Chapter 1.
Success Factors and Determinants of the Development of Small and Medium-Sized Enterprises

The small and medium-sized enterprise (SME) sector plays a decisive role in the economic development and economic health of countries. There are currently about 21 million small and medium-sized enterprises worldwide and there is no doubt that SMEs are and will always be the backbone of any economy as they consistently generate significant income, employment, products, innovations, and new technologies. In light of the above, small and medium-sized enterprises (SMEs) are noteworthy engines of economic development (Obi et al., 2018; Ndiaye et al., 2018; Mazzarol et al., 1999) and are crucial to most economies around the world, especially in developing and emerging countries. The issue of small and medium-sized enterprise development has been an important focus of interest in economic and management sciences and quality sciences for many years now. This is due, among other things, to the significant impact of SMEs on the socio-economic processes taking place in the modern economy. Researchers repeatedly point out that countries around the world are focusing on the development of the sector of activity due to the fact that SMEs are the driving force behind the promotion and improvement of the economy (Subhan et al., 2013; Amoafo, 2012, p. 53). Thus, it comes as no surprise to anyone today that it is SMEs that constitute an important entrepreneurial base and form a dynamic sector of the economy. Also worthy of special attention is the fact that the functioning of small and medium-sized enterprises is an extremely "delicate" sphere of activity, susceptible to the influence of various factors and conditions that may support or hinder their development. The factors, referred to as stimulators, determinants, or catalysts of development, are measurable components distinguished in a complex of phenomena considered as a cause or condition of development processes, constituting their driving forces.

Development of Small and Medium-sized Enterprises

In colloquial language, growth and development are usually used as synonyms, or at as least words with the same meaning. However, in the literature on the subject, a clear difference in the categories of the terms resounds, as growth is seen as a quantitative category and development as a qualitative category which also takes into account structural changes as well as social, environmental, and other aspects of the quality of life in the economy, the business sector, and individual companies (Borowiecki et al., 2018, p. 13).

Ackoff (1993) refers to the growth of a company as an increase in size and number, and M. Goold (1999) identifies the following criteria for company growth (market value of the company, global profit earned by the company in a given year, earnings per share, and sales value). The team of D. Katz and R. Kahn identifies five types of growth, four of which directly relate precisely to the issue of company size (growth through increasing the size of a given unit, growth through the creation of parallel units, growth through diversification, i.e., the creation of units dealing with new markets or new products, as well as growth through mergers and acquisitions). The fifth type defined as growth through specialization, on the other hand, implies an improvement in labor productivity through the reallocation of functions, which should result in an improvement in the financial performance indicators of a given company (Katz & Kahn, 2015).

Factors influencing the development of SMEs can be viewed from various perspectives. On the one hand, there is no doubt that the development of an enterprise, and often its success, depends on the correct management of a company by its owner or manager. On the other hand, the environment in which the organization has to function is not without significance, either (Bieńkowska, 2004).

A theoretical framework for the study of SME development/growth is provided by theories of organizational development, e.g.: phase models of growth. Here, the terms life-cycle stages and development stages or growth stages are most often used interchangeably. Authors use different names for the various phases, although they are often based in meaning on the changes

that occur in organizations, e.g.: emergence, survival, growth, expansion, maturity, etc. The models describe a different number of phases with different names, though they are generally based on the same criteria: management and organizational style, marketing problems, fundraising, main strategies, or owner involvement in the company (Wasilczuk, 2004, p. 71). One can encounter three-phase (e.g.: Thaine & Mitzberg), five-phase (e.g.: McGuire, Greiner, Churchill & Lewis) and ten-phase (e.g.: Adizes model) models (Stabryła 2002; Puto & Brendzel-Skowera, 2011, p. 95). However, it is worth mentioning at this point the SME development model of N. Churchill and V. Lewis (1983, p. 38). This is one of the best-known models of the life cycle of small and medium-sized enterprises distinguishing the following phases of development:
1) emergence (establishment),
2) survival in the market,
3) success: – with an exploitation (consumption) orientation, – with an active growth orientation,
4) dynamic growth (expansion),
5) maturity (Churchill & Lewis, 1983; Poznańska, 2011).

