

BARRIERS TO SMALL ENTERPRISE GROWTH IN THE DEVELOPING COUNTRIES: EVIDENCES FROM CASE STUDIES IN INDONESIA AND MALAYSIA

**Iffi Nur Diana, Maulana Malik Ibrahim State Islamic University
Segaf, Maulana Malik Ibrahim State Islamic University
Ibrahim Yusnidah, Universiti Utara Malaysia
Minai Mohd Sobri, Universiti Utara Malaysia
Saqlain Raza, Shaheed Zulfikar Ali Bhutto Institute of Science and
Technology**

ABSTRACT

Small enterprises have played a significant role in developing economies of a nation. Researchers in the developing countries who examine the small enterprises recognize their contributions towards economic growth of these countries. Whilst only a minimum number of studies have highlighted the issues pertaining to the uniqueness of small business development that provide useful insights, the different evidence from one country to another indicates the need to report and document the insights from various countries. This paper highlights the barriers to growth of small enterprises in the context of Indonesia and Malaysia from comparative case studies done in both countries. The case studies were carried out in 2018 to achieve the four propositions set out in the research, which are (i) limited number of products being developed as a barrier (ii) wider area of marketing as another potential barrier, (iii) lack of marketing strategy by the small enterprises as the associate barrier and (iv) the inconsistent sales turnover as the final potential barrier. The internal and external forces affecting the small business case studies were carefully analyzed to determine the kind of barriers that hinder potential growth.

Keywords: Small Enterprise, Growth, Barriers, Case Study, Developing Countries, Indonesia and Malaysia.

INTRODUCTION

Many researchers have highlighted how the small enterprises (SEs) play a significant role in developing the economy of a nation in terms of sustainable growth, employment creation, development of entrepreneurship and contribution to export earnings (Hashim et al., 2018). These businesses employ indigenous people, both skilled and unskilled labour to develop different products and services to fulfill local needs (Agwu & Emeti, 2014; Mitra & Pingali, 1999). This is possible as the SEs, in most of the developing countries are labour intensive (Agwu & Emeti, 2014) and scattered all over a country (Tambunan, 2006). Moreover, according to Maksimov et al. (2016), the SEs cover the market segments that are usually unattended to by larger enterprise.

Li & Rama (2015) claimed that the SEs are sometimes more productive businesses compared to micro-businesses and large businesses, as they are known to drive employment and competition. Beyond the contribution towards employment, small enterprises are also significant to society for building social networks, ensuring the life standard of poor people, inducing export earnings, reducing social unrest, creating new entrepreneurs, satisfying consumers' needs with competitive price, fulfilling the requirements of many large businesses, and many others (Mamun et al., 2013).

SEs have survived over a long period of time and offered economic stability to owners, employees as well as their families by providing a steady source of income (Bianca, 2016). The SEs, with their rapid growth are cited to create more employment and contribute tremendously towards the economy (Cooney & Malinen, 2004; Mason & Brown, 2013; Wanjiru & George, 2015). According to Page & Söderbom (2015), small businesses undeniably create new jobs, however, these businesses can also contribute to job redundancy through higher failure rates. Edinburgh Group (2013) and Schlogl (2004) stated that, in both developed and developing economies, the SEs have dominated the country's development in terms of employment creation and in terms of their numbers. However, they claimed that the SEs full potential remains untapped, and this makes the studies and reports on the SEs remain evergreen.

LITERATURE REVIEW

For the past few decades to present time, the growth of a business has been addressed by researchers both from theoretical and empirical perspectives. This is evidenced in diverse fields such as economics, finance, psychology, and management. Still, the insights are confusing as many researchers could not clearly explain as to why some small enterprises grow and others do not, even when they operate their activities in a similar situation (Anderson & Eshima, 2013; DeMartino et al., 2015; Eijdenberg et al., 2015; Tuck & Hamilton, 1993; Wiklund & Shepherd, 2003). The possible explanation is that since businesses can grow in different ways (for example, through an expansion of sales or increase in asset size, or increase in employment), the set of multidimensional factors that affect their growth has different weights and values (Minai et al., 2014).

