

REVIEW ARTICLE

Factors Influencing SMES Sustainable Growth in the Developing Context: A Conceptual Study

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Abstract: In the contemporary world, Small and Medium Enterprises (SMEs) remain the crucial mechanism for promoting economic growth and development. As such, it is imperative to look into factors that enhance SMEs' sustainable growth. This study thus examines internal and external factors influencing SMEs' sustainable growth. The internal factors used in the study comprise HR practices such as training and development, rewards and compensation, and performance appraisal while the external factors comprise government policies and access to finance. Despite the importance of HR practices (i.e., training and development, rewards and compensation, and performance appraisal), government policies and access to finance, researches that integrate these concepts with SMEs' sustainable growth are very limited, especially in the developing context. Based on the extensive literature view, this study has found significant links between HR practices, government policies, access to finance, and SMEs' sustainable growth by developing a conceptual model for empirical validations. The study concludes that HR practices, government policies, and access to finance enhance SMEs' sustainable growth. Finally, the study provides recommendations, limitations, and directions for future research.

Keywords: *SMEs Sustainable Growth, Internal and External Factors, HR practices, Government Policies, Access to Finance, Sudan.*

Article Received: 04 March 2021

Revised: 26 March 2021

Accepted: 15 April 2021

Introduction

In many countries of the world, Small and Medium-scale Enterprises (SMEs) are regarded as one of the key mechanisms to generate or create wealth for people. They are recognized as the engine room for promoting economic growth and development in both developed and developing nations [1, 2, 3, 4] as they constitute a major part of the industrial activity [5]. This is because SMEs constitute the greater means of creating employment opportunities and wealth distribution [2, 6, 7, 1]. They are also seen as drivers of economic growth sustainability [7, 8].

In today's world, SMEs have been contributing significantly to the economies of many nations in terms of Gross Domestic

Product (GDP) and employment opportunities. As alluded by Singh, Garg, and Deshmukh (2010), SMEs' contribution to the global economies stood around 80%. More so, in the developing context, SMEs remain the main source of GDP growth, employment opportunities, innovation, and larger economic growth [8, 9, 2, 10]. This indicates that SMEs are among the domineering areas of economic growth and development in both developed and developing countries [11].

SMEs are defined and conceptualized differently across nations or organizations [11] and are usually based on the number of employees, assets, and sales [12,13]. For instance, the World Bank defines SMEs as those enterprises with a maximum of 300

employees, \$15 million in annual revenue, and \$15 million in assets [14,15]. Likewise, the European Commission views SMEs as "business enterprises which employ lesser than 250 employees, and have an annual turnover not exceeding €50 million Euro, and/or an annual balance sheet total not exceeding €43 million Euro" [16]. Specifically, SMEs in Sudan are referred to as any enterprise with a maximum number of 249 employees and the minimum total cost of five million Sudanese pounds (SDG) and maximum total cost of five hundred million SDG excluding including working capital but cost of land [17].

In spite of the significant impact of SMEs in building sustainable economic growth in many nations across the world, it is unfortunate that Sudanese SMEs are yet to bring out such a growth impact [18]. SMEs in Sudan are challenged with many problems hindering their performance and which eventually have resulted in the collapse of various SMEs. For instance, the contribution of SMEs to Sudanese Gross Domestic Product (GDP) has been declining since 2015 [19]. This has adversely affected the economic growth of Sudan [19].

The reasons behind such problems are most probably due to certain environmental factors influencing the growth of small businesses with great emphasis on external factors especially in the context of Sudan [18, 20-22].

Browsing through the extant literature, there appears to be a paucity of empirical studies that integrate both internal and external factors with SMEs' growth/performance, particularly in the developing context. Following that, this study conceptually examines the certain internal and external factors influencing the sustainable growth of SMEs in Sudan. The internal factors selected are Human Resource (HR) practices (i.e., training and development, performance appraisal and compensation and rewards) while the external factors encompassing government policies and access to finance).

Literature Review

Concept of SMEs Sustainable Growth

According to [8], sustainable growth is usually referred to as continual progress, which is capable of assisting an organization to achieve its goals and objectives within a given period and in a specific context.

