGY

For the completion of this paper, we undertook a comprehensive examination on the factors that determine sustainable growth in small firms and the questionnaire tool was used for primary data collection. Review of relevant literature formed as the basis of key variables used for this study. The questionnaires were distributed to over 50 small firms in Namibia and 134 informants took part in the study which targeted founders and employees at different organizational level of small firms. Logistic regressions (Chi-square and P-value) was applied to measure the correlations among variables. Additionally, and the Odds and Odds ratio were used to measure the probability of attaining growth in small firms.

Table 1 Experimental Variables

Variables	Items
Customer Relations/Service	1 Price, 2 Service quality, 3 Responsiveness, 4 After-sales service, 5 Number of regular customers, 6 Dependence on products, 7 Customer contact, 8 Customer retention, 9 Brand image/reputation, 10 Market channels
Markets/Competition	1 Market barriers, 2 Niche markets, 3 Diversification
Government Relations and Networks	1 Governments, 2 External networks, 3 Sources of finance
Organizations, Leadership, and Human Resource Management	1 Organization structures, 2 Culture, 3 Leadership, 4 Procurement, 5 New business planning, 6 Management strategy, 7 Exploration of new markets, 8 Organizational management, 9 Research and development
Business Strategies	1 Product differentiation, 2 Cost leadership, 3 Market concentration, 4 Technology leadership, 5 Type of sales, 6 Pricing, 7 Outsourcing, 8 Customer relations, 9 Service, 10 Advertisement, 11 OEM use, 12 Product quality, 13 Flexibility, 14 Delivery
Products and Innovation	1 R&D investment, 2 Number of researchers, 3 Number of employees with a master's degree, 4 Cost of developing new products, 5 Cost of improving products, 6 Intellectual property rights
Internationalization	1 Time to internationalization, 2 Global alliances/joint ventures, 3 Number of overseas branch offices

RESULTS AND DISCUSSIONS

1. SMEs growth measures

There is variation on preferred monetary and non-monetary growth measures by different firms studied in Namibia. The graph below shows the preferences on measures of growth from the study conducted on Namibian SMEs from different industries. While the Ministry of Trade in Namibia prefer to define and categorize growth of SMEs on number of employees, however, the study shows that SMEs do not prefer to use number of employees to measure their growth. In fact, they view the number of employees as an overhead, which means the quantity of employees in SMEs is not much a strategic contributor to their growth but the quality of employees carrying out day by day business operations is what matters. The linear trend line in the graph is referred to as “50/50 vector” in this paper. The 50/50 vector separates the measures on the range of 50% apiece to exhibit the most preferred growth measures at above 50% and least preferred growth measures below 50%. Retained profit is the most preferred measure that Namibian SMEs use to assess their growth, and is the predominant source of financing among growing SMEs. In addition, sales turnover, operating profit, profit after tax, increase in customer base/number of clients and increase in productivity are most preferred growth measures, respectively.