A distinction is therefore made in the literature between the life cycle of small and medium-sized enterprises and that of large business entities. Indeed, it cannot be assumed that the majority of small businesses are in the initial phase of development. Only a few entities will become medium-sized or large enterprises through intensive growth, while others may remain in the group of entities categorized as small or micro-enterprises throughout their lives (Poznańska, 2011, p. 34). In addition, Churchill and Lewis (1983) distinguished eight factors determining the success or failure of a small business, the importance of which changes as the business develops and grows. Four of the factors are related to the owner and the remaining factors are related to the enterprise. Consequently, the first four factors are more static in nature and relate to the business itself. They include (Churchill & Lewis, 1983):
– financial resources (financial resources, financial reserves, borrowing capacity),
– personnel resources (the number and qualifications of persons employed),
– system resources (company information system, management system),
– business resources (market share, supplier relationships).

Other factors related to the characteristics of the entrepreneur him/herself include aspects such as:

– motivation (attitude towards the company and oneself),
– capacity to act (ability to carry out marketing, innovation, production, or management activities independently),
– managerial skills (ability to delegate authority and responsibility, ability to direct the work of others),
– strategic capabilities (forward thinking, analyzing strengths, weaknesses, opportunities, and threats).

At each successive stage of development, a company faces new problems and challenges, and the role of individual entrepreneurial and management factors also changes. As the company grows, the owner's ability to perform tasks independently decreases, while the importance of strategic planning, employee qualifications, and the entrepreneur's ability to delegate tasks, authority and responsibility increases (Machaczka, 1998, p. 83).

Basically, the literature indicates that the development of small and medium-sized enterprises is determined by external and internal factors. The former can come from within the organization, being its strengths (internal factors), while the latter can come from the environment, creating opportunities for the development of the small enterprise (external factors) (Machaczka, 1998). And by knowing the determinants and adapting the business accordingly, the enterprise can grow faster than the competition. Enterprise development, therefore, means coordinated changes to systems within the enterprise, adapting it to an ever-changing environment. Adaptations are effective if they ensure that the enterprise achieves and maintains a competitive advantage, which is a necessary condition for staying in the market.

Determinants of Small and Medium-sized Enterprise Development

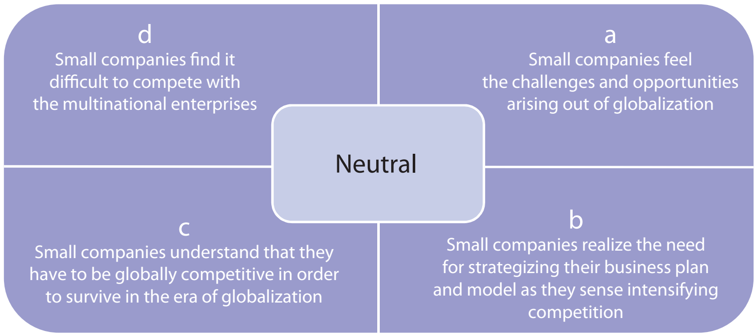
The determinants of enterprise development can be divided into two basic groups—factors influencing enterprises from the external environment and internal determinants usually created by the enterprise itself. The external environment is a set of factors influencing the functioning and development of the enterprises. In entity terms, the environment is a set of institutions and organized interest groups, while in object terms, it is a set of processes

and phenomena to which the enterprise is subject and which it can also influence (Wach, 2008; Kamińska, 2011; Lemańska-Majdzik et al., 2017). External factors can include (Mitek & Micuła, 2012, p. 60):
1) globalization of the economy,
2) economic prosperity,
3) the foreign and domestic market situation,
4) innovation,
5) State fiscal policy and regulation,
6) level of economic growth,
7) free movement of goods and services.