They further argued that growth is a process of positive transformations and in-depth development that is generally evaluated via organizational profit and quality improvement. In line with the view of [21] a growth is said to be sustainably provided it is repeatable, ethical and responsible to, and for, current and future societies. In the context of business, it is considered as the combination of improvement in the organizational profitability and operational activities of the business [22].

In our context, SMEs' sustainable growth can be conceptualized as continuous improvement or expansion in SMEs' capacity in a way that guarantees a high growth rate of the country's economy. [21] considered as SMEs sustainable growth as a long-term improvement in the financial and non-financial activities of business without endangering current business. Thus, SMEs' sustainable growth is expected to drive the economic growth and development of a nation [8].

Internal Factors (HR Practices) and SMEs Sustainable Growth

Those factors which are within the control or influence of the organization are referred to as internal factors and Human Resources (HR) practices are critical internal factors influencing business performance [23,2]. Basically, the relationship between Human HPWS/Resources (HR) practices (i.e., training and development, performance appraisal, and compensation and rewards) and business performance are well documented in the extant literature [23-27].

In specifics, there is no absolute HRM practice that that is most essential in organizational context [28,29]. However, extant literature has identified many HRM practices such as employee recruitment, training and development, performance appraisal, rewards system, and employees' participation, teamwork, job security, and HR planning as essential means of achieving organizational success [29, 30].

Thus, providing proper and adequate training; creating an equitable performance appraisal system, and having a fair system of the compensation system are all very much essential for the attainment of an appreciable organizational success [29].

Specifically, training and development programs enhance learning skills and possession of relevant knowledge of employees, which is essential for their job performance and success [31-33]. According to [34], training and development have a significant impact on organizational work values, commitment, and performance.

In other words, effective and impactful training and development programs are influential and can promote employee's organizational satisfaction and commitment [29]. In the context of SMEs, any HRM practice designed with enhanced ability, motivation, and opportunities (AMO) are likely to drive employees to attain organizational goals [25].

Furthermore, a performance appraisal system is considered as another HR practice that can ultimately bring about sustainable growth in an organization. Performance appraisal is a process that comprises recognizing the training needs of employees, establishing effective standards for their promotions, and providing feedback on how to enhance their performance [35].

An effective and well-designed performance appraisal system promotes commitment and provides a roadmap to recognize and appreciate valuable works. The main pillar of a performance appraisal system is fairness; since a transparent and fair performance appraisal system tends to have positive effects on the positive-related attitudes of employees [29].

Moreover, empirical studies (e.g. 29,34,25,36] have established that a well-designed and articulate incentive reward system is a catalyst for high commitment and performance a successful pay structure and an appropriate reward system are important because they have the tendency of improving the motivation of employees to work, which consequently facilitates productivity, efficiency and organizational competitiveness [37].

In the context of SMEs, [38] conducted an empirical study with a view to examining the impact of HR practice on the performance of SMEs in the UK. The finding of the study reveals that there is a significant relationship between HR practice and SMEs' performance. [40,41] proclaim that SMEs could take advantage of effective HRM systems with a view to creating more adaptable and skillful employees capable of enhancing innovation and performance [42,43]. Based on the aforementioned expositions, it is proposed that:

