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Barriers to the development and key success factors of small and medium enterprises

Abstract

Small and medium enterprises have the greatest impact on building solid foundations for economic growth, better adapt to rapidly changing the market situation. Despite many barriers to their development, we can identify many of the key factors in their success. The aim of the article is to show the light of the literature on the subject's level of development barriers and key success factors of small and medium enterprises.

Keywords: small and medium enterprises, barriers to development, key success factors.

JEL CODE: M21.

Bariery rozwoju i kluczowe czynniki sukcesu małych i średnich przedsiębiorstw

Abstrakt

Małe i średnie przedsiębiorstwa mają największy wpływ na budowanie trwałych podstaw wzrostu gospodarczego, lepiej dostosowują się do dynamicznie zmieniającej się sytuacji na rynku. Pomimo wielu barier w ich rozwoju wskazać możemy szereg kluczowych czynników sukcesów. Celem artykułu jest ukazanie w świetle literatury przedmiotu barier rozwoju oraz kluczowych czynników sukcesu małych i średnich przedsiębiorstw.

Słowa kluczowe: małe i średnie przedsiębiorstwa, bariery rozwoju, kluczowe czynniki sukcesu.

Introduction

Small and medium-sized enterprises play an important role in the economy, because of significant share in the domestic product (they generate 48.5% of GDP), creation of new jobs (69% work in SME sector entities), occupation of market niches, flexible adaptation to changing customer expectations and the potential for economic development. According to Eurostat, Poland ranks sixth in terms of the number of enterprises (1.5 million companies) in comparison to other EU countries. On the other hand, 19th place in terms of the number of enterprises to the population in a given country – with the result of 40 enterprises per 1000 inhabitants. The Czech Republic (96), Portugal (75), Slovakia (74), Sweden (70) and Greece

(66) can be proud of the highest value of this indicator. (Tarnawa, Zadura-Lichota 2015, p. 14).

Small and medium-sized enterprises (representing 99.8% of all companies) have the greatest impact on building solid foundations for economic growth, they adapt better to the dynamically changing situation on the market. Despite many barriers in their development, we can point to a number of key success factors.

The aim of the article is to show in the light of the literature the barriers to development (endogenous

and exogenous) and key success factors (KCS) for small and medium-sized enterprises.

Based on the assumption that shaping KCS requires the involvement of both own and external resources, it is reasonable to seek an answer to the question: how to gain access to external resources and what abilities to engage in raising resources and capital?

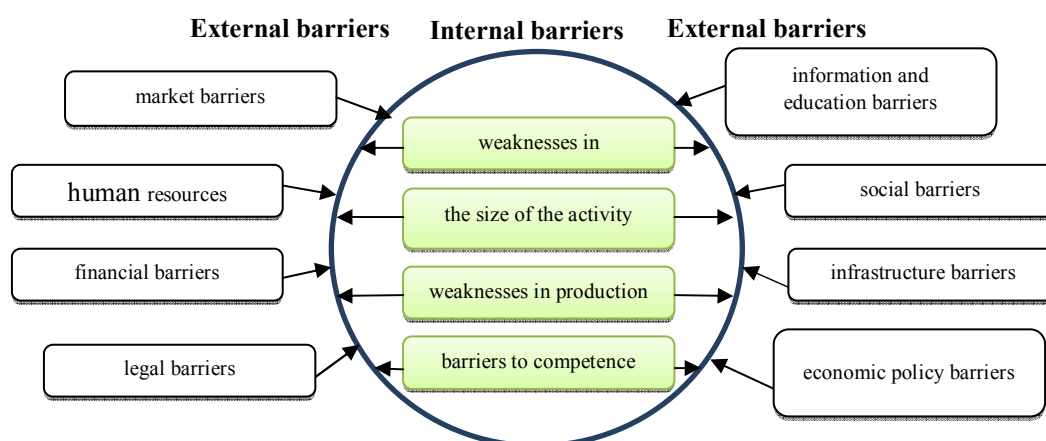
Internal and external barriers to SME development

Barriers to the development of enterprises can be divided into internal and external (Figure 1). Barriers of an external nature result from the enterprise's environment and are related to its low potential, high complexity and uncertainty of operation in a changing economic environment. They can therefore be considered at the macro (related to the general conditions of national management) and local (micro) levels.

