Distinguishing micro-businesses from SMEs: A systematic review of growth constraints

Abstract

Purpose – Micro-businesses account for a large majority of Small and Medium Enterprises (SMEs). However, they remain comparatively under-researched. This paper seeks to take stock of the extant literature on growth challenges, and to distinguish the growth constraints facing micro-business as a specific subset of SMEs from those facing larger SMEs.

Design/methodology/approach – The study consists of a systematic review of 59 peer-reviewed articles on SME growth.

Findings – Micro-businesses distinguish themselves from larger SMEs by being owner-manager entrepreneur (OME) centric and are constrained by a tendency to be growth-averse, underdeveloped capabilities in key business areas, underdeveloped OME capabilities, and often inadequate business support provision.

Research limitations/implications – The use of keywords, search strings, and specific databases may have limited the number of papers identified as relevant by the review. However, the findings are valuable for understanding micro-businesses as a subset of SMEs, providing directions for future research and generating implications for policy to support the scaling up of micro-businesses.

Originality/value – The review provides a renewed foundation for academic analysis of micro-business growth, highlighting how micro-businesses are distinct from larger SMEs. At present, no systematic literature review on this topic has previously been published and the study develops a number of theoretical and policy implications.

Keywords Micro-business, Small and medium enterprises, Growth constraints, Systematic literature review, Policy

Paper Literature review

Introduction

The role of SMEs as engines of economic growth is widely acknowledged, having been a focus of academic research and policy making for decades (Curran, 2000; Blackburn and Kovalainen, 2009; Fuller-Love, 2006; Yu, 2001). Yet the literature on SME growth remains
fragmented, with little consensus around the phenomenon (Wiklund et al., 2009). Moreover, despite micro-businesses accounting for around 95.8% of all UK businesses (ONS, 2015), and for 70-95% of all firms in OECD economies (OECD, 2013), much less is known about the growth challenges facing this significant sub-set of businesses with fewer than 10 employees. Micro-businesses are regarded as engines of growth, but as Perren (1999) asserts there is very little research on the drivers and barriers to micro-business growth or ‘scaling-up’ beyond those associated with SMEs. However, the term SME is too homogenous and fails to sufficiently identify the specific growth challenges that micro-businesses face.

This systematic literature review was conducted to examine the growth constraints affecting micro-businesses (i.e. businesses with less than 10 employees) and how they are distinct from larger SMEs (i.e. businesses with 10-249 employees). The aim is to distil how the experiences of micro-businesses differ from those of larger SMEs. Therefore the paper contributes to the micro-business literature and advances the understanding in relation to growth challenges. An important clarification must be made: the paper does not assert that all micro-businesses should grow, or that it is desirable for all micro-businesses to grow, or that it is the natural tendency of all businesses to grow. Rather the paper aims to provide an understanding of the factors that enable and constrain micro-business growth. It goes beyond providing a simple synthesis of the literature by developing critical insights to identify new directions for research and implications for policy.

Furthermore, a distinction must be made between different types of growth. Gibb (2000) notes the difficulty of defining the notion of business growth and identifies nine types of growth, including historical growth, businesses with potential, businesses wishing or having the ambition to grow, and businesses actively seeking assistance. To these can be added turnover, employment, and profitability types of growth which are investigated in the papers reviewed. The paper is organised as follows: section two presents the methodology, section three discusses the findings of the review, and section four outlines the conclusions with a view to further research and considerations for policy.

**Method**

The review was limited to published academic journal articles (peer reviewed). ABI Proquest, Emerald, Science Direct and Scopus were selected as appropriate databases. The search was conducted in 2015 and was limited to studies published after 1980, as the 1980s mark the time when academic interest in entrepreneurship and SME research started to grow
substantially (Gibb, 2000). The systematic literature review adopts the principles summarised by Thorpe et al. (2005) and, as outlined by Tranfield et al. (2003), comprises three stages (see Figure 1): planning the review, conducting the review, and reporting and dissemination.

Systematic review strategy and process
The four databases were enquired using the keywords and search strings (Appendix 1) comprised in the review protocol. If a search generated more than 500 citations, the search strings were amended and the search was restricted to within articles’ title only, which was necessary in the majority of the cases. If the search still retrieved more than 500 citations, the search was limited to higher quality journals (e.g. Journal of Business Venturing, International Business Review, Journal of Banking and Finance). When the search generated less than 160 citations, individual articles were briefly reviewed and relevant studies were selected. This iterative process and its results are summarised in Figure 1.

The studies were selected based on inclusion and exclusion criteria (Appendix 2). However, due to the difficulties with assessing the quality of studies within management research (Tranfield et al., 2003) another factor taken into consideration was the quality of the journal. The ABS Academic Journal Quality Guide (2015) was used to ascertain the quality of the journals, maintaining a certain degree of flexibility. For example, even though a study may have been published in a journal that ranked lower on the ABS list, the study was still included as relevant if its findings were directly relevant to the aim of the review.