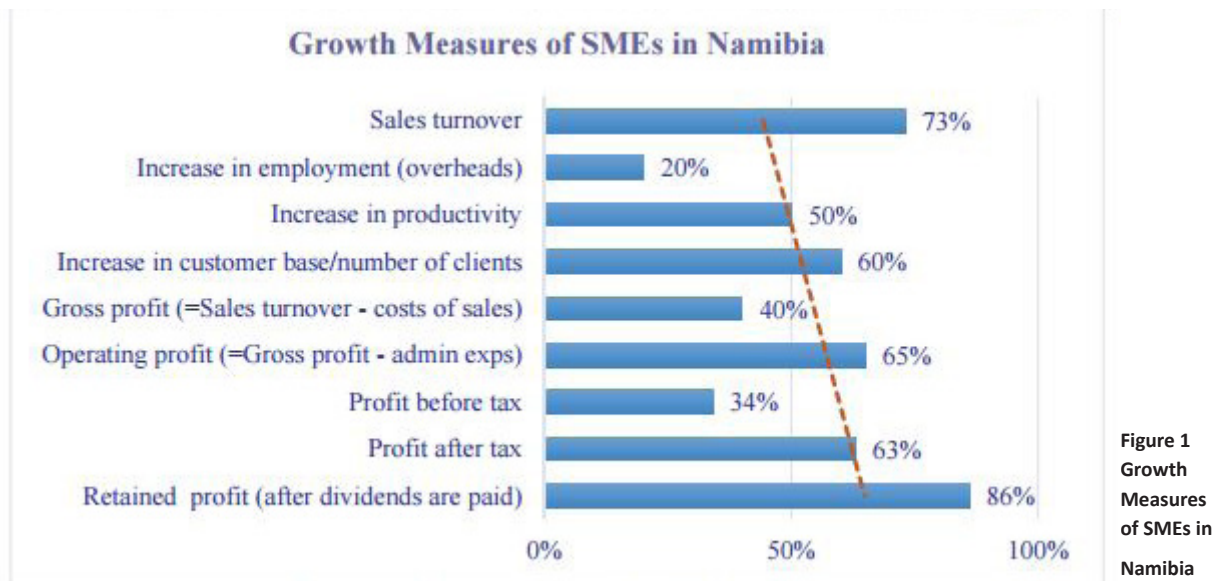


Figure 1
Growth
Measures
of SMEs in
Namibia

2. Hidden champions analysis

To identify the determinants of successful small firms growth, we classified the variables into seven categories adapted based on those for Simon’s hidden champions of the 21st century: (1) customer relations/service (CRS), (2) markets/competition (MC), (3) government relations and networks (GRN), (4) organizations, leadership, and human resource management (OLM), (5) business strategies (BS), (6) products and innovation (PI), and (7) internationalization (INT). We assumed that the critical success factors to become high performing SMEs are determined based on distinctive behavior which explain their growth patterns.

Hence, rather than focusing on the firms’ demography such as firm size, age or gender of owner, the behavior of small firms is more concentrated in this study. These categories are

employed to determine not only the performance of hidden champions but also that of general and internationalized SMEs although in our study the internalization of small firms was found to be weak and insignificant.

Table 2 Summary of Results

Variables	CRS(1)		MC(2)		GRN(3)		OLM(4)		BS(5)		PI(6)	
	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High
No Growth	0.7	0.3	0.7	0.3	0.7	0.2	0.8	0.2	0.8	0.3	0.8	0.2
Achieved Growth	0.3	0.7	0.3	0.7	0.3	0.8	0.2	0.8	0.2	0.7	0.3	0.8
Odds	0.3	2.4	0.4	2.8	0.4	3.8	0.3	3.0	0.3	2.3	0.3	3.2
Odds ratio	6.8		8.0		10.7		10.3		8.1		9.7	
Chi-square value	81.354 ^a		91.984 ^a		108.973 ^a		112.388 ^a		94.373 ^a		82.024 ^a	
Sig.	.000		.000		.000		.000		.000		.000	

Below are the critical factors that need consideration in maintaining the growth of small and medium enterprises.

2.1 Customer Relations/Service

Simon (2009) argues that closeness to customers helps the hidden champions' innovation effort. Closeness to customers means to have tight relations with the customers, and spatial proximity through decentralization is a way of maintaining good relations (Simon, 2009). For closeness to customers the most reported underlying variables are number of regular customers and market channels. The main reason for staying close with customers is to secure repeated purchases. This is an expected finding since it points to the essence of customer relationship which in the end is profit through continuous business from existing customers. The results show that SMEs that have customers who are potential long-term, and therefore special effort to secure the next deal seems vital for the business are significant to achieve growth at P-value 0.00 and these firms are in a position of 2.4 times (odds) likely to gain some sort of growth as compared to those that have low rate of loyal customers.