Internal barriers to activity and development are identified as weaknesses of the SME sector, and therefore considered at the micro level. This level includes the enterprise's interior: its size, strategy, structure (both the organisational structure and e.g. cost structure), technology and production capacity, owners' and management's competences or employees' qualifications (Matejun 2007, p. 122).

In Natalia Ołówko's view (2016, p. 204), internal barriers result from weaknesses of entities and concern mainly disrupted organizational structure and ill-considered strategy of action. On the other hand, external barriers are related to the risk of changeability of factors influencing the operating conditions of an enterprise, and the more complex the activity, the higher the probability of changeability of the environment.

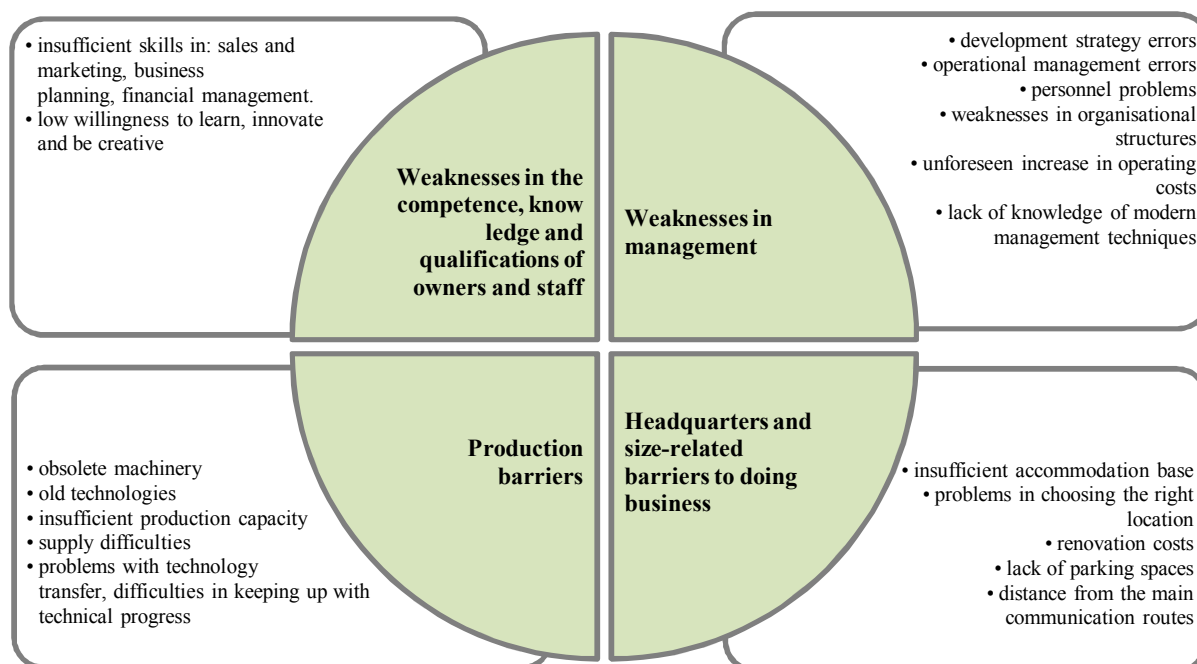
Figure 1. Internal and external barriers to SME development



Source: prepared on the basis of (Matejun 2007, p. 122).

Marek Matejun (2007, p. 123-124) mentions barriers related to management, weakness of competence, knowledge and qualifications of owners and staff, production barriers, barriers resulting from insufficient accommodation base and related to the size of operations (Figure 2).

Figure 2. Internal barriers to the development of SME sector companies



Source: compiled on the basis of (Matejun 2007, p. 123-124).

External (macroeconomic) conditions affecting the development of small and medium-sized enterprises are, first of all: the level of economic development, trends and dynamics of economic growth, changes in the size of demand and supply, inflation, currency stability, the

phenomenon of high and low birth rates, legal, financial and tax regulations, socio-cultural, international and technical factors.

