

Redefining Growth Strategies in SMEs for Enhanced Brand Awareness and Global Expansion

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Abstract: This study investigates the growth dynamics of small and medium-sized enterprises (SMEs) by analysing data from a survey of 1,535 SMEs. It challenges the conventional belief that growth capability factors such as innovation, financing, and human capital dictate SME growth levels within a specific timeframe. Instead, our findings highlight the significance of adopting various growth strategies. Surprisingly, commonly adopted strategies like market penetration and efficiency enhancement have minimal impact on growth. In contrast, less common strategies, such as launching new ventures and expanding into international markets, are linked to substantial growth. However, these require more significant investments and are less accessible for SMEs. Notably, increasing brand awareness is identified as a frequently used and effective growth strategy. Given its positive impact on growth, investing in brand awareness is a prudent strategy for SMEs aiming for expansion.

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Introduction

Van Praag, Van Dijk, De Wit, and Pasaribu (2009) have extensively researched the role of small and medium-sized enterprises (SMEs) as catalysts for economic growth. They emphasise the importance of establishing and sustaining SMEs and ensuring their expansion. However, there

remains an unresolved question about the distribution of growth among the SME population and the factors influencing the growth of a typical SME.

Lee (2014) further explores this area, noting the impact of external factors like the business cycle, economic dynamism, competition levels, and internal factors on

SME growth. Recognising the significance of factors within an entrepreneur's control, this study focuses on internal elements. It examines the necessary capabilities for SME growth, the types of activities or paths that lead to growth, and the role of future planning in these processes.

Data were collected from an online survey of 1,535 owner-managers of Dutch SMEs to address these questions. About 27% of these SMEs experienced sales growth in the previous 12 months. The study discovered that internal growth capabilities alone do not differentiate growing SMEs from those not growing. Instead, the distinction between low and high-growth SMEs can be attributed to their chosen growth paths. Surprisingly, commonly adopted growth paths like market penetration often do not lead to actual growth. Conversely, less frequently used strategies such as starting new ventures and internationalisation are associated with higher growth. The research also reveals that SMEs persist with familiar growth strategies, even when they prove ineffective, suggesting a limited understanding among SMEs about the effectiveness of different growth paths.

Stam (2013) observes that the Netherlands boasts a higher percentage of entrepreneurs in its population compared to countries like Germany and the US. Despite this, the proportion of growth-oriented entrepreneurs in the Netherlands falls behind, as Kelley, Singer, and Herrington (2012) Stam, Hartog, Van Stel, and Thurik (2010) noted. Between 2007 and 2010, only a third of Dutch SMEs created new jobs, less than the 42% to 54% observed in benchmark countries, according to a report by Panteia (2012a). This contrast highlights a unique aspect of the Dutch entrepreneurial landscape.

Baum & Bird (2010), Stam et al. (2010), and Van Praag et al. (2009) focus most of their research on fast-growing firms, which, despite comprising only 7% of the total firm population (EIM, 2008), receive a disproportionate amount of attention. This focus leaves a gap in understanding how growth is distributed across the SME population and the different levels of growth achievable.

This study aims to bridge this gap by exploring the extent to which various internal factors contribute to growth. Van Der Veen and Meijaard (2013) define growth capabilities as the knowledge, resources, competencies, and networks necessary for generating new revenues. Previous research among high-growth firms shows that they differ from other firms in several vital behaviours and capabilities, as highlighted by Van Praag et al. (2009). However, the specific impact of different growth capabilities on SME growth remains to be thoroughly explored.

Davidsson (1989) and Hansen & Hamilton (2011) discuss how SME business owners decide on growth paths based on their ambition levels, while Verheul & Van Mil (2011) and Storey (2011) point to other influencing factors like profitability expectations and chance. Navarro, Casillas, and Barringer (2012) categorise growth paths into four main types and link them to different demographic characteristics and growth ambitions. However, EIM (2011) suggests that the choice of growth path is not always deliberate, with many entrepreneurs experiencing growth unexpectedly.

Recent studies, including those by VNO-NCW (2013), Unique/TNO (2013), and

Unipartners (2013), provide insights into SME owners' expectations and plans regarding growth. These studies reveal entrepreneurs' perceived opportunities and planned activities for growth. However, they do not thoroughly examine the extent to which these plans are implemented and their effectiveness in achieving growth. This gap in empirical evidence raises questions about which growth paths or combinations most effectively lead to higher growth levels in SMEs.