Looking back at the earliest contributions towards the knowledge regarding business's growth, it is observed that researchers like Penrose (1959) and Barney (1991) defined business growth as the collection of a bundle of resources that provides the means to take some advantages and to offer opportunities to get bigger. The study by Omar et al. (2014) reveals that "*although a considerable amount of research has been conducted on business growth, a solid single integrative theory or model to explain business growth has yet to emerge*". Again, from the last 50 years, different aspects of the business's growth have been studied, but very few studies have focused on the growth of small and medium businesses in different perspectives (Gupta et al., 2013). Moreover, in consideration of small businesses, specifically, the literature on growth issues is limited and inconsistent (Andersson & Tell, 2009; Fadahunsi, 2012). After a rigorous literature review, Dobbs & Hamilton (2007) conclude that "*our knowledge base still lacks a body of theory capable of explaining the growth of small enterprises. New theoretical perspectives and alternative types of research are advocated in order to further our understanding of the growth process in these businesses*".

The contribution of small scale industries to the national GDP cannot be dismissed. To boost the sector, the scaling up of existing small businesses (for example, from micro to small or small to medium) and their growth is highly required. However, it is a great challenge for small enterprises to scale up over the years and to graduate to the next level from their current level (Moazzem, 2013). Even if they scaled up or survived, the success and performance of many of them are not satisfactory in various aspects. The IMF (2011) report indicates that the performances of the micro, small and medium businesses (MSMEs) everywhere were not outstanding in terms of revenue earnings, equipment use, capital-labour ratio, and growth of value-added aspects except in labour productivity in some instances.

To the nation and in specific industries, the growth of small enterprises in terms of the number of units has been reported to increase gradually (IMF, 2011). This growth, of small businesses is of horizontal expansion rather than the change in the form of a pyramid-like structure, of the vertical expansion. This is also a type of growth and a desired growth viewed by government of most countries. However, Connolly et al. (2012) are of the opinion that the increasing number of small businesses does not necessarily mean that the sector is growing. There is a need to look into the overall performance of the SEs, in terms of production, revenue, employment, value addition etc.

For many SEs, performance is the key reference instead of growth. There are many instances, SEs are happy with their yearly performance and are happy to maintain the business size. As Storey et al. (2016) suggest that “*if the business cannot sustain its growth or performance, subsequently it ceases operation*”, the statement right for SEs should be read as ‘if the small enterprise cannot sustain its performance, subsequently it should cease its operation’. The positive note for growth is that aiming high for expansion among the SEs triggers for them to remain competitive and in the healthy business situation. This may also address the issue of the high failure rate of small businesses (Fatoki, 2014; Bowen et al., 2009).

It is worthy of mentioning that, whilst the focus of the investigation to produce theories and models is done in the developed country's environment and pertaining to larger firms, there is still limited concrete evidences and conclusions that the theories come from the developing country's context. However, this paper does not imply any theory to be developed, rather providing some evidences from the case studies. Based on the growth and development patterns of both medium and small businesses, it is evidenced that they are not the same (Berry et al., 2001), and the context of both developed and developing countries are not equally represented (Miketa & Mulder, 2005), highlighting the different patterns and barriers to SEs in the developing countries is crucial and of certain value. Thus, it is not possible to have an accurate picture of small enterprise growth; rather, this paper just highlights the evidence from the countries where the case studies took place. Moreover, Davidsson et al. (2010) argue that a coherent picture is not easy to distill from the research in different contexts or from the various models used, particularly when the unsuitable model is referred to (Minai et al., 2014). This argument is likely due to differences in theoretical and epistemological standpoints and explanations such as the operationalization; empirical contexts; modelling and analysis approaches; inherent complexity and heterogeneity (Minai et al., 2014). Thus, it is also essential to examine the growth barriers separately for the small business sector within the context of developing countries such as Malaysia and Indonesia.

This paper highlights the key questions raised in the study for four areas/dimensions. The first is about the products being developed, second, about the area of marketing, third, marketing strategy and fourth, sales turnover. These questions will be presented as themes in the discussion section.

METHODOLOGY

The research uses a case study approach which the literature defines as an in-depth analysis of a situation that includes a specific time or activity, a particular event, or a unique situation involving one or a group of people using information obtained from various data collection procedures (Yin, 2015). Five case studies were selected from the cases in the actual study for this paper. Three from Indonesia and two from Malaysia. Researchers in qualitative research act as the instruments for collecting data so that researchers can witness directly and can have a better understanding regarding the actual field situation.