The above-mentioned external factors, such as globalization or free access to foreign markets, have a strong impact on the development of small and medium-sized enterprises. The unlimited connectivity of companies and consumers worldwide via communication (Internet), for example, means that products can be shipped between countries and economies at reduced costs and in a very short time. This has virtually eliminated borders between countries. As a result, consumers are willing to use the Internet to search for the perfect product, and it does not matter whether they are from Australia or Poland. Suddenly, with this phenomenon, the small business serves not only the local market but also international customers, and the one that has an established niche or demonstrates the ability to innovate and succeed in business can emerge in internal and sub-regional/regional markets. Additionally, free access to foreign markets forces change, most often in the form of innovation. The combination of globalization and trade liberalization can allow for greater economies of scale and opportunities for the small SME segment. Globalization can provide better access to standardized market information and to larger and more diverse markets (Liñán et al., 2020; Popescu, 2019). Although studies show that in practice:
a) smaller companies find it difficult to face greater challenges in international business because of the difficulty in reaching export markets, and
b) markets around the world are dominated by multinational corporations (Kahiya, 2018; Paul & Sánchez-Morcilio, 2018).

The difficulties faced by SMEs in the age of globalization are represented by a four-dimensional matrix (Figure 1).

Figure 1. Four-dimensional matrix for SMEs based on difficulties, challenges, and opportunities



Source: Liñán, F., Paul, J., & Fayolle, A. (2020). SMEs and entrepreneurship in the era of globalization: advances and theoretical approaches. *Small Bus Econ*, *55*, 695–703.

In addition to the external factors determining the development of a company, the development also depends on internal factors, which constitute the competitive potential dependent on the company. The competitive potential consists of the following factors (Mitek & Micuła, 2012):

1) material resources,
2) intangible resources,
3) management efficiency,
4) business arrangements and relationships,
5) competitiveness of products and services,
6) activities and processes within the company.

According to the most classic classification of resources, intangible resources should be understood as goods without material form, based primarily on knowledge, and characterized by three basic properties: uncertainty of production, limited possibilities of imitation and reproduction, and occurrence in a specific organizational context in which they acquire a specific meaning (Webster & Jensen, 2006). Material resources, on the other hand, comprise the factors present in physical form that constitute the essence of their economic use. They belong to a group of internal factors for the development and building of a company's competitiveness. The resources are expressible in numerical units and it is relatively easy to determine their specific financial value. Intangible resources, unlike tangible resources, do not exist in a physical form. It makes them much more difficult to identify, quantify and value. On the other hand, they are difficult for market competitors to imitate and copy because of their unique nature. For the reason, the resources have a much stronger impact on the development of enterprises and the level of their competitive potential than material resources. Moreover, owner-managers of micro, small and medium-sized enterprises should make every effort to base the development of their entities on maximizing the use of intangible resources. It is due to both the value of the resources and the specific nature of SMEs, which, compared to large enterprises, do not have significant tangible and/or financial resources at their disposal (Adamik & Nowicki, 2012). Intangible resources nowadays play a fundamental role in the development of companies' core competences and constitute a growing part of a company's market value. Their diversity as well as complex and multidimensional nature results in specific categories within the group which may include: (1) human, (2) relational, (3) market, (4) technological, (5) organizational, and (6) cultural resources (Urbanek, 2011). The importance of intangible assets in an organization—which is able to attract employees who are knowledge holders—is still the most important source of competitive advantage.