Methodology and Study Design

In June 2013, this research was conducted through a survey distributed across two panels, engaging 1,535 SME owners. These participants were drawn from various industries, representing businesses with an employee count ranging from 2 to 249.

Operational Definitions and Measurement Techniques

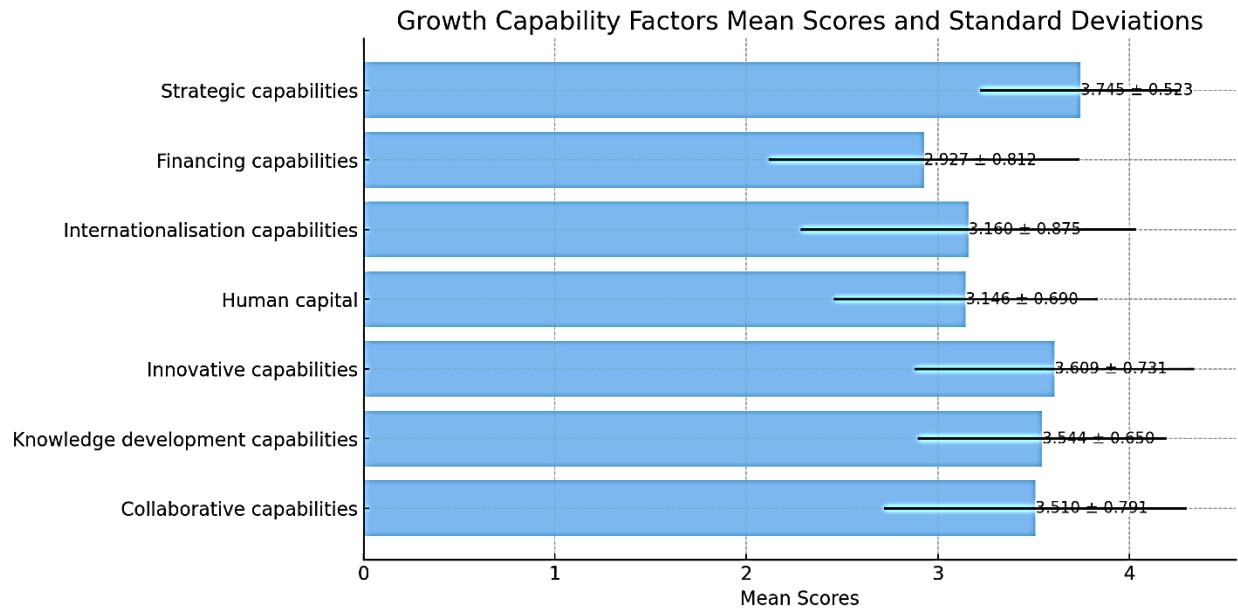
The metric for growth in this study was defined by evaluating the sales development over the previous 12 months, as Navarro et al. (2012) suggested. We employed a 7-point Likert scale to assess changes in sales. Participants were asked to report whether their sales had decreased significantly (> 20%), moderately (6–20%), slightly (1–5%), remained constant, or increased slightly (1–5%), moderately (6–20%), or significantly (> 20%).

A comprehensive scale was created to assess growth capabilities. This scale was based on a set of 32 statements, which were carefully

crafted to reflect various behaviours and abilities of the firm. These statements were designed to encapsulate a broad spectrum of operational aspects that could influence a firm's growth trajectory.

The survey utilised in this study incorporated items measured on a 5-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Through exploratory factor analysis, we identified seven distinct growth capabilities, detailed in Table 1 of the study. Participants who reported experiencing growth were then asked to specify from a list of 11 distinct growth paths used by their firms. This list, informed by Navarro et al. (2012), encompassed various growth strategies, including geographic expansion, product innovation, client diversification, and other methods such as entering foreign markets, introducing new products and services, enhancing brand awareness, and acquiring other companies. The analysis focused on the individual nature of these growth paths and the interplay and cumulative effect of multiple paths on growth.

Further, the survey queried all respondents regarding their growth plans for the upcoming year. A list of 12 potential strategies was provided, mirroring the previously mentioned growth paths and maintaining current sales levels as an option. The study's analysis examined the impact of the type and the number of planned strategies on projected growth.



