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The success factors for SMEs: Empirical evidence

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Abstract

This paper empirically analyzes the success factors for SMEs. Particularly, the paper intends to analyze if firm age, human resource costs, debt, venture capital funding, investment in innovation and productivity are success factors for SMEs. The effects were tested using static and dynamic panel data, on a data set of 200 Portuguese SMEs. The use of dynamic panel data is important in order to control for: endogeneity; time-invariant characteristics; possible collinearity between independent variables; effects from possible omission of independent variables; elimination of non-observable individual effects; and, the correct estimation of the relationship between the dependent variable in the previous and current periods. Our results reveal a positive impact on success of: human resource costs; investments in innovation; productivity; and, venture capital funding. We also confirm the negative impact of firm age and debt. Also, the results show evidence of persistence in success for the case of one of the success proxies used.

Keywords: firm age, human resource costs, debt, venture capital funding, investment in innovation and productivity, success

JEL classification: C23, G30, L25, L26, M50, O31, O32.

1. Introduction

Small and medium-sized enterprises (SMEs) are important agents in a country's development and expansion, according to Fritsch (2008) companies' survival and growth have positive effects on employment in the region where the company is located. The latest data for European Union shows that SMEs contribute to over 99% of all enterprises and represent almost 67% of the private sector employment. On the other hand, is known wide there is great difficulty in the SMEs early stages, with Boeri and Cramer (1992) and Fritsch and Weyh (2006) reporting that only a proportion of new businesses survive for long periods of time due to strong market competition.

It seems necessary to contribute to SMEs' understanding of the important factors for their growth and success, because their existence makes an important contribution to a country's development and increased innovation. According to Burki and Terrell (1998, p. 155), "the creation of jobs is among the top priorities of policy makers in most countries and small companies are the ones that are creating a greater number of jobs." Fritsch (2008) stated that companies are part of the market process, while for Coad and Tamvada (2008) small companies play a critical role in the development of industries and economies.

SMEs' specific contribution to overall economic performance means it is crucial for researchers to analyse and study the main determinants of their success. Therefore, it is extremely important

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