

# A conceptual framework for SMEs development

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**Abstract:** This paper aims to study a framework for small-medium enterprises (SMEs) development in Vietnam. Our findings show that SMEs in Vietnam has recognized as vital and significant contributors to economic development, job creation, and the general health and welfare of economies. In order for these SMEs to contribute to economic development in Vietnam, they need to grow that make their most tangible contribution to economic growth and job creation.

**Keywords:** SMEs, conceptual framework, business growth

## I. INTRODUCTION

Small-medium enterprises are well recognized and acknowledged worldwide as vital and significant contributors to economic development, job creation, and the general health and welfare of economies, both nationally and internationally (Morrison, et al, 2003).

Although many scholars have studied this area, but yet firm growth is not based on a general theory or generally accepted conceptual definition. Reviewing different literature (both theoretical and empirical), it has been found that small firm growth can be influenced by several factors. Some of these factors are external to the firm (can be referred as environmental factors), while others are internal and within control of owner-managers. It has been found that, firm growth is relating to firm size and to the age of the firm (Evans, 1987; Jovanovic, 1982). Apart from that, the impact of human capital on entrepreneurial growth has been also recognized by economic theory (Casson, 1991), and found to be significant in some empirical research (Davidsson and Honig, 2003). In addition to that, Storey (1994) asserts that the growth of the small firms is influenced by the interaction between factors relating to entrepreneur, firm and management strategy. Although these studies give us insights on the important factors influencing small business growth, however our study would like to include some other factors, which may have major impact on business growth and on gender differences in relation business growth. This study would like to contribute knowledge by applying bourdieu concepts of cultural capital and habitus. These concepts have been mostly applied in education researches, studying differences in education performance (Dumais, 2002; DiMaggio, 1982; DiMaggio & Mohr, 1985). However, in relation to economic performance, we found that cultural variables have been applied in studying differences in economic performance across countries (Franke et al, 1991, Granato et al, 1996). To our knowledge, we have found only one study at firm level, by Basu and Goswami (1999), which included cultural factors in explaining the process of business growth in South Asian firms in UK. The explanatory power of

socio-economic variables was considerably enhanced by including cultural variables in the model.

## II. THEORETICAL BACKGROUND

The importance of SMEs in contributing to economic development in different countries has been recognized. However, there is no single definition of what constitute small and medium enterprises, which is accepted by all countries (Carter and Evans, 2006).

In USA, the Small Business Act states that a small business is the one which is independently owned and operated and which is not dominant in its field of operation. But also the Law states that in determining what constitutes a small business, the definition will vary from industry to industry to reflect industry differences accurately. For example, in manufacturing and mining industries, small business is the one with 500 employees and \$6.5 million in average annual receipts.

The European Commission has also defined micro and small and medium sized enterprises (SMEs) as following: A micro enterprise is referred as business with employees up to 10, a small one up to 50 employees and a medium enterprise is a business with less than or equal 250 employees.

In Canada, the Industry Canada uses the term SME to refer to businesses with fewer than 500 employees, while classifying firms with 500 or more employees as "large" businesses. Breaking down the SME definition, the industry defines a small business as one that has fewer than 100 employees (if the business is a goods-producing business) or fewer than 50 employees (if the business is a service-based business). A firm that has more employees than these cut-offs but fewer than 500 employees is classified as a medium-sized business.

In Vietnam, by the size of registered capital, 90 percent of the firms have a registered capital less than VND 5 billion (about USD 330,000). Most types of SMEs fall well into the range of VND 1-5 billion. By the averaged size of regular labor force, SMEs are small in size, too. In 2005, the labor force averaged to 32 laborers per enterprise. This is a very slight increase because in 2000, it was only 30 laborers per enterprise. During the same period, the average capital of SMEs increased from VND 3 billion to 7 billion.

Therefore, we can see that SMEs have been defined by using different criteria; and different countries have adopted slightly different definitions based on the local context.

There is a vast literature about small business, explaining the factors behind successful firms; particularly studies looking at

the determinants of small business growth. Different measurements with regard to business growth have been used in different studies. Some authors have used employment rate (Davidsson, et al, 2002; Becchetti, & Trovato, 2002; Calvo, 2006; Almus & Nerlinger, 1999 & 2000); others (like Kangasharju, 2000; Rodríguez, et al 2003; Premaratne, 2001) have used financial terms as sales turnover, profitability, and total assets; while Davidsson, 1991; Barkham, (1994); Heshmati, (2001;) have combined both employment and financial terms in measuring small business growth.