Graph 1: Growth Capability Factor Mean Scores and Standard Deviations

Control Variables in the Study

In addition to these primary variables, the study incorporated several control variables to refine its findings. These included the size of the firms, categorised by employee count into three groups: 2-9, 10-49, and 50-249 employees. The year of establishment was another control variable, distinguishing between newer firms (started between 2008 and 2012) and more established ones (founded before 2008). Additionally, the study considered the entrepreneurs' education levels, differentiating between those with higher educational attainment (vocational and academic) and those with lower educational qualifications. These control variables provided a more nuanced understanding of the factors influencing SME growth.

Study Results and Analysis

Descriptive Analysis

The sample in our study predominantly consists of micro-firms (2–9 employees), with a smaller proportion of middle-sized firms. Starters represent about one-fifth of the respondents, while the majority are established firms. Approximately half of these entrepreneurs have a higher education level, which seems to correlate with having a more extensive employee base, regardless of whether the firm is a starter or established.

Sales Growth and Decline

In terms of sales, the data reveals a mixed picture. Nearly 40% of SMEs have seen a reduction in sales over the past year, and about a quarter have maintained stable sales levels. However, in a positive light, around 27% of SMEs have grown their sales despite challenging economic conditions. Notably, the extent of sales decline generally surpasses sales growth, with 10% experiencing a

decrease of over 20% versus only about 5% achieving growth exceeding 20%.

Growth Trends

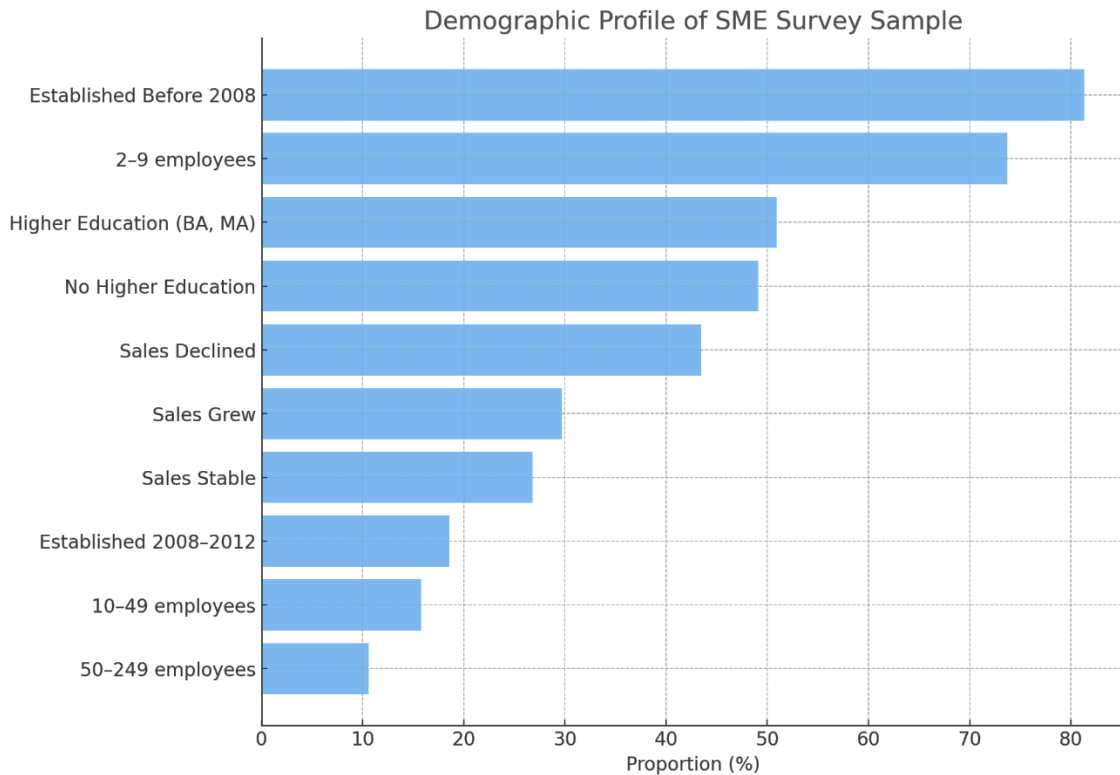
Starters are more likely to experience growth (42.3%) than established firms (26.9%). Conversely, established SMEs have a higher incidence of sales decline (46.2%) than starters (31.6%). Furthermore, SMEs led by less educated entrepreneurs more frequently face sales declines. However, employee numbers do not significantly impact growth or decline trends.