Essentially, all the above-mentioned determinants of SME development—the internal and external ones—boil down to the market competitiveness of an enterprise. Dynamic development, innovations, capital held, tangible and intangible resources, management, the price level of products and services, and others can be defined as competitive advantages. Researchers point out that the success and failure of SMEs depend not only on the financial aspect but also on other strategic features (Menefee et al., 2006). Purpose and strategy are also important determinants of development, but development can also be equated with growth (economic, social, financial, etc.), and its main focus is to increase the number of transactions and the number of customers. When we consider management efficiency or the activities and processes taking place in a company, the determinant becomes the person or persons managing the business entity and their strategic, marketing, and analytical activities leading to the maintenance of market stability (Glinka & Pasieczny, 2015, pp. 240–241). Hence, leadership is one of the main internal resources with an important role in building competitive advantage. As owner-managers in SMEs exercise control over both ownership and management, they provide leadership, set direction, and formulate strategies to guide the company and navigate an uncertain business environment. In addition, SMEs focusing on how to effectively utilize the existing internal resources, especially with a limited size and fewer employees, require direct management intervention and involvement (ASEAN, 2014).

When analyzing the process of doing business, factors related to the operating strategy adopted, the company's policies towards its employees and customers (Taylor & LaBarre, 2006), and the innovations introduced (Lee et al., 2012; Pervan et al., 2015) are taken into consideration. In addition, factors influencing growth include the specialist skills of the company's employees and control within the wider organization (Ashkenas et al., 1998). Whether a company adopts the right operating strategy, plans well its activities, adapts to a changing environment, hires the right employees (Skibiński et al., 2016), as they make a real contribution to the organisation's goals and objectives (Latifi & Shooshtarian, 2014) and the creation of a good workplace climate, etc. it will affect its performance in the market.

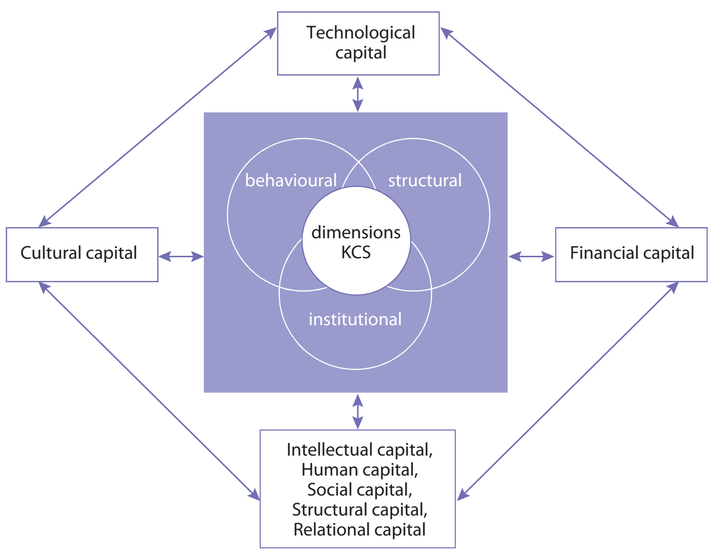
Also, in light of current research, entrepreneurial competence is seen as an accelerator for SME success, as the competitive business environment requires SMEs to seek new opportunities for survival. Owner-managers of SMEs who can increase their entrepreneurial competence over time can outperform their competitors and their companies may experience higher growth rates (Bachmann et al., 2016; Stam & Elfing, 2008). Owner-managers of SMEs should be entrepreneurially competent to identify opportunities, management uncertainty and ambiguity, and organize resources to commercialize ideas and transform them into innovative products and services (Chandler & Jansen, 1992). Moreover, in addition to the right leadership, entrepreneurial competence, and technical aspects, innovation can be understood as one of the key success factors for SME profitability and growth. Peter Drucker once said that innovation is a company's only competitive advantage because quality improvements and price reductions can be replicated, as can technology. Therefore, if a company can only have one core capability, it should be innovation (Ng & Kee, 2017). Innovation is also increasingly recognized as an important source of sustainable competitive advantage for organizations (Tseng et al., 2009). In summary, therefore, recent research shows that the following will be among the key factors for SME success and growth: transformational leadership, entrepreneurial competence, technical competence, and enterprise innovation.