H1: Training and development has a significant effect on SMEs sustainable growth

H2: Performance appraisal has a significant effect on SMEs sustainable growth

H3: Compensation and rewards has a significant effect on SMEs sustainable growth

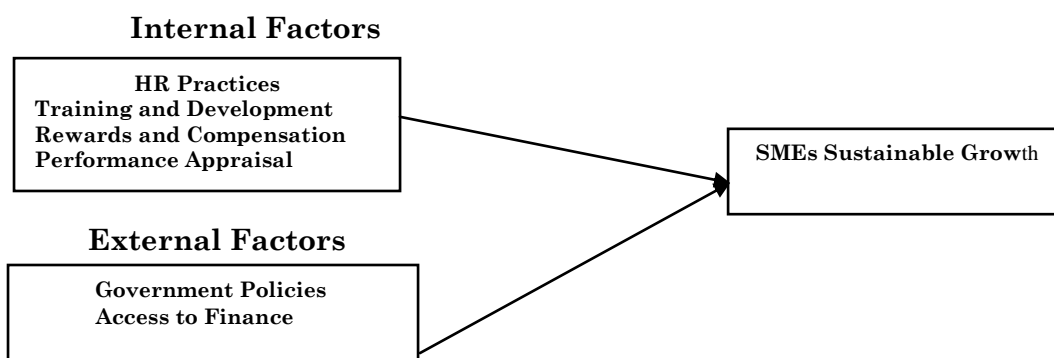


Figure 1: Conceptual Framework

External Factors and SMEs Sustainable Growth

External factors are factors that cannot be controlled such as political, environmental,

economic, technological, social, and legal factors [44, 45]. These factors can rarely be influenced by the decisions of the management since they are not within the

control of business [46, 47]. In the extant literature, government policies, competition, access to finance, customer satisfaction, suppliers, and other factors have been identified as external factors that have an impact on the sustainable growth of SMEs. Regarding government policies, studies [48-50] have established that government regulations (licenses and permits), cumbersome laws and regulations, high taxes, and corruption are some of the problems militating against the sustainable growth of SMEs. Moreover, [51] as well as [52] assert that the regulatory environment in which SMEs operate plays a significant role in influencing their growth and survival potentials.

Mashenene [52] and Agwu [53] also argued that bureaucratic process and procedures in government administrative system regarding registration of business, issuance of licenses and permits, procurement, among others may constitute a strong regulatory bottleneck to SMEs growth. Similarly, [54] concluded in their study that unstable government policies adversely affected SMEs' growth and consequently brought about their liquidation.

Moreover, a substantial number of studies [44, 55] have affirmed access to fund/finance as a significant predictor of SMEs' sustainable growth. They submitted that SMEs encounter serious difficulties in accessing loans from the bank as a consequence of the high risk for failing loans, lack of collateral normally demanded by the banks, and low profitability majorly in the developing countries.

This arises as a result of weak banking institutions, the weak legal framework for the assessment of credit and collateral, and a lack of capital market [55-57]. Furthermore, an empirical study conducted by [58] found access to finance as a key major factor inhibiting the growth and performance of SMEs in developing countries. Following the aforementioned argument, it is proposed that:

H4: Government policies have a significant effect on SMEs sustainable growth

H5: Access to finance has a significant effect on SMEs sustainable growth

Conclusion and Recommendations

This study has conceptually examined the linkage between HR practices (i.e., training and development, rewards and compensation, and performance appraisal), government policies, access to finance, and SMEs' sustainable growth. The selected HR practices are regarded in this study as internal environmental factors while government policies and access to finance are categorized as external environmental factors. Notably, this study has made a significant contribution to the body of knowledge by providing a conceptual framework that explicates the influence of HR practices, government policies, access to finance, and SMEs' sustainable growth.

Besides, the uniqueness of this study is based on the integration of internal factors comprising HR practices and external factors comprising government policies, access to finance, and sustainable growth in the context of SMEs. Hence, this study theorizes that a probable significant relationship exists between HR practices (i.e., training and development, rewards and compensation, and performance appraisal), government policies, access to finance, and SMEs sustainable growth via conceptual justifications.

It is therefore recommended that the managers of SMEs in Sudan should provide an effective HR practices system that incorporates training and development, rewards and compensation, and performance appraisal as it will help to enhance SMEs sustainable growth. Government should also formulate good business policies, make access to finance easy and provide a conducive business environment in order that SMEs sustainable growth will be judiciously guaranteed and in which in turn, drive the economic prosperity of the country.

Limitation and Future Research

Nonetheless, this study is not without limitations just like any other studies. First and foremost, this study is a conceptual paper thus it needs to be verified empirically with a view to affirming the hypothesized relationships among the variables of this study. Thus, future research can build on this and further conduct an empirical study of the hypothesized relationships.

More so, this study focuses on SMEs, and as such, future studies can verify the claims in larger organizations or other sectors of the economy.

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