

Key Factors of Small Business Success: Literature Review

Małgorzata Okręglicka
Czestochowa University of Technology, Poland
m.okreglicka@wp.pl

Abstract: The success of small businesses sector is crucial for national economies of all countries around the world. This is why the constant analysis of determinants responsible for small firm success is necessary. It allows for a quick reaction to changing business conditions and the continuous improvement of management methods. Literature review indicated that the analysis of key success factors of small businesses is a commonly undertaken subject, although it is difficult to find a comprehensive study, completely classifying the determinants of success according to certain criteria.

Keywords: *Small business, determinants, success factors, enterprises*

1. Introduction

Twenty five years after D'Amboise & Muldowney (1988) proposed the creation of a separate, specific theory for small business, the scientists still have not agreed on specific approaches to small business theory. For a long time the dynamics of small enterprises has been analyzed and theorized as if they were large enterprises. This paradigm has led small entities to adopt management principles, techniques and practices that are not adequate to their reality (Iacono & Nagano, 2009). Management theories are essentially grounded on problems from large enterprises, and that means they cannot be extended to small firms because the latter have different characteristics (Leone, 1999). The role of small business is crucial for national economies of all countries around the world. Many studies have reported that economic growth requires participation from small business units (Battilana & Casciaro, 2012). They play a fundamental role by stimulating domestic and regional economic growth, reducing unemployment, stimulating market effectiveness or innovation-based customer need fulfillment (Kaur & Sharma, 2014). The organization success can be seen to have different meanings and can have different forms, e.g. survival, profit, sales growth, return on investment, number of employed; reputation etc. (Philip, 2011). The success of small business has been defined in economic literature in various ways. In its simplest sense, it may be defined as the ability to survive or to remain in business (Lussier and Pfeifer, 2001). It is also stated that success of the organization is typically defined by such economic measures as survival rate, growth in employees, sales increase, and profitability (Hibbler-Britt & Sussan, 2015) and is determined by many essential factors.

Critical success factors in general have been one of the most actively researched topics (Lee & Ahn, 2008). They may be examined in relation to each project, market or organization type, and therefore also for small businesses. Critical success factors are: "those few things that must go well to insure the success of an organization" (Boynton and Zmund, 1984). Rockart (1982) stresses that critical business factors are the limited number of areas in which result, if they are positive or profitable, will ensure competitive performance of the business. These key factors applied to thriving enterprises may enable high organizational performance (Drucker, 1973). The variety of factors affecting the effective functioning and development of the organization is so large that it is difficult for entrepreneurs to identify these key determinants—the most responsible for the success of a small business, which increases the risk of economic activity (Gorzeń-Mitka, 2013).

2. Literature Review

Literature review is defined mainly as a qualitative synthesis and a fundamental step within the overall research process, which should be conducted in a systematic and transparent way. Badger et al. (2000) describe that from a methodological point of view, and according to them a review of the literature is a

systematic, explicit and reproducible approach for identifying, evaluating and interpreting the existing body of publications. Research papers considered for inclusion in this literature review are: written in English, from peer-reviewed journals, accessible through electronic management databases. The review process was performed in several stages:

- Defining research objective,
- Conducting a search on the databases, in order to retrieve the relevant articles;
- Reviewing the abstracts in order to assess the suitability of the articles,
- Critically analyzing all relevant peer-reviewed articles, important for the objective of the research.

The main objective of the study is to identify how comprehensive is the range of studies in the area of critical success factors of small business and understand the trends in literature. The literature search was based on the following keywords jointly found in title, keywords or abstract: “small business” or “small enterprises” or “small companies” or “small firm” together with “success factors” or “success determinants”. Finally, all available peer-reviewed papers have been carefully reviewed looking at determinants of small business success and their classifications. It was also found necessary to include other articles/documents from the field, as they were mentioned in several occasions in the literature and constitute some of the most important papers in the general topic of critical success factors in business sector in management literature.

3. Results

Literature review indicated that the analysis of the factors of success of small businesses is a commonly undertaken subject, although it is difficult to find a comprehensive study, completely classifying the determinants of success according to certain criteria. Such a classification of the success factors in small businesses would be advisable due to the enormous quantity and variety of the success determinants. In the following, there are factors which were most often mentioned in the study. Jennings & Beaver (1997) stress that attribution of success or failure to small business is dynamic, complex and problematic. It is very difficult to indicate clearly the determinants that ensure effective functioning and dynamic development. Even more difficult would be to make a ranking of the validity of these factors. This is due to the fact that success factors are not obligatory for every type of organization operating in a specific environment. The nature of the enterprises, area of operation, as well as the time in which conditions are analyzed, are crucial. To achieve business success, many factors should be optimal simultaneously, since SMEs success is a multidimensional phenomenon. Both firm-internal and firm-external factors affect firm success. Entrepreneurs in successful SMEs and those in failed SMEs thought that pretty much the same factors are the most important for business success, and held the same views on the factors to be avoided in business (Philip, 2011).