However, the most used growth measurement according to Carter & Evans (2006) is *employment rate*. They say that this definition is more influenced by the interest of public policy makers, as their aim is to increase employment opportunities. But also, another reason for defining business growth using number of employees is related to data availability and reliability. Financial data (such as sales turnover or profits) are particularly less reliable in small firms than in large firms and also less commonly available (ibid.). But *sales growth* has also been used, as small business owners see it as an indicator for performance (Barkham, et al, 1996).

In this study, we are proposing to use the combined measurement, i.e. both financial terms (sales and profit) and employment rate. The approach has two reasons; first it will help to know how much SMEs have been able to increase employment opportunities in the country. Second, it will help to know how much small businesses are performing in financial terms. In addition to that, the study would also like to find out if there are other measures which women do use in relation to business growth. Brush (1992) argued that, together with financial measures, researchers should include measures like employee satisfaction, social contributions, and goals achievement in assessing performance of women owned businesses, as they may have different perceptions on business performance. The key question here is that, "how do women measure business growth", and how is this similar or different from male business owners?

Habitus is one of the important concepts in a Bourdieu's theory of practice. According to Bourdieu, the reproduction of the social structure results from the habitus of individuals (in Dumais, 2002). Bourdieu defined habitus as a system of lasting and transposable dispositions which, integrating past experiences, functions at every moment as a matrix of perceptions, appreciations and actions and makes possible the achievement of diversified tasks (1973). On the basis of the social class position they were born into, people develop ideas about their individual potential; for example, those in the working class tend to believe that they will remain in the working class. These beliefs are then externalized into actions that lead to the reproduction of the class structure (Dumais, 2002). One of the important features of habitus is that it is embodied; it is not only composed of mental attitudes and perceptions, but also through durable ways of standing, speaking, walking, and thereby of feeling and thinking (Reay, 1995). Habitus includes the totality of learned habits, bodily

skills, styles, tastes, and other non-discursive knowledge that might be said to "go without saying" for a specific group of people (Butler, 1999).

According to Bourdieu, habitus is developed during childhood as a person grows to understand her or his place in the social structure. Although early childhood socialization is important; however new experiences are constantly incorporated into someone's habitus. The influences of significant persons, reference groups, social status, and ethnic group cultures are key components which has a critical impact on the development and social trajectory of individuals and their conceptions of their possible futures (Jacobs, et al, 1991). Thus past experiences, which include the effects of socialization processes, and individual's actions and observations, accumulate to produce someone's worldview, in particular future aspirations and expectations (McClelland, 1990). Individuals who grow up in relatively high social class are more likely to develop high aspirations, and are more likely to have thoughts of success, to be able to see the connection between effort and reward, and to believe that they are capable of achieving ambitious goals than those individuals from less privileged class. The lack of resources or of friends and relatives with similar experiences who can be turned to for advice and encouragement continues to be a barrier for individuals from non-privileged social origins.

### III. RESEARCH METHODOLOGY

The study will involve the use of a cross-sectional design, which collects information at one point in time only. Although longitudinal design has been suggested as the best design in studying small business growth (see Davidsson & Wiklund, 2005), but because of the time limit and cost, cross-sectional design will be used. The advantage of cross-sectional design is that it is more economical in time and cost than longitudinal designs. For the participants, there is only one period for data collection, and the researcher will not be faced with the difficulty and cost of maintaining contact with subjects over a long period of time.

Empirical studies on the effect of culture on economic performance are very limited. Franke et al, (1991) studied cultural factors in relation to economic performance. They utilized cultural measures to evaluate differences in economic performance, across 20 countries. Empirical analysis shows the potential of cultural determinants in explaining economic performance.

In their study, Granato et al (1996) tried to find out whether cultural factors have influence on economic performance in different countries. They found that both economic and cultural factors affect economic growth. They identified cultural variables as achievement motivation and post-materialism values; economic growth was measured by the rate of per capita economic growth. Using regression method, the results show both achievement motivation and post-materialism are significant predictors of economic growth as predicted in the model.

As it has been discussed above that, cultural capital and habitus have been used in education researches to explain education performance differences. Very few studies have applied cultural capital in explaining economic performance differences at the country-level. To our knowledge, we have found only one study, Basu and Goswami (1999), which included cultural factors in explaining the process of business growth at the firm level. The results show that socio-economic variables<sup>1</sup>, both initial and strategic, influence business growth. However, socio-economic factors alone cannot adequately explain the process of business growth. The explanatory power of these variables was considerably enhanced by the incorporation of cultural variables in the model.

#### IV. CONCEPTUAL FRAMEWORK FOR SMES DEVELOPMENT

Although factors that influence business growth have been studied by many scholars, but currently firm growth is not based on a general theory or generally accepted conceptual definition. There are many approaches and opinions about its range, measurement parameters and determining factors. There are also a number of theories, which have been proposed to explain small business growth, but they do reflect different views of growth process. In next section, we describe firm growth theories. However, the list is not comprehensive; rather it reflects what we believe the more plausible theories in relation to our study and are applicable to small businesses.