The research was carried out in Indonesia and Malaysia as joint research collaboration. Besides this reason, the similar characteristics in term of socio and geographical characteristics, both are *Nusantara* is viewed as a good reason for comparative study to be carried out in these countries. Specifically, the case studies were done in Malang, Indonesia and in Kedah, Malaysia. In terms of potential development and growth, the SEs in both Indonesia and Malaysia enjoy excellent support from the government (public sector) and also from the private sector.

Whilst this paper reports the insights from key informants, the methodology for the actual case study is more comprehensive. Data (evidence) source of the research comes from documents, archival records, interviews and direct observation. Although the researchers do not employ participant-observation and physical artifacts, as suggested by Yin (2015) to use the six data source to respond to the research purpose, the data is rich enough to explain most of the research purposes. In particular, the insights from key informants are good enough to explain the message this paper tries to convey. These insights from key-informants are obtained from direct face-to-face discussion and follow-up call to clarify certain matters. It is a to-and-pro process between researchers and key-informants until the insights established.

The study sets forth the a few propositions, both financial and non-financial growth measures to capture various aspects of small business growth that includes sales, profits, total asset size, additional capital as the financial measure, and market size, employment, and number of satisfied customers as the non-financial measure. In this paper, four propositions are presented as part of the research case study growth measure. There are the following;

1. The SEs cannot develop or growth due to the small number of products they carry, and they need to expand by increasing the number of products. However, getting more products is not an easy matter.
2. Marketing area of individual SE is limited and having a wider area to penetrate is less preferable due to the effectiveness of marketing with high cost and the difficulty in keeping loyal customers
3. SEs focus on specific marketing strategy and there is a need for the SEs to have more marketing strategies or strategy mix to enable them to grow
4. Inconsistent sales turnover makes SEs focus on existing business condition and reluctant to expand or grow.

The key-informants being reported in this paper are with the following details, in Table 1.

KEY-INFORMANTS OF THE STUDY OF INDONESIAN AND MALAYSIAN SMALL ENTERPRISES				
No	Informant	Business/Industry	Initial Year	Initial Capital
Indonesian Key-Informant				
1	SE owner (A)	Fruit chips	2006	Rp. 500,000
2	SE owner (B)	Tempe chips	2000	Rp. 300,000
3	SE owner (C)	Ceramics Handy craft	1994	Rp. 250,000
Malaysian Key-Informant				
1	SE owner (X)	Dates importer	2016	RM 50,000
2	SE owner (Y)	Retail store	2013	RM 30,000

RESULTS AND DISCUSSION

Prior to the discussion regarding the four propositions above, it is worthwhile to detail some of the characteristics and the situation regarding the SEs in Indonesia and Malaysia so that the discussion later becomes clearer and more meaningful. A brief background of the key informants (owner-managers) is provided with their view on the growth prospect before the discussion on the propositions is presented. It is worth mentioning here that not all owner-managers of the small enterprises are looking at the growth potential of their business, but rather a sustainable business that they are after.

Case 1: Fruit Chips Small Enterprise

Fruit chips, small enterprises was established in 2006 capitalizing on the opportunity of processing the unused and low price of raw materials during the fruit harvest season. There are ample of apple in Malang, a town known as the Indonesia Apple City. The owner-manager produces processed fruit chips, which increase the economic value of the apple during the harvest season, by offering constant demand to the farmers. This small enterprise added to the product line with other fruit chips after two years in operation. Their current market covers the whole Indonesia.

For the first proposition the owner-managers need two years to produce fruit chips other than an apple as main product. They look for product acceptance by the customer and internal preparation first.

“our first product is apple chips, then we produce other fruit chips such as melon, rambutan, salak, mango, pineapple, watermelon, kelengkeng, and persimmon..”

For the second proposition the owner-managers also decide carefully to reach a wider area of marketing, since it's related to the cost of distribution and product expired.

“first, we sell in Malang, then we try to reach other towns in Indonesia..”

With regard to the third proposition the owner-managers highlight the limited role of direct selling and completing their marketing strategy with online selling.