According to the data of the Institute for Research and Analysis and the Firmy.net portal, in 2014 the most frequent fears of micro and small entrepreneurs in connection with running a business were the growing costs of running a business, a drop in demand and a poor condition of the economy⁹.

In the group of macroeconomic barriers, over 70% of respondents consider high taxes and social security contributions to be the main barrier to the development of small and medium-sized enterprises (especially burdensome for newly established companies) (Danielak 2014, p. 91). 15 per cent of CIT is to be in favour of the creation of favourable conditions (from 2017) for the establishment of small enterprises and the development of existing ones (whose revenue does not exceed EUR 1.2 million annually), larger companies will remain with the existing 19 per cent tax. For about 400,000 companies this means the elimination of the barrier related to high income taxes.

Lack of clear legal regulations and lack of stable tax solutions is a hindrance for newly established companies as well as for those already in operation. In addition, many problems related to VAT settlements result from: complicated construction of the act or unclear classification of goods and services, and thus difficulties in determining the tax rate (Możyłowski 2013, p. 57).

High labour and employment costs are a barrier of particular importance for the development of SME. A significant burden are social security costs incurred by entrepreneurs in personnel costs (18.2%). High non-wage labour costs reduce the competitiveness of SME, as well as their willingness to increase employment (Zagórska 2011, p. 3).

The highest share of social security costs of employees is in Sweden (32%), Italy (28.2%) and Belgium (26.2%). On the other hand, the lowest value of this indicator is in Malta (6.5%), Denmark (8.6%) and Luxembourg, Great Britain, Cyprus, Slovenia and Ireland (less than 14%) (Tarnawa, Zadura-Lichota 2015, p. 20).

In the case of small companies, problems resulting from resource shortages (mainly financial ones) are also of great importance (Matejun, Motyka 2015, p. 679). Lack of cash is a serious barrier to the dynamic development of the company. When financing their operations, almost 60% of companies used their own funds, 23% subsidies, 20% financing „business

⁹ Barriers to development of micro-enterprises in 2014, http://www.biznes.newseria.pl/komunikaty/bariery_rozwoju,b1664771195, (accessed: 21.09.2016).

angels”, 18% venture capital financing, and only 8% used bank loans (Skala, Kruczkowska, Olczak 2015, p. 24).

However, the use of external assistance of a resource nature gives an opportunity to intensify and increase the scope of implemented development changes (Matejun 2015, p. 82). According to the data contained in the Report on the condition of the SME sector in Poland in 2013-2014 (parp.gov.pl), loans to enterprises grew the fastest in 2014. At the end of 2014, the balance of loans to the SME sector amounted to PLN 175.7 billion and was higher by PLN 50 billion than the balance of loans to large companies.

A barrier to SME development is also the existence of the informal sector, i.e. enterprises which hide their employment status, earned income and do not pay taxes.

The transfer of knowledge from science institutions to new companies looks weak. Unfavourable situation of SME in terms of access to R&D in comparison to large entities, quality of scientific and research infrastructure or poor support for commercialization of scientists' ideas can be observed (Tarnawa et al. 2016, p. 70).

Summarizing, one should agree with the statement that in order for entrepreneurship to become a determinant of success of SME operations, internal factors created by SME should be adjusted: the adopted strategy, structure, resources, and above all technology to the requirements created by external factors (environment), (Lisowska, Szymańska 2013, p. 23).

Key success factors (KSF) in the light of research by various authors

The search for key success factors of enterprises and various types of organizations is an area of research in the field of science and practice. Success allows us to stand out from other companies or organizations in the conditions of a competitive market. Success is a resultant of many factors determining it. According to Marta Grabowska and Magdalena Drygas (2010, p. 520), success, and at the same time its key factors turn out to be a structural variable that can be presented by means of a division into three classes, i.e. „full success of the company”:

- I. full success of the company, meaning a significant market share,
- II. success of the company, where the actions of the company bring measurable effects,
- III. Imoderate success of the company, the expected results are achieved and the company exists on the market.