When reviewing the economic literature, one should pay special attention to the company size. Although the general principles of businesses performance are basically the same for all of them, success factors vary depending on the size of the business, particularly if we compare small businesses to large enterprises. After literature review of the subject, it is obvious that there are many classifications of the firm success factors. Moreover, many of the discussed criteria simply identify the symptoms rather than the factors responsible for the success of the enterprise (Jennings & Beaver, 1997). Keats & Bracker (1988) proposed a success factor division for small business, arrayed in three groupings: first - general environment, second - task environment and third - personal characteristics of the small business entrepreneur. A slightly different classification was proposed by Luk (1996) who arranged success factors into three categories: personal factors, managerial factors, and environmental factors (product, market and company factors), combined into two categories - internal and external environmental factors. In turn, key determinants to be important in analyzing the business success of SMEs, identified by Indarti & Langenberg (2005), include the characteristics of the entrepreneurs, the characteristics of the company and the contextual elements of SME development. For the purpose of this article, the following classification of success factors of enterprises was adopted:

- Factors relating to individual entrepreneurs,
- Factors specific to small enterprise,
- Environmental factors.

When analyzing the success factors, the first step should be to identify those associated with the entrepreneur who represents the primary decision-making body for small business. Therefore, the researchers infer that success or failure criteria of a small enterprise must reflect the principal stakeholder's perspective. Thus, the factors for success would reflect the fulfillment of the entrepreneur's specific inspiration. Entrialgo et al. (2000) suggest that individual personality significantly influences the success of small business organizations. The entrepreneur's personality and managerial skills, as well as technical know-how are often cited as the most influential factor on the performance of an SME (Man et al., 2002). In the work of Anggadwita & Mustafid (2014) we can find the statement that individual characteristics such as motivation, optimism, devotion to business, self-efficacy and self management can determine the success of an entrepreneur in business management. Another paper emphasizes the role of decision-making skills, relevant work experience and well-developed interpersonal skills as elements ensuring the success of the organization (Luk, 1996).

In some studies it can be found that such factors as readiness to hard work and for long hours, communication skills, interpersonal skills and business connections are important to the business success, whilst vocational and higher education is not considered by small businesspersons to be a crucial factor in achieving success (Coy et al., 2007). Small companies are specific business entities. They differ from larger entities in nearly every area of business activity. Their features such as poor capital resources, a simple organizational structure, centralized (in the person of owner) management and limited access to information and advanced technologies critically determine the manner of their functioning. That is why the scientists often discuss success factors separately for small business. First, it was found that very frequent reason for success among small businesses was their ability to identify and focus on specific market niches (DeHayes & Haeberle, 1990). On the competitive, global market, small businesses lose out to corporations which have incomparably greater human, financial and informational resources. Therefore, finding and occupying a niche market is clearly an opportunity for rapid development (Duncan, 1991).

In the age of information and rapidly changing environment, adaptability has become a priority, and that requires continuous learning. Jerez-Go'mez et al. (2005) stress that learning capability has been treated as a significant index of firm's competitiveness, especially for SMEs, which provides them a greater opportunity to achieve superior performance. Learning capability becomes the success factor by enabling the small enterprises to identify new strategies and channels or networks to operate more closely with customers, and as result allows them to differentiate themselves from their rivals (Sok & O'Cass, 2011). Additionally, by analyzing small and medium size enterprises operating in the ICT industry Salim & Sulaiman (2011) found evidence that organizational learning contributes to innovation capability and that innovativeness is positively related to business performance. Similarly, Larson (1987) accents the role of this kind of factors, indicating that innovation, growth potential, emphasis on quality and operating efficiency lead to development of the organization, whereas Bird (1989) describes innovativeness together with advanced training and risk-taking behavior as important for small business results. Schumpeter, in the most general definition, describes innovation as any possible changes in the production and distribution of goods. Innovation can be described as creative application of traits held suitable in action to business development (Lyons et al., 2007). While, for large firms, product and process innovations are the most important, small entities the most frequently implement marketing and organizational innovations (Okreglicka, 2007). It is confirmed in many studies e.g. Tohidi & Jabbari (2012) argued that organizational innovation is fast becoming a crucial factor in enterprise survival as a result of the evolution of the competitive environment.

An interesting approach to success has been proposed by Gunter et al. (1995). He found that the secret of success is the emphasis of simplicity in SME operations, which produce a narrower range of goods, sell to few customers, and have fewer suppliers. Their advantage is also created by decentralized organizational structures and simpler, faster processes (Ghosh et al., 2001). Literature review confirms that both for small companies and for medium-sized or large enterprises very important in their way to success are strategic management. It is particularly important for small companies using short-term approach to management while reducing long-term planning – crucial for doing a successful business (Mraz, 1989). Similar factors are indicated by Schilit (1986) who requires the following conditions for success: having a formal business plan, retaining a market orientation, developing a common value system, encouraging entrepreneurial approach through all levels of the company. Next, a clear mission statement and a corporate value system are recognized by Campbell (1991) as keys for a successful business. In turn, Foley (1987)

emphasizes that a written business plan and constant new product development were among the prerequisites for a successful business. On the other hand, many entrepreneurs are great at creating amazing plans but fail in the implementation and the management of people (Miles, 2014).