Analysis of systematic search results
Of the 114 articles identified as relevant, 50 addressed the review’s objectives directly and were selected as a final sample. Nine additional studies, identified through an additional search of databases of top journals in entrepreneurship and business management (e.g. Journal of Business Venturing, Small Business Economics, Journal of Small Business and Enterprise Development, Entrepreneurship and Regional Development, International Small Business Journal), were included, being considered seminal papers not identified through database search. The total of 59 studies were then analysed descriptively and thematically.
The main themes were identified by coding the titles and issues investigated, adopting an inductive approach. The coding was conducted independently by the authors, with overarching thematic categories identified to develop a coding scheme based on key themes so that intra-coder reliability could be consistent. The results of it were then compared to ensure inter-coder reliability by identifying any discrepancies between the coders so that they could be revisited and agreed.

Four themes emerged from the thematic analysis process: 1) Growth and business capabilities and practices; 2) Growth and OME’s characteristics; 3) Growth and OME’s ambition; and 4) Growth and the business environment. Considering that 21 articles cover at least two themes, reflecting the fragmented nature of the literature, 21 studies examine business capabilities and practices, 25 investigate the influence of OMEs’ characteristics on growth, 17 examine growth ambition, and 22 studies cover various aspects of the business environment.

Methodological challenges
One limitation of the systematic review is the use of keywords and search strings, this having a direct influence on both the type and the number of articles retrieved by the database (Pittaway and Cope, 2007). The search strings also need to be adapted to each database, depending on the type of available search functions and number of citations retrieved. Moreover, some of the databases used may exclude publications from specific journals, especially grey literature, making it difficult to capture all the relevant papers (Pittaway and Cope, 2007). For these reasons, the keywords used in this review were inclusive, limiting the exclusion of relevant articles from the start, and four databases were selected for enquiry. While this approach resulted in a high number of duplicates, it ensured that the systematic review captured the main themes of SME growth. One final challenge arises from selecting studies based on searches within the title of the articles which, while focusing the search, may have restricted the number of articles found. However, such an approach is considered efficient when the body of knowledge is vast (Thorpe et al., 2005), which is the case of the SME growth literature.

Findings and discussion
Clarifying terms: SME and owner-manager entrepreneur
The studies reviewed used various definitions of micro-businesses, which varied with the country in which the research was conducted and with the existing legal framework. This paper uses the OECD (2005) definitions: businesses with 0-9 employees are micro-businesses, those with 10-49 employees are small businesses, and those employing between 50 and 249 people are medium-sized businesses. Therefore the review distinguishes micro-businesses in the evidence reported in the studies according to the above definitions. Similarly, multiple terms are used to refer to an individual who starts and runs a business, including owner, owner-manager, entrepreneur, nascent or aspirant entrepreneur, and founder. To ensure consistency and clarity, this paper uses one term as a proxy for the broad range of definitions namely owner-manager entrepreneur (OME).

Studies of SME growth: Distinguishing micro-businesses

The literature on SME growth is fragmented. The studies reviewed examine disparate aspects of business growth, most focusing on larger SMEs as opposed to micro-businesses. A significant number centre on OMEs (i.e. on their characteristics and growth ambition), while another significant proportion focus on key business capabilities and practices. However, in micro-businesses’ case, where the OME is often responsible for all the tasks involved in running and managing the business (O’Dwyer and Ryan, 2000), the level of business capabilities and practices will depend on and will reflect OME’s capabilities. This distinguishes micro-businesses as an important subset of SMEs, and highlights the importance of understanding their particular characteristics in order to support their growth. The literature also accounts for the business environment, the influence of which is outside OMEs’ control. Table 1 provides a summary of the main findings of the systematic review analysis based on the 59 studies reviewed through a theme-based comparison between micro-businesses and larger SMEs. The Journal of Small Business and Enterprise Development is among the most popular journals in the SME growth literature, being in the top three journals based on the number of studies included in review, along with Small Business Economics and Journal of Business Venturing (Appendix 3).