Success can be achieved by overcoming barriers to the development of the company (existing within the company and in its environment), using market opportunities, by having a number of capabilities (including dynamic, relational, marketing) and the competence of

management staff and employees allowing the absorption, allocation and configuration of resources and capital to achieve the objectives of the company.

Key success factors (KSF) are defined as „the resources and skills in which the company invests in the marketplace and which explain most of the observed differences in value and costs” (Grunert, Ellegard 1992).

Based on the analysis of literature studies, the following are considered to be KSF: enterprise strategy, innovation, personnel (motivation and exercises) and quality (Grabowska, Drygas 2010, p. 517). In addition, KSF can be divided into psychological and organisational contexts. The former include: self-confidence, being convinced of own opinion, and, in the other aspect, KSFs include: continuous development of enterprises, resources, processes and the environment (Kronenberg Foundation 2010, p. 14).

Research by Maria Klonowska-Matynia and Izabela Stasiukiewicz (2015, p. 78) on KSFs in the concrete prefabricated products sector shows leadership in terms of cost-effectiveness, favourable location of own sources of supply and investments in modern technologies conducive to improving the quality and efficiency of production and diversification of the product portfolio.

According to the Lewiatan Confederation's survey methodology, the factors determining the competitiveness of micro, small and medium-sized enterprises are considered to be KSFs. The survey conducted in 2014 lists among them: product quality, price of products and services, quality of customer service, narrow specialisation, ability to adapt the product/services to the customer, new innovative products/services (Table 1).

A high share of price in the creation of high quality products is noticeable. There is a condition to be met – if such a movement on the part of entrepreneurs will result from the implementation of modern products, innovation and a competitive product – this factor will be included in KSF. This factor in the relationship between SMEs and the environment forces synchronisation of the environment with the business model of the enterprise. Therefore, most of the above mentioned industries decide to incorporate innovation in building competitiveness as a factor of its success.

Table 1. Factors determining the competitiveness of SMEs in the next three years after 2014

| Item | Product quality | Price of products/services | Quality of customer service | Narrow specialization | Product adaptability/customer services | New innovative products/services |
|---|-----------------|----------------------------|-----------------------------|-----------------------|--|----------------------------------|
| PKD section | % | % | % | % | % | % |
| Agriculture, forestry, hunting, fishing | 86,5 | 62,9 | 52,6 | 17,6 | 39,3 | 7,3 |
| Manufacturing activities | 80,7 | 60,0 | 42,0 | 14,4 | 41,9 | 18,0 |
| Construction | 78,9 | 67,5 | 46,3 | 19,1 | 32,5 | 11,2 |
| Wholesale and retail trade | 60,6 | 66,4 | 63,5 | 9,7 | 23,9 | 16,2 |
| Transport, storage management | 56,9 | 75,5 | 63,4 | 12,1 | 25,4 | 9,9 |
| Accommodation and food service activities | 78,1 | 56,1 | 71,3 | 5,8 | 34,1 | 2,2 |
| Information and communication | 60,8 | 32,5 | 63,4 | 36,5 | 44,4 | 12,0 |
| Real estate services | 43,6 | 56,8 | 73,7 | 11,2 | 44,5 | 4,6 |
| Professional, scientific and technical activities | 63,3 | 40,6 | 54,2 | 33,9 | 29,9 | 13,5 |
| Health care and social work activities | 88,9 | 19,9 | 65,5 | 32,6 | 11,9 | 19,7 |