2.2 Markets/Competition

These internal competencies are linked with external opportunities that are in the market. The hidden champions are focused on a niche market, where they make use of their strong competitive advantage and market presence. This market presence also gives them closeness to customers, which makes sure the company understands customers' needs and can use this data in their innovation process. Innovation ensures the competitive position and together with customer relations it makes sure that technology and customer needs are coherent. This feature gives the hidden champions a strong advantage that they can transfer to other regions all over the country and thereby ensuring growth and economies of scale which lowers the cost, and strengthens the competitive advantage further. Our study found SMEs that are strong at these market features achieved growth. The regression model shows the significance of P-value 0.00

and has likeliness of 2.8 times in achieving growth than those that do not enjoy such market features.

2.3 Government relations and networks

Maintaining a good relationship with the government guarantees business survival over period of time. The government is an important source of SME financing and other business supports such as training and education. Networking has become the art of success in today's business environment. Networking connects the firm to government, customers, and suppliers and even to other businesses to form strategic alliances for resources and capabilities acquisitions towards sustainable competitive advantage and consequently the growth of the firm. This variable is found to be significant and the firms that have high degree of government relations and networks are 3.8 times likeliness to achieve growth than those with low degree of relations.

2.4 Organizations, leadership, and human resource management

This measure is important because it determines how the firm operates whereby goals and objectives always come first. For hidden champions, leadership means inspiring employees to be best, to become a market leader. Simon's hidden champions strongly emphasize the personalities of the leaders, which he has divided into two groups: "founding entrepreneurs" and "entrepreneurs of perfection" (Simon, 2009, p.300). Among the founding entrepreneurs, Simon (2009, p.301) states that they "tend to have five traits in common: Unity of person and purpose, single mindedness, fearless, stamina and perseverance, and the ability inspire others." As for the "entrepreneurs of perfection", they are the new generation of CEOs that take over after the founding entrepreneurs. They are well educated, possess excellent English abilities, and they "move with great self-confidence around the international business stage" (Simon, 2009, p.304). This study found positive results showing a significance of 0.00 and odds showing the likeliness of 3.0 times for firms with high degree of this variable to achieve growth than those with the low degree scenario.

2.5 Business strategies

Business planning and objectives were related positively to firm growth, indicating that faster growing firms often had business planning and objectives. Marketing strategies, for instance advertisements and market concentration were related positively to firm growth, with some factors being important and some not important in the study. Technological sophistications, particularly in firms operating in IT industry were found to be important in achieving firm growth. Training programmes for employees both internal and external to embrace flexibility were also found to be a feature of successful firms. Odds show 2.3 times to achieve growth from firms with high degree of well implemented strategies that features as a guiding tool of business operations.

2.6 Products and innovation

Growth is linked to a company's ability to innovate (Nelson and Winter, 1978, 1982). Moreover, to sustain growth, firms need to constantly respond to their customers' needs in novel and precise ways. To our knowledge there is no sufficient empirical evidence that demonstrates a link between innovative activity and growth among small firms in Namibia. Although the results show positive significance of products and innovation towards growth. However, the important evidence found is that small firms with high educated employees, to be precise at master's degree level and invest in market research were more likely (3.2 times) to achieve some sort of growth by improving products to meet customers' needs.

CONCLUSION

The study makes a contemporary contribution in the sense that it quantifies some of the important factors in a developing economy responsible for sustainable growth in small firms. Closer attention will have to be paid to these firms to assist them in surviving and sustainable growth. Small businesses in Namibia indicate higher rates of employment according to prior government surveys. Internationalization of Namibian SMEs was found to be quite low for that reason the results were deliberately not presented in this paper. The results of this research paper emphasizes that entrepreneurial spirit is the key to job creation, improving competitiveness and economic growth in Namibia. After all, the growth of small firms in developing countries depends on government role in creating an enabling environment with favorable market conditions combined with some support to young dynamic entrepreneurs which in return significantly contribute to employment creation and economic growth.

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