“we can't depend on direct selling, then we try online selling”

For the fourth proposition, the sales turnover contributes to the small enterprise growth, as the owner-managers express their opinion regarding their enterprise growth, by saying,

“I only have a small amount of money in 2006 to start the business, which is RP.500.000. Alhamdulillah, our sales turnover right now is around Rp.50 to Rp.100 million monthly”

This enterprise has experienced a major sales turnover, which makes the enterprise as one of the successful enterprises selling fruit chips in Indonesia. Sales turnover, thus, is a major factor for this enterprise in term of its growth.

Case 2: Tempe Chips Small Enterprises

The founder of this small enterprise started in the year 2000 as tempe producer, a product from fermented soybean. For several years, the enterprise has to throw away the unsold product daily. The founder then has addressed the issue by enhancing the product line, by producing tempe chips as an innovation to the unsold tempe. This is another example of a micro enterprise that grows to a small size and still looking for expansion.

“The initial capital was only hundreds of thousands Rupiah in year 2000 now growing with a daily turnover of 3-5 million rupiah with a total of 14 employees”.

Recently, the enterprise was transferred to the founder's son. The current owner-manager continues to focus on tempe chips as the main product. The enterprise is located in Sanan, Malang, known as Centra of Tempe Fruit Chips in Malang, as there are a number of similar small enterprises in the neighborhood.

With regard to the proposition to the effect of a number of products for growth, it seems that this enterprise focusses only on product and the key factors to the success and growth is the introduction of tempe chips from unsold tempe. The ability of this enterprise to change the product weakness to its full potential makes the founder as a true entrepreneur within this sector. Having a lot of unsold product contributes to high losses and coming to a sustainable business activity by adding value to the unsold product and becomes a new promising product is an excellent small enterprise experience.

Checking on the second proposition, it was found that the owner-manager decision to sell to customers outside the local region enables the business to change direction on the growth path. The founder believed that loyal customers are limited within one area and require time to reach a big number. He decided to expand the area of marketing, with the intention to have more loyal customers.

“My enterprise has a wide base of customer; they are from other towns and other islands in Indonesia”

For the third proposition, this tempe chips small enterprise seems to benefit from several small enterprises established in the same location in Sanan District. Whilst this tempe production environment (actually an unplanned marketing strategy) makes customers recognize the production location, this enterprise becomes the anchor or distributor for the other tempe chips producers around Sanan District.

The market of their products has reached the East Java region since 2014. Of recent, this enterprise has started to use online marketing application as a new strategy to market tempe chips from Sanan District.

“Sanan is known as a tempe district, we sell around Sanan and we also supply to other customers outside Sanan. When one of our relative introduced us to an online marketing in 2019, we found that it helps our business grow, a lot, in terms of product marketing.”

With regard to the fourth proposition, the owner-manager revealed that the enterprise has experienced an up and downs during their business period. Once they managed to solve the problem, the better sales turnover contributes to their enterprise growth.

“in 2014, the founder experienced payment delay from local customers, and as we were depending on loyal customers at that time, the business financial was not good. Once we broaden our customer bases, the sales volumes have increased and the situation getting better and better”.

Case 3: Ceramics Small Enterprises

The last case study from Indonesia is the Ceramics small enterprise, which started their business in 1994 with the initial capital of Rp. 250,000. This enterprise is the first company to produce ceramic product in the region. Now the enterprise is enjoying the turnover of more than 50 million rupiah per month. Located at the southern Malang, a place that is well-known for the best clay (raw material for ceramic products) in the area. Customers usually use ceramic product as wedding souvenir, decoration for house, hotel etc.

“We are the first ceramic producer in the district, Dinoyo Malang. Now there are many other ceramic producers in this area, about 30 small enterprises, in response to the government call, ‘one district, one product’. Hence we have a community to support each others in producing ceramic products”.

For this case, product design varies and new designs emerge frequently. Although it is the same product, the personal touch with regard to design and uniqueness of the product (creativity) to meet the customer needs and preferences is very crucial in the sustainability of the business. The customer tastes are changing at the constant rate.

“product innovation is important for ceramics industry, especially with regard to the shape and motives of our ceramics product that are currently in trend to attract consumers”.