In the days of strong competition, customer is the center of attention of every entrepreneur. Small business can achieve an advantage in this area by quickly responding to market demands, that means by appropriate response to customer desires and requests (Hills & Narayana, 1990). There may be mentioned here such factors as a customer-oriented policy, a competitive strategy and a personal commitment from the top management (Campbell, 1991). Huck & McEwen (1991) found customer relations to be the competency most important for the success of small business. Duchesneau & Gartner (1990) stress the role of the ability to communicate well and good customer service in sales intensification. To achieve that task, the strong sales and marketing teams are necessary (Foley, 1987). There is no possibility for the organization to succeed without effectively used human resources (Lemańska-Majdzik, 2013). The starting problem is availability of skilled and well educated labor (Steiner & Solem, 1988), the basic factor creating success of the small business. Hills & Narayana (1990) pointed the role of high employee spirit and good management-employee relations which are necessary for the effective management of the organization. Evans (1986) asserted that a company success functioning in a hostile environment was directly related to human resources development, together with top management's involvement with all phases of the operation. Barkham (1989) and Pollock (1989) identified skill and attitudes, both of the managers and employees, as factors contributing to the success of an enterprise.

An unique approach was presented by Gaskill & Hyland (1989) who identified several keys to a successful business, which included performance measurement and avoiding complacency. Success should be identified within everyday struggle with market competitors, which requires continuous improvement of methods and forms of management. Accordingly, a number of studies have reported diverse technical factors as being responsible for success in small business ventures. The technology is presently necessary to achieve high quality of goods and services, and these are a relevant element in gaining a competitive advantage (Hills & Narayana, 1990). Also, McCormack (1989) agreed that one of the most important components to a successful business was a commitment to quality. Huck & McEwen (1991) found technical knowledge to be the competency most important for the success of small business. DeHayes & Haerberle (1990) further identified the following critical success factors of technological nature: the ability to develop and sustain technological advantage and strategic use of information technology. Traditionally, when we describe the conditions for small business success the financial determinants play one of the leading roles. Schilit (1986) emphasizes here the necessity of ensuring adequate capitalization. Lack of capital, especially current capital, is one of the most significant cause's of bankruptcy in small business sector. Moreover, Gaskill et al. (1993) and Osborne (1993) both presented the financial characteristics that must be overcome in order to avoid entrepreneurial failure, i.e.: undercapitalization, poor planning, lack of credibility and poor money management.

The success of the organization is formed not only by its direct action, but also due to the influence of the environment. This is why Schilit (1986) emphasizes the need for continual monitoring of the business environment. External environment factor plays a very important role also for the firm success. Alias et al. pointed that external issues are including factors such as social, economic, political issues, physical or technology advance. Social network, government support, and legality, are the key strategic dimension in external environment in business success. Networks represent a means for entrepreneurs to reduce risks and transaction costs and also to improve access to business ideas, knowledge and capital (Philip, 2011). Satisfactory government support has been shown to be important for small firm success (Yusuf, 1995), while legal aspects influence the formulation of decisions which will determine the future development (Mazzarol & Choo, 2003). Also Belassi & Tükel (1996) emphasize that factors that are related to the external environment are one of the four major groups of success factors.

4. Conclusion

Nowadays, sector of small and medium-sized enterprises is indicated as a key for intensive economic development in all EU countries. The special economic policy and law regulations are created to ensure stable activity and development of small business entities. Success of small business is formed by many factors, both

internal and external to the company. The internal determinants result from personality of the entrepreneur being a driving force of small enterprise and the characteristics of the unit, radically different from the large companies in form and method of management. External factors are due to environmental influences, both competitive environment and macro-environment. Critical success factors are a changing phenomenon and require continual observation. The results of such an observation is the collection of publications, preparing by researches all around the world. The review of several scientific papers of this scope show that success factors of small enterprises constitute a frequently undertaken research topic, but results are presented partially and unsystematically, and usually refer to selected groups of conditions (financial, managerial, marketing etc.), they do not constitute a full and comprehensive compilation. The main groups of factors presented by the authors in international literature include:

- in the group of factors relating to individual entrepreneurs – interpersonal, communication and managerial skills, motivation, determination, as well as decision-making skills,
- in the group of factors specific to small enterprise – learning capability of small business, potential for innovations, a strategic approach to management, a customer-oriented policy, efficient use of human resources, having adequate financial and technological resources, as well as ability of focus on specific market niches.
- in the group of environmental factors – ability of dealing in changing law, political and economic environment.
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Besides, the need for more precise classification of organization success factors was noticed, which should take into account the changes that have taken place in the economy in recent years, especially after the financial crisis after 2008.

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