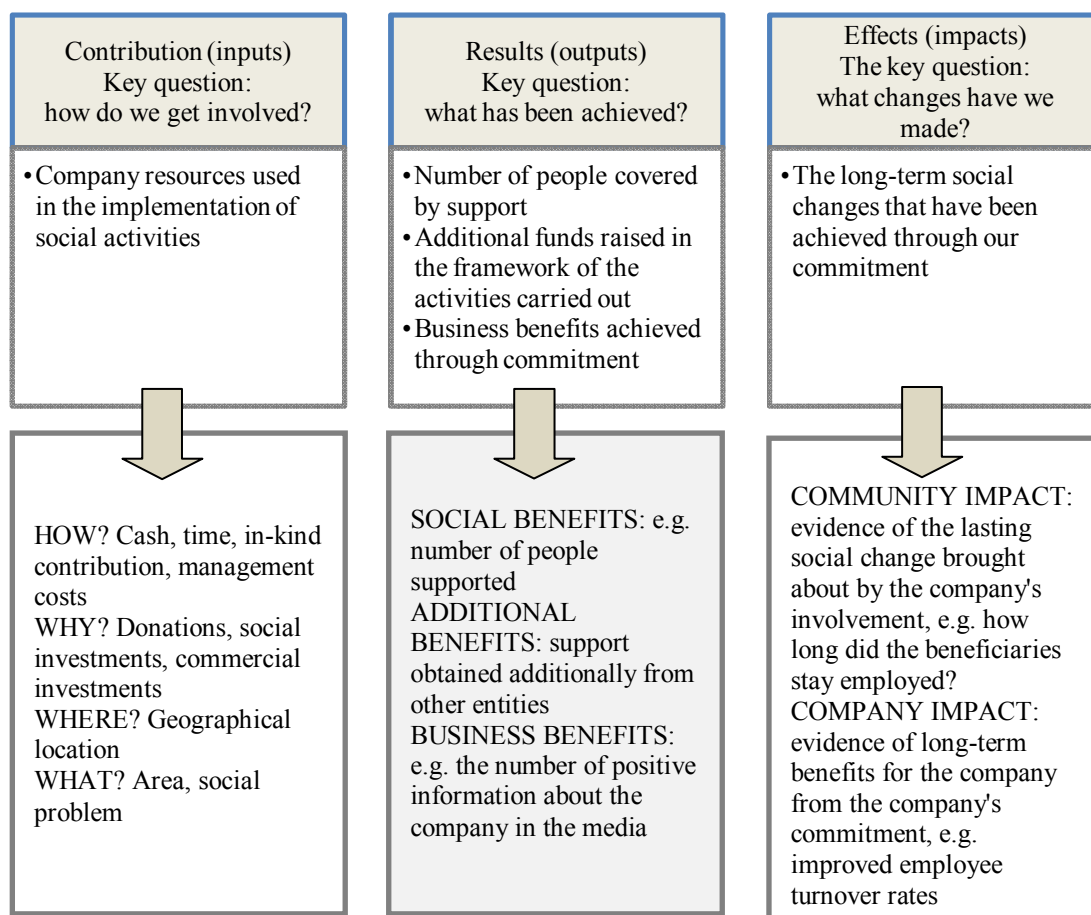
Source: (Starczewska-Krzysztofek 2014, p. 55).

The concept of CSR (Corporate Social Responsibility) is the source of building a competitive advantage, and at the same time a factor in building a company's success. It is the concept according to which enterprises voluntarily take into account social interests and environmental protection, as well as relations with various stakeholder groups. The CSR concept is one of the KSF of the most influential enterprises in the world (Żemigala 2007, p. 63). Tools for building a synchronised success of an enterprise in its environment include the LGB model and the AA1000 standard. The basic assumption of the LGB model is the coordination of business and social market objectives and its translation into economic results (Figure 3). On the other hand, the AA1000 standard, which consists of the AA1000 standard, serves to normalize stakeholder relations (Abec, Andrejczuk 2015, p. 12):

- a) Account Ability Principles Standard (2008) – a set of guidelines focused on sustainable development of the organization and setting standards and directions of development of the organization, depending on the model and type of organization,
- b) Account Ability Assurance Standard (2008) – accounting organisations for their commitments and indicating the standards for achieving the AA1000 standard,

- c) Account Ability Stakeholder Engagement Standard (2005) – informing how to treat stakeholder groups after prior grouping them and allowing to unleash the involvement of these groups in action and achieving synergy effects.

Figure 3. Scope of the LGB model



Source: CTS Sustainability, *Efektywność zaangażowania społecznego, przykłady wykorzystania modelu LGB*, Wydawnictwo SGS Polska, Warszawa 2014, p. 3.