Key Success Factors for SMEs

In the literature on factors affecting the performance of SMEs, we find the perspective of so-called key success factors. The key success factors for SMEs are defined as the resources and skills in which a company invests in the market for its business and which explain most of the observed variation in value obtained and costs incurred (Grunert & Ellegard, 1992). Previous studies by international researchers show that those success factors include managerial skills, government support, training, access to intellectual capital, marketing, market orientation, competitive pricing, human resource management, social skills, location, family, and friends (Chawla et al., 2010; Chong, 2012; Gupta & Mirchandani, 2018; Al-Tit et al., 2019). The approach that deserves special attention is the one that systematizes the success factors into two groups: individual factors and non-individual factors. Individual factors include entrepreneurial characteristics such as an owner-manager's skills, personal characteristics, gender, and motivation, while non-individual factors refer to internal factors (marketing, the ability to compete, technology, and innovation) and external factors (limited finances, market conditions, and intense competition) (Nikolić et al., 2015).

Also noteworthy is the approach of Polish researchers—the model of key success factors by E. Skawińska and R.I. Zalewski (2016, p. 22)—it identifies four types of capital, in the form of intellectual capital (including human, social, structural, and relational capital), technological, cultural, and financial capital. The authors have demonstrated that there are feedback relationships between the indicated capitals and that three dimensions of key success factors emerge, i.e., behavioral, structural, and institutional (Figure 2).

Figure 2. Model of key success factors of Polish enterprises of the future



Source: Skawińska, E., & Zalewski, R.I. (2016). Konkurencyjność – kluczowe czynniki sukcesu przedsiębiorstw XXI wieku. *Przegląd Organizacji*, (3), 16–25.

Human capital (which is a component of intellectual capital) influences the other types of capital through characteristics such as knowledge, talents, skills, perseverance, courage, and ingenuity. Human capital complemented by social values (trust, mutual understanding, and norms) creates social capital. Technological, financial, cultural, and intellectual capital are seen as opportunities for development, and their effective use is a key factor for success. Relationships, as intangible resources, contribute to the creation of relational capital, which in combination with technological and financial capital enables the realization of innovative projects in the sphere of products, technologies, or processes. Without appropriate relationships, it is difficult to build cultural capital, including in particular: trust, entrepreneurship, the level of information generated, its protection and the ability to acquire, attitudes to work, acceptance of common goals and changes, tolerance, and understanding of the future. Cultural capital built up over the years can be strengthened, weakened, or lost through opportunistic behavior resulting in the loss of trust, committed resources, or initiating the process of ending interaction (Skawińska & Zalewski, 2016).

The literature does not suggest that there is only one determinant of growth and success, but points to the multiplicity and diversity of factors (Dobbs & Hamilton, 2007; Lampadarios, 2016; Lampadarios et al., 2017; Lussier, 1995; Lussier & Halabi, 2010; Lussier & Corman, 1995; Alasadi & Abdelrahim, 2007; Félix & dos Santos, 2018; Trang, 2016). Moreover, the factors can vary considerably from region to region, country to country, and sector to sector for economic, geographical, or cultural reasons (Alasadi & Abdelrahim, 2007). In view of the determinants, it can be said that success is a multidimensional phenomenon. Both the internal factors of the company and the external factors of the company must be optimized at the same time.

Key success factors can be divided into three groups based on where they occur. The first perspective—the micro perspective—comprises aspects directly related to the managers of the business (the owner's age, gender, educational level, management experience and skills, entrepreneurial orientation, personality, prior work experience, and management skills). The next is the macro perspective—the characteristics of the business (company age and size, business networks, financial resources, customer relationship management; human capital, marketing, and strategic planning). The last group of business success factors constituting the meso perspective includes business environment factors (political environment, economic environment, socio-cultural environment, technological environment, legal and regulatory environment, ecological and environmental aspects, access to finance, advisory service, and government policies). It should be emphasized that