Growth and business capabilities and practices

The reviewed studies examine networking, marketing, business planning, human resources, and the use of IT. Micro-businesses distinguish themselves from larger SMEs through a deficiency of such capabilities and practices, identified as growth drivers in growth-oriented
and growing micro-businesses and in larger SMEs. For example, micro-business OMEs do not actively engage in networking (Greenbank, 2000a). Networking with weak ties is associated with increased business performance and positive growth attitudes in active micro-business networkers, yet only a minority engage in extensive or moderate networking (Baines and Wheelock, 1998; Chell and Baines, 2000). In larger SMEs, networking is positively associated with both employment and turnover growth, especially where networks extend outside a firm’s region, nationally and internationally (Donckels and Lambrecht, 1995; Huggins and Johnston, 2009; Robson and Bennett, 2000), and facilitates innovation (Huggins and Johnston, 2009; Roper, 1997), high-growth SMEs showing a higher propensity to be more innovative and introduce new products and technology (Foreman-Peck et al., 2006; Smallbone et al., 1995). Networking also improves organisational learning and increases competence, enhancing flexibility, proactiveness, and the responsiveness to market changes (Chaston, 2000). Therefore networking - particularly with weak ties which can provide new information, advice, and fresh perspectives - has the potential to stimulate growth in micro-businesses. It is unclear whether networking in micro-businesses is constrained by a perceived lack of value or whether it is simply unviable, as OMEs generally lack time for such activities (Chell and Baines 2000).

Moreover, micro-business OMEs do not generally engage in formal marketing practices (Greenbank, 2000a) which may not be suitable to micro-businesses at all times and stages of development (Greenbank, 2000a; Hogarth-Scott et al., 1996). If limited in scope and complexity in micro-businesses, marketing practices facilitate growth in larger SMEs (Brush et al., 2009) interacting positively with other activities such as networking (Chaston, 2000). Marketing plans and a greater competitive advantage awareness support strategic thinking and customer orientation, enhancing opportunity recognition and response in high-growth SMEs (Foreman-Peck et al., 2006; Smallbone et al., 1995).

[Insert Table 1 here]

However, micro-businesses do not engage in marketing practices to the same extent or in the same type of practices as larger SMEs. For example, OMEs consider formal types of advertising ineffective, relying on word-of-mouth communications, lacking time and resources to engage in formal marketing practices in the fast-paced day-to-day management of the firm (Hogarth-Schott et al., 1996). Even if less advanced and more informal, marketing practices can drive growth in micro-businesses by building business capabilities. A greater
market awareness, the gathering of trade intelligence, and market research prior to start-up lead to better performance in micro-businesses, the capabilities derived from these practices facilitating strategic thinking and opportunity recognition, and therefore an understanding of key marketing principles and techniques can support micro-business growth from an early stage (Hogarth-Scott et al., 1996; Smith, 1999).

Another underdeveloped capability and almost absent practice in micro-businesses is business planning (Greenbank, 2000a), despite it being a useful strategic tool supporting strategy development, objective setting and performance measurement. While some see business planning as helpful in setting objectives and providing strategic direction, others refer to it as a “cosmetic document used to obtain finance” (O’Dwyer and Ryan, 2000, p.350). Nevertheless, as shown in growing micro-businesses (Greenbank, 2000a; LeBrasseur et al., 2003), and supported by evidence from larger SMEs (Morrison et al., 2003; Richbell et al., 2006), business planning is an important tool for planning and achieving growth.

A recurrent issue in micro-businesses concerns human resources (HR), a key business capability and major focus of growth entrepreneurs (Mueller et al., 2012). HR plays an important role in rapid-growth SMEs, employee training programmes and employee development, being critical to maintaining growth (Barringer et al., 2005). Thus the absence of HR capabilities in micro-businesses, which are often unprepared or unwilling to recruit extra employees and expand due to time, skills, and resource constraints, limits their growth potential (Fielden et al., 2000; Hogarth-Scott et al., 1996). Although recruitment and skill shortages also constrain high-growth SMEs (Lee, 2014), these are likely to affect micro-businesses to a greater extent, a significant proportion of them preferring to stay small due to recruitment challenges (Fielden et al., 2000).

Finally, the use of IT resources is associated with micro-business growth. For example, the use of computerised accounts is strongly associated with high growth (Foreman-Peck et al., 2006). The use of Web 2.0 by micro-businesses improves internal operational efficiency, increases operational capabilities, and results in better external communications (Barnes et al., 2012). It is therefore unsurprising that the use of IT in young micro-businesses is strongly and positively associated with firm performance (Smith, 1999).

Thus micro-businesses are often constrained by underdeveloped capabilities in various business areas. Considering they are OME centric, this is highly likely to be reflected in underdeveloped OME capabilities, as in most micro-businesses “the owner-manager is the company” (Lean, 1998, p.233). Moreover, considering the fast-paced, time-constrained nature of OMEs’ role, it is unsurprising that growth constraints will arise in certain business
areas. Consequently OMEs must avoid becoming “immersed in day-to-day operating issues” and shift their efforts towards managing the business (LeBrasseur et al., 2003, p.325). The benefits are reflected in larger SMEs with more developed organisational structures where OMEs can delegate the day-to-day running of the business and focus on managing of the firm, capitalising on the benefits of networking, marketing, HR, and business planning as growth drivers.