Simultaneous use of these concepts makes it possible to compare specific companies that have access to good practices of social engagement. The use of various qualitative and quantitative KSF research methods enables managers to better understand the market, consumers' choices and to improve critical success factors (Skawińska, Zalewski 2016, p. 19).

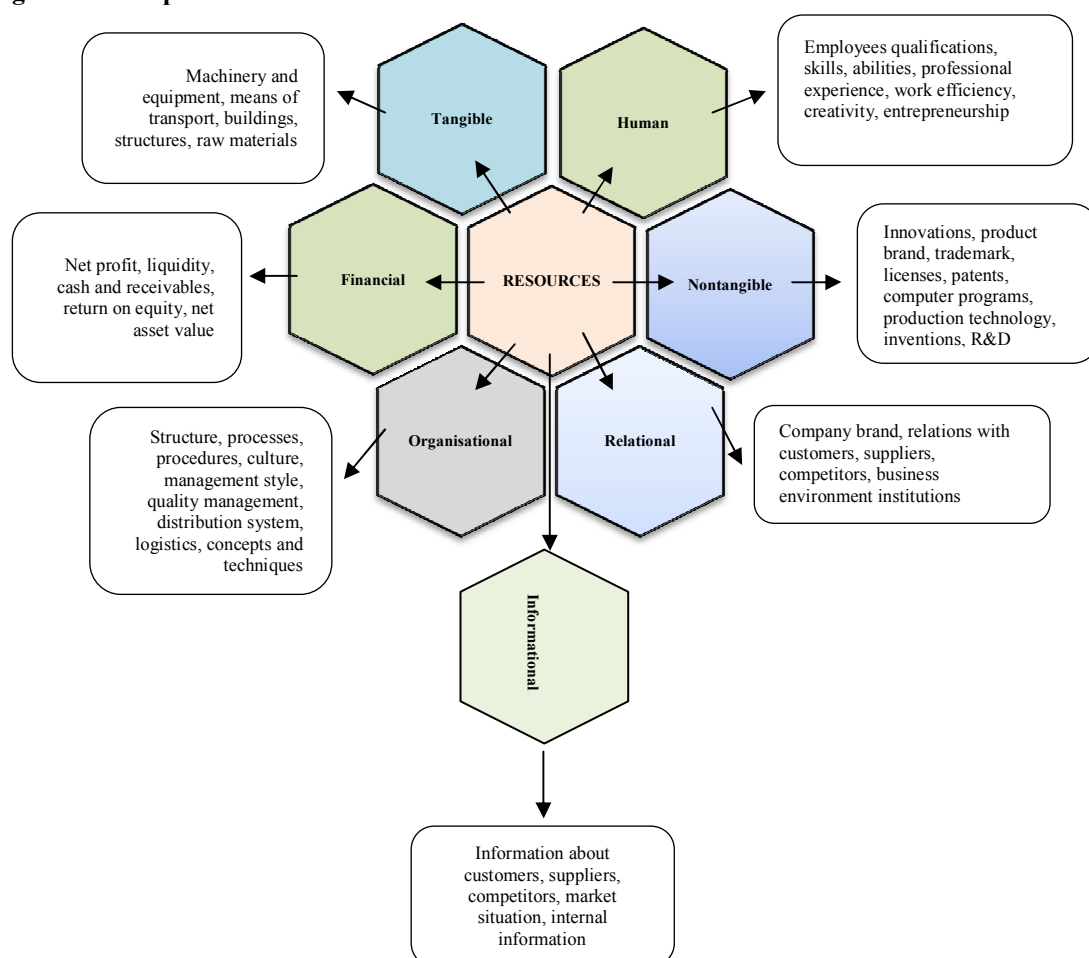
Resources and capital in shaping key success factors (KSF)

Resources play an important role in the existence and development of an enterprise. Enterprises use various resources (Figure 4) to achieve their goals. The basic problem in economic activity is the limitation of resources, ambiguity of the ways of their creation and allocation, as well as the lack of self-sufficiency of enterprises (Danielak 2012, p. 35).