Correlation and Regression Analyses

In exploring the relationship between growth and growth capabilities, a correlation analysis was conducted. The results indicate a modest but significant link between growth and factors like strategic ($r = 0.138$), financing ($r = 0.172$), internationalisation ($r = 0.134$), and innovative capabilities ($r = 0.091$). However, there is no correlation between growth and aspects like human capital, knowledge development, or collaborative capabilities. Subsequent regression analysis, incorporating all capabilities and control variables, unfortunately, did not yield significant findings to explain variations in sales growth among SMEs.

Table 1: Demographics of the Survey Sample

Attribute	Category	Count	Proportion (%)
Total Respondents	-	1,618	100.0
Employee Count	2–9	1,192	73.7
	10–49	255	15.8
	50–249	171	10.6
Establishment Period	Before 2008	1,316	81.3
	Between 2008 and 2012	302	18.6
Education Level	Higher (BA, MA)	822	50.9
	No higher education	794	49.1
Sales Trend	Decline	636	43.5
	Stable	392	26.8
	Growth	435	29.7



Graph 2: Demographic Profile of SME Survey Sample

This table offers a comprehensive overview of the survey sample's demographic profile. It categorises participants based on their firm's employee count, the year of foundation, level of education, and sales

development trends. This format presents a clear and structured view of the data, allowing for an immediate grasp of the survey's scope and the characteristics of the participating SMEs.

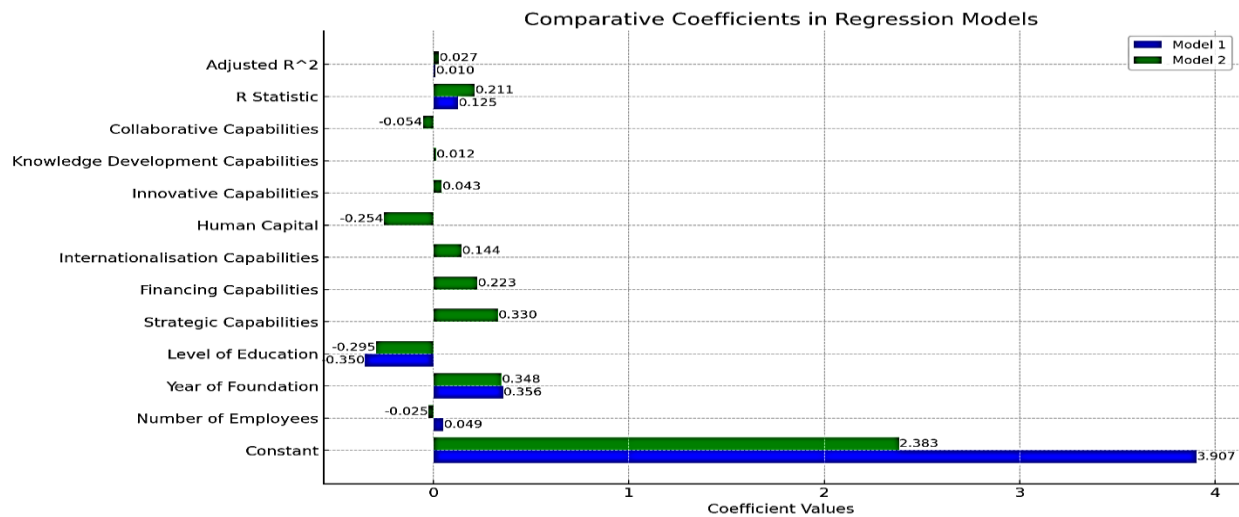
Table 2: Comparative Regression Analysis for Predicting Sales Development

Variables	Model 1	Model 2
Intercept (Constant)	B: 3.907	B: 2.383
	Sig.: 0.000	Sig.: 0.001
Number of Employees	B: 0.049	B: -0.025
	Sig.: 0.617	Sig.: 0.811
Year of Foundation	B: 0.356	B: 0.348
	Sig.: 0.062	Sig.: 0.071
Level of Education	B: -0.350	B: -0.295
	Sig.: 0.025	Sig.: 0.064
Strategic Capabilities	-	B: 0.330
	-	Sig.: 0.105
Financing Capabilities	-	B: 0.223