The market for this enterprise has developed from Malang city for two decades before the enterprise expands to East Java. It is cited that high transportation cost and high risk are the major issues that prevented the enterprise to grow at the early stage. Now, with better road transport system, wider market coverage is possible and helping the enterprise to grow.

This enterprise uses mix marketing strategy, offline and online strategy. In particular, for the online marketing strategy, they use audio visual online program. The owner-manager is in the opinion that as the player in the ceramic industry, which can be considered as the art industry, message regarding new designs must be well delivered to the prospect customers. Interestingly, almost all ceramic enterprises in the region come together as a team to do the marketing and that the district of Dinoyo known for the ceramic industry in Indonesia.

“now we are using instagram, path, and youtube to promote our products. Obviously the direct selling is still maintained, as Dinoyo is known for ceramics industry area, which makes us easier to promote our products. We, the community of ceramics small enterprises in Dinoyo are helping each other in term of product marketing. We even use local artists to promote our products, but the cost to pay the artists is expensive. We share the cost with the principle ‘together we are strong’.

With regard to sales turnover, the inconsistent sale turnover happens due the raw materials supply side. The fluctuation in raw material pricing and quality make the price of the ceramic not stable, due to the quality of final products. Sometimes, the sales turnover is affected by the product safety during the delivery process.

“our products are rich of art and culture, and they even gain interest from foreign tourists. Our sales turnover is considered good enough, but it is our supplier and product delivery that creating an issue, not our customers. If we can a good relationship with our raw material suppliers and carefully select delivery company, the sales turnover will be more stable and better”.

Case 4: Dates Importer Small Enterprise

Owners are two young graduates who opted to be a businessman, rather working as employees with the academic qualification they have. They started their business as a worker recruitment agency, but after a year, they ceased operation as a recruitment agency and started to import dates from Algeria, the DegletNour. Both have a target monthly income and claim that any business potential will be given consideration so that their company will be an established company one day. For the dates business, they have targeted to import more than 200 tons every year by the year of 2022. They started with importing 20 tons in 2017, no activity in 2018, 60 tons in 2019 and in 2020, they imported 100 tons. So, this enterprise is considered to fit the category of a growing enterprise, horizontally and vertically.

The owner-managers of this small enterprise claimed that for the next few years, concentration will be given to importing and selling dates only. Focusing on one product provide the learning curve to them as they become more knowledgeable about the factors affecting the sector and establish the distribution channel all over the country. They believe that selling other fruit products like durian and mangoes (more perishable) is easier once they have an established distribution channel in the country. This is what one of the owner-manager said;

“we can get other products to be sold together with dates, we can import mangoes and durian from Thailand, but we need to master the dates business first before we can think about other products. We are still looking for distributors for certain regions and these relationships need to be established. We believe we can reach our target to import 200 tons every year very soon”

For the first proposition, it seems that this particular SE, the number of products is not a major concern for growth. Even selling one item (product) is possible for the small enterprise growth.

With regard to the second proposition, regarding the market of small enterprise, it seems this SE is thinking of having a wider marketing area to distribute their product. This is evidenced from the above quotation, when the owner-manager mentioned the searching activity for distributor from certain region. Thus, this proposition cannot be confirmed within the context of this SE business activity.

For proposition three, the owner-managers seem to agree that they have focused on a specific marketing strategy and they are happy with such strategy. However, changing strategy and having a mix strategy is always in their minds as they want to be ready for any change regarding the dates business.

“our current marketing strategy allows us to grow and we shall realize the objective in two year time. However, we do not deny the importance of having other strategies that could be more effective. For now, we follow our current strategy”

This indicates that the number of strategies is not important for this SE, as they can grow with a single strategy and them also aware having more strategies could be more effective.

The existing sales turnover for this SE is as they expected. The profit they make is the same in term of the percentage of sales. All dates were sold on time before the end of fasting month for Moslems. As they never experience inconsistent sales turnover, they reserve their comment on this proposition.

Case 5: Retail Store Small Enterprise

The owner-manager of this retail store started doing retail business upon retirement. Now at the age of late seventy, he still has a strong desire to continue in the retail business as he has a strong believe that someone in the community has to open up a retail store to cater for the community needs. The business remains about the same size and capacity since started more than 20 years ago. This SE is categorized as the enterprise that does not aim for growth, just to sustain the business at the same level, having only two employees since the beginning.