The growing importance of intangible resources over the last few years makes the role of information and relational resources grow, and information, knowledge and relations become the key values of an enterprise.

Relational resources create an opportunity to create networks of mutual contacts with customers and suppliers, give an opportunity to access knowledge and develop interpersonal skills (human resources), allow the import of intellectual property (organisational resources), use the assets of other companies (material resources) and act as an intermediary in the conclusion of purchase and sale transactions, generating financial resources.

Figure 4. Enterprise resources



Source: own elaboration.

Companies look for a variety of resources using different types of relations. Access to resources is possible through strategies of absorption, acquisition, exchange and co-creation (Rusanen, Halinen, Jaakkola 2014, p. 2). In most cases, companies gain access to resources through sales transactions. In order to gain access to resources, companies initiate, consolidate and formalise relationships in various forms of cooperation. Easily negotiable resources may be available through weak relationships and low cooperation intensity. While access to hard-

to-reach resources requires strong relations and high intensity of cooperation (Rusanen, Halinen, Jaakkola 2014, p. 2).

Operating in a dynamic environment often requires a quick response to changes through appropriate allocation and configuration of resources. The success of a company depends on the ability of employees to learn quickly, to locate resources (inside and outside) and to acquire and use them according to new market requirements. Relational resources allow the integration of new external resources (e.g. knowledge, technology, customer needs) with the internal resources of the company. They favour the reconfiguration of the company's resource structure for the creation of value for the company itself and its affiliated entities.

Therefore, information and relational resources can provide many benefits in the form of access to information about customer needs, suppliers' capabilities and the behaviour of competitors. They may contribute to an increase in sales, improvement of profitability or strengthening the image of the company. On the other hand, having permanent relations with customers and suppliers, shaped over the years of activity, may constitute a competitive advantage in a situation when it is an asset distinguishing a company from the competition. Resources have the ability to create a competitive advantage after meeting the conditions in the form of valuability (they must create value for the company and the customer), rarity, difficulties to imitate and should be optimally used by the company.

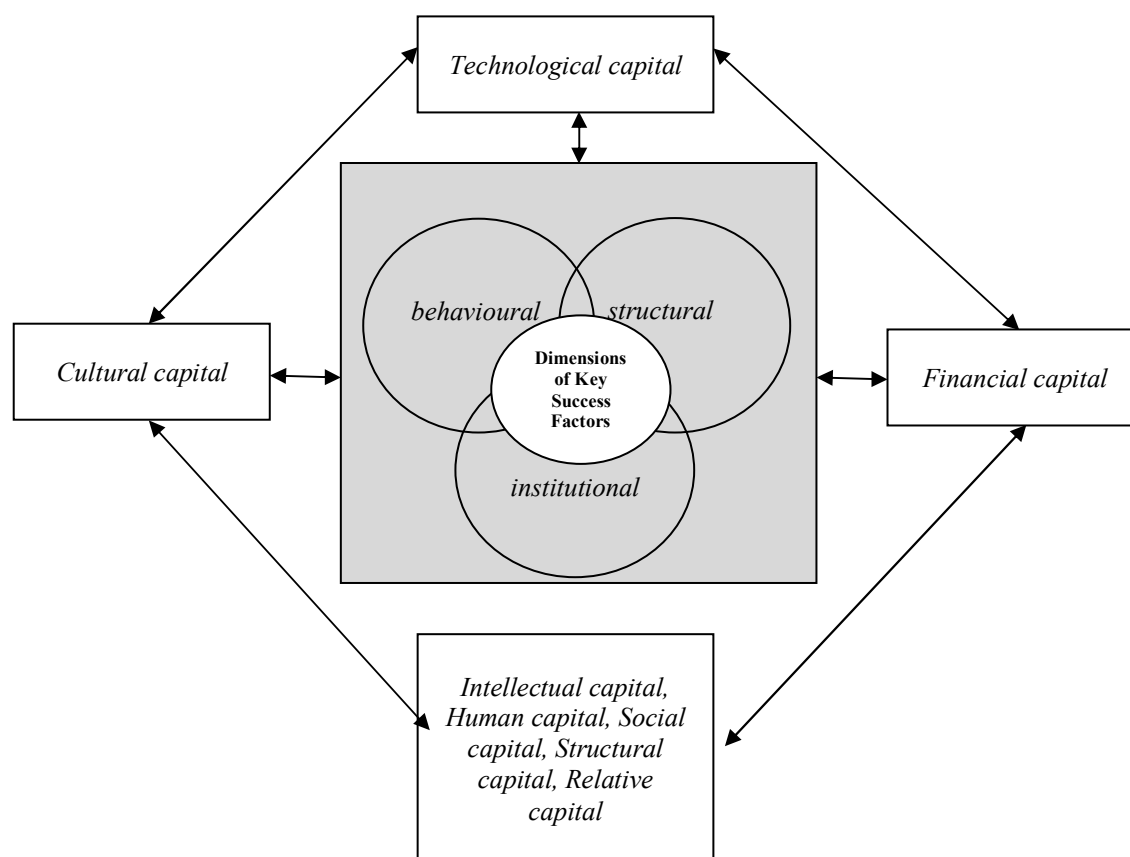
Appropriately shaped resources can turn into capital, which is a key success factor (KSF). In the model of key success factors by Eulalia Skawińska and Romuald I. Zalewski (2016, p. 22) four types of capital have been distinguished. These include intellectual capital (including human, social, structural and relational capital), technological, cultural and financial capital. Feedback relations take place between the indicated capital and three dimensions of the KSF emerge, i.e. behavioural, structural and institutional (Figure 5).