	-	Sig.: 0.068
Internationalisation Capabilities	-	B: 0.144
	-	Sig.: 0.186
Human Capital	-	B: -0.254
	-	Sig.: 0.086
Innovative Capabilities	-	B: 0.043
	-	Sig.: 0.774
Knowledge Development Capabilities	-	B: 0.012
	-	Sig.: 0.941
Collaborative Capabilities	-	B: -0.054
	-	Sig.: 0.672
R Statistic	R: 0.125	R: 0.211
Adjusted R²	Adj. R ² : 0.01	Adj. R ² : 0.027

This table presents a side-by-side comparison of two regression models analysing sales development. Each row represents a different variable in the models, with coefficients (B) and their significance (Sig.) values. The

table's format allows for an easy comparison between the two models, including presenting the R statistic and adjusted R² values.



Graph 3: Comparative Coefficients in Regression Models

Analysis of Growth Paths and Their Impact on SME Growth

Understanding the Mechanisms of Growth

Our study delved into the strategies used by SMEs for achieving growth. Focusing on those who reported at least a minimal level of growth, we assessed various growth paths they employed. An interesting finding was that growing firms utilised 2.33 different growth paths on average. A notable correlation ($r = 0.255$; $p < 0.000$) between the number of growth paths and the level of growth was observed, suggesting that a diversified approach to growth strategies might benefit SMEs. However, a closer examination of specific growth paths indicated that the situation is more nuanced.

Prevalence of Different Growth Paths

Market penetration emerged as the most popular strategy, with many SMEs focusing on increasing sales in existing markets. Other common strategies included enhancing operational efficiency, brand awareness, and introducing new products and services. Intriguingly, among the SMEs achieving high

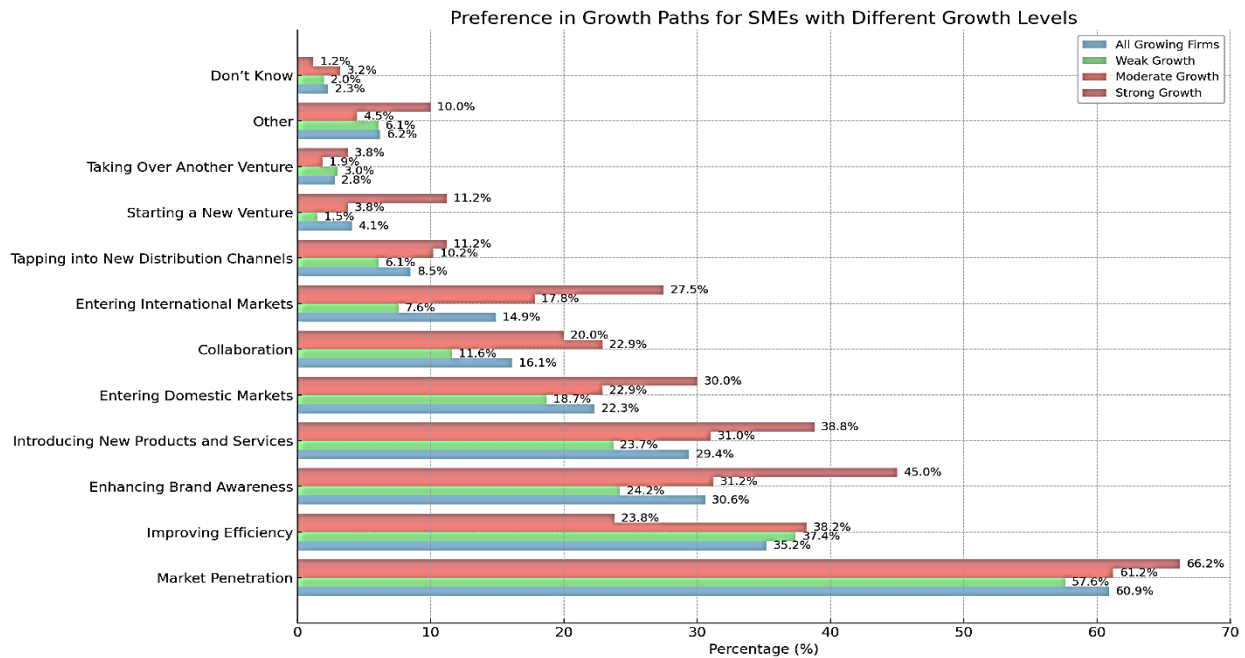
growth, enhancing efficiency ranked only sixth in usage.