According to the owner-manager, as a retail store, he carries many products in the shop. He makes sure all products needed by the society are available in his shop. Depending on the suppliers to supply products in his shop, getting the products, existing or new one is not an issue at all. He agreed that retail business should also think or work toward growth, but his intention of opening this retail store is due to his stand that it is his obligation to do so as a Moslem. He said;

“business its not only about money, but to reach the blessing of Allah, and for that we have to maintain a good ‘hablun minannas’ (humanity relationship)” (5.5.Y)

So, when approached on the growth issue, he said that he has little to comment. He pointed at the need to have more similar retail stores in the surrounding so that the community has more choices and this type of business growth is another dimension that the researchers should look into.

Nevertheless, a few insights regarding SEs growth can be learned from this case where, although growth is not the aim of the owner-manager, being near to the customers is also part of the marketing strategy. Also, the customers can be loyal due to the location of the retail store and also due to the obligation of Moslem customers.

CONCLUSION AND RECOMMENDATION

It is highly crucial to highlight that the development or growth direction of any SE depends on the owner-manager/s’ wishes. This feeling is unique to each of them, and the performance of the SEs is most likely to follow their intention of being in the business. Either they opt to grow or remain at the same performance, each of them have their own intention, justifications and reasons. It has uniqueness in the sense of their ways of perceiving things within the same business sector of across the sectors. Growth is not the only aim of small enterprises and if it does, the growth can be horizontal or vertical or both depending on the business they are doing.

It is not unusual to say that the SEs seem to have the strategic management consideration to the objectives and mission, even though it may not be in the written form. A few owner-managers of the case studies have proven to have specific and clear intention of doing the businesses and have their target positions in a few years to come. If they want to grow, case 4 provides the evidence and if they want to remain at the same level, case 5 is the example. These SEs can be said as quite focus on their aims, however, case 4 shows that the business agenda can be changed due to the factors impacting on them, where they changed their business activity from being a recruitment agency into a dates trading enterprise.

It is observed that the small enterprises are mostly growth oriented at the startup point, although a few might not have the same thinking. However, when they reach certain stage, some might not want to grow any bigger as they are satisfied with the current turnover or they are not small enterprise anymore. Although there is evidences pointing that SEs remain the same size from the beginning, this does not mean that they do not want to grow, but having others to establish the same business is some sort of growth, horizontally.

The number of products has been cited as important by four out of the five sustainable and successful small enterprises being presented. For all cases of Indonesia the small enterprises produce the initial product by similar reason, which is excessive supply of raw materials. For case 1 and case 3 when

the owner manager found a lot of raw materials in Malang, which is apple and clay. For case 2 they produce tempe at the beginning, then when they are facing a product waste problem, they innovate by changing it to a new promising products. More products are being introduced as the SEs mature and with more products, the SEs penetrate wider market and become successful. However, having limited products does not limit the growth potential of the SEs, as evidenced in case 4.

Case 2 Tempe Chips and case 3 Ceramics SE's in Indonesia employ designed marketing strategy and natural marketing strategy. The designed marketing strategy by employing offline and online strategy, meanwhile natural marketing strategy happens when the similar small enterprises growing in the same area, which makes it easier for the customers to reach the industry. Both cases indicate that the possible markets for the SEs are not limited and marketing strategy and strategy mix has been proven effective for some SEs.

For the financial barriers, in this case the sales turnover, all cases do not reveal the inconsistent sales turnover. As these cases are successful cases, the other SEs can learn from the cases that the case studies have experienced success without having inconsistent sales turnover. It is important to realize the financial stability in the growing process of the SEs, in particular regarding the SEs sales turnover.

It is proposed that future study, qualitative or quantitative to look into the framework of finance and non-finance to explain the growth of the SEs, however, with the careful consideration of the unique characteristics of the SEs, especially with the strong influence of the owner-managers that shapes the environment of the SEs. The propositions are highly relevant to the growth of the SEs in the developing country context; however, more evidences are needed from the other developing nations to support these case study revelations.

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