Human capital (being a component of intellectual capital) influences other types of capital through such features as: knowledge, talents, skills, perseverance, courage and inventiveness (Skawińska, Zalewski, 2016, p. 22). An example is the use by employees of the latest solutions in the sphere of information technology to acquire, maintain and develop relations with customers and suppliers. Thanks to the improvement of human capital, new skills are gained and norms and values are shaped as well as other attributes of social capital are acquired, such as: cooperation, entrepreneurship, loyalty, commitment or participation (Skawińska, Zalewski, Brzeczek 2011, p. 241). The high quality of human capital determines the creation of various sources of competitive advantage, such as: building relations with the

environment, acquiring and using information, increasing innovation, etc. (Skawińska, Zalewski, Brzęczek 2011, p. 241).

Relations as intangible resources contribute to the creation of relational capital, which in connection with technological and financial capital enables the implementation of innovative undertakings in the sphere of products, technologies or processes.

Figure 5. Model of key success factors for Polish enterprises of the future



Source: (Skawińska, Zalewski 2016, p. 22).

Without appropriate relations, it is difficult to build cultural capital including in particular: trust, entrepreneurship, the level of information generated, its protection and acquisition skills, attitude to work, acceptance of common goals and changes, tolerance and understanding of the problems of the future (Skawińska, Zalewski 2016, p. 23). The cultural capital built up over the years may be lost through opportunistic behaviours resulting in a loss of trust, resources involved or initiating the process of cooperation completion.

Summary

Analysis of barriers to development and key success factors (KSFs) of small and medium-sized enterprises seems important in the conditions of changes in the environment and

increasing importance of intangible resources in the competitiveness of the enterprise. Depending on the subject of activity and conditions in which they operate, enterprises identify both barriers and factors constituting their market success. They are usually differentiated depending on the sector in which the company operates. Barriers usually result from the internal weaknesses of the company and external conditions. Enterprises identify both internal and external barriers and take action to overcome them. In order to be competitive, they shape the key success factors. Shaping KSFs requires the commitment of both own and external resources and capital. It is also obligatory to use various abilities (dynamic, relational, marketing), as a set of skills allowing to stand out from the competition, giving value to both the company and its cooperating entities. Resources are the foundation for the development of the company's abilities (dynamic, relational, marketing). The most important key success factors are: high quality of products, ability to adapt the product/service to the customer's needs, new innovative products/services, competitive price, narrow specialization. The indicated factors are only an example and are extended by success factors based on intangible resources determining the development of an enterprise which is based on intellectual capital.

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