##### *Economic theories about Growth*

According to *classic economic theory*, the size of the firm is determined by the efficient allocation of available *resources*, utilized by available *technologies*. Accordingly, the observed business size is an efficient size, which means that long run costs are minimized at that point. It is assumed that firm growth follows the assumption of profit-maximizing behaviour and from the shape of the production cost functions (Davidsson, 1989). Therefore a firm will grow until it has reached the size where long run marginal costs equal price, which is assessed as the “optimum” size of the firm (Yong, 1995). According to this theory, growth constitutes a limited process, by which the growth expansion experienced by large companies cannot be explained using this theory. In order to explain the continuous expansion of large firms, we have to refer to behavioural approach, which was initially developed by Baumol (1959), and Penrose (1959). According to this approach, growth is a continuous process that arises the moment that management strives to exploit under-used resources to the utmost, the only limit being the coordinating capacity of the management team to inspire confidence and security. Penrose (1959) argued that, as firms expand; new managers are drawn in who require training and who need to

<sup>1</sup> Socio-economic variables used in the study were the entrepreneur’s education qualifications, previous experience, access to capital, and access to marketing information, while socio-cultural variables were entrepreneur’s origin and religion

be integrated into the existing organizational framework of the firm. The abilities and experience of new management personnel added to those already in the firm will lead to further potential for expansion, including diversification into new product areas (Penrose, 1995).

##### *Sociological Theories about Growth*

According Harre and Gillet (1994) human behaviour is the sum of interactions of individual mechanisms with each other and with the environment. It is a collective activity, in which individuals work with others to fulfill their intentions and achieve their projects according to *local rules and norms* (Harre, 1999). Harre and Gillet (1994) argue that, actions and the acts, which people do accomplish, make up a discursive practice. A discursive practice is defined as the repeated and orderly use of some sign system, where these uses are intentional, directed towards something (p.29). They continue to say that, norms and rules emerging in historical and cultural circumstances do operate to structure the things people do. Individuals are agents who skillfully use cultural and discursive resources to accomplish their intentions (p.33). However, Wortham (1997) argues that, it is cultural context and discursive practices, as well as individuals’ physical and mental states that provide resources which people use to accomplish their judgments, displays and other actions and turn into capabilities (p.423).

*Social learning theory* by Bandura (1977) emphasizes the importance of observing the behaviours, attitudes, and emotional reactions of others. Social learning can occur through the observation of behaviour in others (either in a family or in a society), often referred to as role models. The learning process transmits social norms, language, educational aspirations, and shapes career preferences through observational learning and modeling (Bandura 1977). Through observing others, one forms an idea of how new behaviours are performed, and on later occasions this coded information serves as a guide for action. According to social learning theory, if the observer values the reinforcements or recognizes the positive outcomes of such behaviour, the observer will attempt to replicate the model’s behaviour and obtain similar types of reinforcement. In relation to career selection, it has been argued that role models are an important environmental pull factor into one’s decision to engage in entrepreneurship (Scherer, et al, 1989).

##### *Psychological Theories about Growth*

Another approach, which explains small firm growth, holds that, business growth is a result of conscious human action, which is in turn driven by personal motives (Tuck and Hamilton, 1993). It is argued that, owners and managers of small firms, rather than firm-specific and environmental factors, will determine whether or not the firm grows. Davidsson (1991) argues that economic theories take the willingness to grow a business for granted, by assuming profit maximization. He says that, growth is a *choice of the owner-manager* and that profit maximization is only one of the

possible motives for business growth. In this section, we present psychological theories in relation to what influences entrepreneurial behaviour and business growth.

*Characteristics of Entrepreneurs*

According to *psychological school* of entrepreneurship (see Cunningham and Lischeron, (1991), entrepreneurs are viewed as individuals with unique values, attitudes and needs which drive them and differentiate them from non-entrepreneurs. It is argued that one’s needs, drives, attitudes, beliefs and values are primary determinants of a particular behaviour. As such, this school of thought focuses on personality factors and characteristics. Lachman (1980) suggested that people who possess personality characteristics would have a higher tendency (or potential) to perform entrepreneurial acts than people who do not possess such characteristics.

Based on the psychological theories described above, we can conclude that the choice of activities/careers by women and men in a particular society is determined by owner’s intention, which is influenced local rules and norms, and self-efficacy. In relation to entrepreneurship, we assume that business growth is a result of the needs and intentions of the owner-managers. Thus, owner-managers of small businesses will be motivated to grow their businesses if they believe that putting more effort will yield better performance; if they believe in their ability (i.e. having necessary skills) to perform a particular task successfully; and if they believe that when they complete certain actions then they will achieve the desired outcome. However, it has been argued that intentions and attitude are not accessible for study. Attitudes and intentions can only studied through observing individual’s behaviour, and through interaction with others in a society (Harre and Gillet, 1998). Therefore we will study owner-managers attitudes and intention through habitus.