Effectiveness of Individual Growth Strategies

A deeper analysis revealed that starting a new venture led to the highest growth levels, followed by entering foreign markets, utilising new distribution channels, enhancing brand awareness, and pursuing collaborative efforts. The difference in growth levels between SMEs that ventured into foreign markets or worked on brand awareness enhancement and those that did not was significant. This finding underscores the potential of these strategies in driving substantial growth.

Counterproductive Growth Paths

Contrary to expectations, focusing on efficiency improvement negatively correlated with growth, suggesting that it might not be an effective growth strategy. This highlights an important revelation: the most frequently used growth paths are not always beneficial.



Graph 4: Preference of Growth Paths of SMEs with Different Growth Levels.

Exploring Underused but Potent Strategies

Interestingly, less commonly used strategies like entering foreign markets (14.1% of growing SMEs) and starting new ventures (4.1%) significantly positively impacted growth. A plausible reason for their limited adoption could be the substantial investments they require, making them feasible only for a select segment of SMEs. This underscores the need for SMEs to consider a more comprehensive array of growth strategies beyond the conventional ones, especially those which might require more extensive initial investments but offer substantial growth potential.

Future Growth Strategies of SMEs

Survey findings indicate a tendency among SMEs to formulate one or two targeted strategies for growth in the upcoming year, averaging 2.37 different plans (standard deviation = 1.49). There is a mild yet

significant link between the number of employees and the variety of growth plans. However, no notable correlation was found between the number of growth plans and factors such as the firm's age or the owner's educational level. Interestingly, there is a slight but significant association between the diversity of growth plans and past sales performance ($r = 0.084$). Further analysis shows that SMEs that have witnessed growth tend to have more varied plans than those that have seen a decline or stable sales. Those experiencing a decline also tend to have more plans than those with stable sales, though this difference is not statistically significant.

When scrutinising specific growth strategies, it appears that maintaining stable sales levels is a predominant, if not exclusive, focus for SMEs experiencing either a decline or stability. Following this, strategies like market penetration, enhancing brand awareness, and improving efficiency are frequently cited across all categories. This

pattern mirrors previously adopted growth paths, indicating a tendency towards consistency in strategic planning. Particularly among growing SMEs, there is a moderate correlation ($r = 0.293$) between the number of growth plans and previously employed growth paths, reinforcing the idea of strategic continuity.

The study also suggests that past adoption of a particular growth path often informs future planning. However, not all strategies are feasible for annual repetition. For example, acquiring another business is not a yearly strategy that most SMEs can afford to undertake.

Conclusions and Recommendations

Our study on small and medium-sized enterprises (SMEs) reveals their critical role as economic drivers, notably in job creation and innovation. Despite challenging economic conditions in 2013, over a quarter of Dutch SMEs in our sample achieved growth, mainly among startups. Contrary to expectations and previous research by Van Praag et al. (2009), we found that traditional metrics like organisational behaviour and capabilities did not significantly correlate with sales growth, suggesting that internal readiness alone is insufficient for growth. Effective growth strategies identified include market penetration, efficiency enhancement, and brand awareness, with the latter emerging as a potent approach, second only to starting new ventures and entering foreign markets. The study underscores the lucrative potential of entering foreign markets, in line with the Dutch economy's growth through exports. However, SMEs often adopt less effective strategies due to a lack of awareness about their impacts or the significant

investments required for more profitable paths like foreign market entry. This gap presents an opportunity for policymakers to guide SMEs toward more effective growth strategies. The study also notes the disparity between popular and profitable growth paths, potentially due to the resources and market knowledge needed for more profitable strategies. To address this, there is a need for targeted support and information dissemination to help SMEs explore these strategies. Finally, our findings suggest a positive feedback loop where growth breeds ambition and subsequent growth, highlighting the importance of kick-starting this cycle to enhance the role of SMEs in driving economic growth. The study concludes that while internal readiness is crucial, choosing effective growth strategies, especially those involving market expansion and innovation, is critical to SME success, emphasising the need for focused support and information sharing to help SMEs capitalise on these opportunities.

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