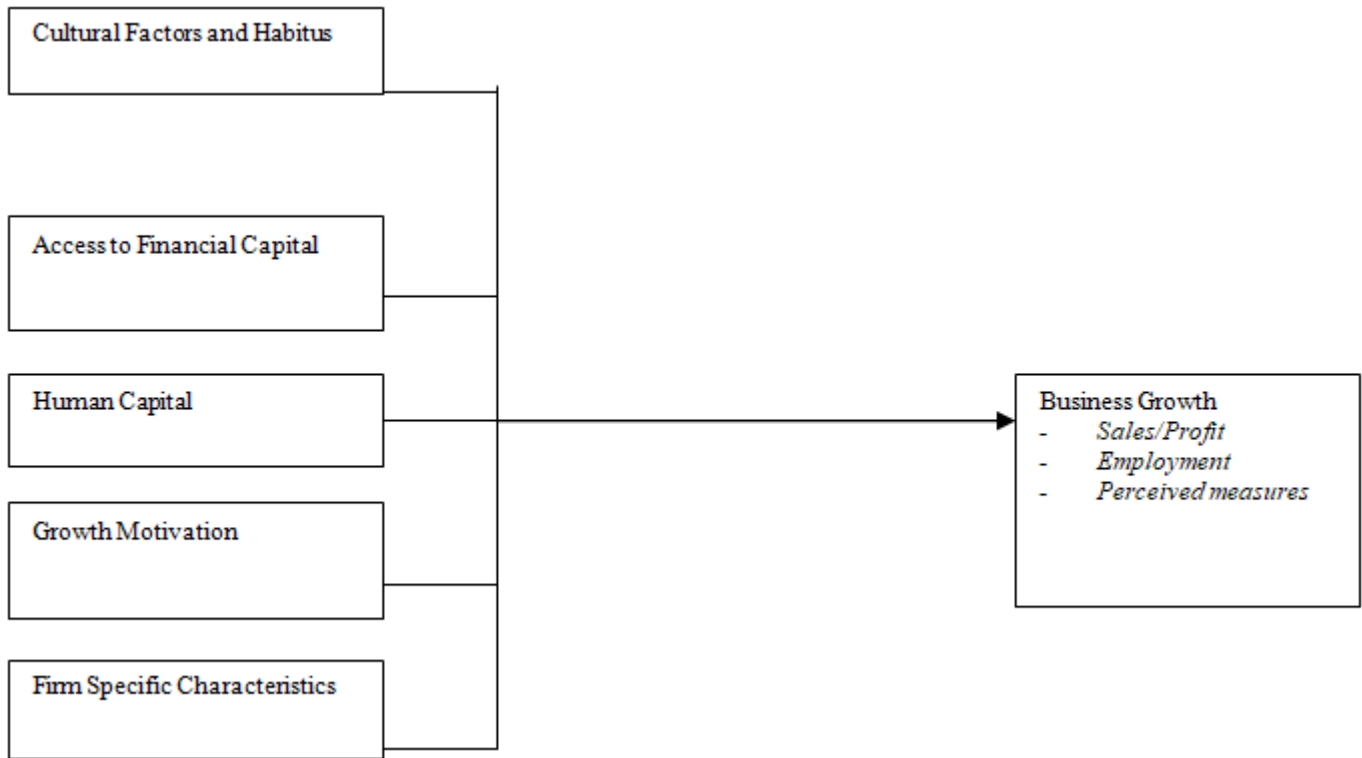


Figure 1: SMEs development framework  
(Source: Adapted by authors)

**V. CONCLUSION**

In this paper we have to describe different firm growth theories under the umbrella of economic theories, sociological theories and psychological theories. We have seen that, entrepreneurial behaviour and business growth are influenced by several factors. Under economic theories we have seen that resources and firm specific characteristics are assumed to influence firm growth. In relation to resources owned or acquired by the firm/entrepreneur, we focus only on access to financial capital and human capital. In relation to firm specific

characteristics we would like to examine the relationship between initial firm size, firm age, legal status and firm growth rate. In addition to that, the study the impact of type of industry sector on firm growth. In relation to sociological theories, we focus on the influence of cultural capital and habitus on firm growth. Under psychological theories, we focus on entrepreneurial motivation, especially growth motivation. We have also seen that growth motivation (attitudes) is also influenced by individuals’ experiences (i.e. habitus). Considering these all these factors, we have

constructed the conceptual framework to be studied in this research.

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