_Growth and OME’s characteristics_

The characteristics examined include experience, human capital, expertise in managing growth, business skills, age, and the level of financial wealth. The multitude of factors that shape decision-making and subsequent business performance, and the disproportionate reliance on the OME, highlight why it is challenging for the majority of micro-businesses to achieve growth. The accumulation of experience, human capital, skills and expertise by one person (i.e. the OME), requires time, training and support, and may lead to initial business failure before experiencing success (Deakins and Freel, 1998). For example, entrepreneurial and managerial experience gained through multiple ownerships and directorships is a distinct characteristic of new high-growth firms and high-growth OMEs (Rosa and Scott, 1999a; 1999b). In larger SMEs, prior related industry experience, prior work experience, and previous job experience in a related field are associated with growth, being top characteristics of OMEs of high-growth firms (Barringer et al., 2005; Cooper et al., 1989; Richbell et al., 2006), managerial experience being positively associated with starting larger businesses and with the aim to increase future sales and firm size (Cassar, 2006; Cooper et al., 1989). Continually accumulated through knowledge, experience, communication, and judgement (Carson and Gilmore, 2000), experiential learning and knowledge are essential in identifying growth opportunities (Hulbert et al., 2013), high growth-oriented OMEs adopting a ‘learning-by-doing’ philosophy (Moran, 1998). Therefore it is essential for OMEs to develop the ability to learn from experience, “one of the key abilities in entrepreneurship” (Deakins and Freel, 1998, p.151).

OMEs’ human capital is another characteristic that influences the level of growth achieved. Although a couple of studies question the influence of education (Cassar, 2006; Coad et al., 2013), better educated OMEs start larger businesses (Cooper et al., 1989), and OME’s human capital and a minimum of apprenticeship experience have a positive effect on micro-business survival and growth (Johnson et al., 1999; Watson et al., 1998). The positive impact of
OME’s human capital emerges in larger SMEs. For example, OMEs with University/college education prefer high-barrier (i.e. high-risk) industries with larger expected financial gains (Lofstrom, 2014), and higher professional and educational qualifications are positively associated with growth (Bryson et al., 1997; Richbell et al., 2006), education being a top characteristic of OMEs of rapid-growth firms (Barringer et al., 2005). However, a distinction must be made between business and technical knowledge. In micro-businesses’ case, technical knowledge might be sufficient to start a business but it is business knowledge and skills that propel the business further on a growth path, which leads the discussion to the next characteristic, namely expertise in managing growth.

To avoid becoming “immersed in day-to-day operating issues” and focus on business management (LeBrasseur et al., 2003, p.325), OMEs must accumulate expertise in managing growth. Indeed, growth-driven micro-business OMEs acknowledge the importance of managerial skills, seeking training and advice on leadership, motivation, staff training and recruitment (Watson et al., 1998). In Perren’s (1999; 2000) framework, expertise in managing growth is one of the four main growth drivers, as without it the growth process can lose focus and direction. Evidence from larger SMEs confirms that expertise in managing growth is built by accumulating business skills such as managerial, marketing, sales, financial, HR, and leadership (Brush et al., 2009; Moran, 1998). For example, marketing and financial capabilities facilitate high growth by enabling market expansion and innovation (Barbero et al., 2011), the lack of managerial, marketing and sales skills being reported as top growth constraints (Bryson et al., 1997). Therefore, as growth represents a transition from the involvement in day-to-day business operations towards managing growth and the organisation (Mueller et al., 2012), it is essential that growth-oriented micro-business OMEs acquire a range of business skills from an early stage. A proactive behaviour comes in support of OMEs, being essential in diminishing potential adverse effects of the crises preceding growth stages (Scott and Bruce, 1987).

Furthermore, OME’s age is negatively related to growth intentions (Gray, 2002; Foreman-Peck et al., 2006), suggesting that younger OMEs are likely to be more growth-oriented, yet mature OMEs are more likely to run businesses with greater longevity (Cressy, 1996). On the other hand, pre-start-up income and wealth are positively associated with growth intentions and start-up growth rate (Cassar, 2006; Cressy, 1996), the pre-start-up worth of an individual influencing their ability to enter high-barrier industries (Lofstrom, 2014). Thus higher levels of wealth can mitigate the risks associated with the need to take on debt.
Therefore substantial research effort has been devoted to understanding the influence of experience on growth as well as the importance of OME’s human capital and expertise on managing growth, with particular emphasis on managerial and business skills. While the evidence related to micro-businesses is limited, the studies focusing on larger SMEs highlight key potential growth constraints which generate implications for micro-businesses and provide future research avenues as well as policy implications.

*Growth and OME’s ambition*

The most conspicuous theme that emerged from the review is OME’s growth ambition, examined from different perspectives: motivation, intentions, desire to succeed, expected outcomes, ability, need, opportunity, and reasons for starting a business. Perren (1999, p.369) finds that the desire to succeed, where success equates firm growth and is financially oriented, influenced growth motivation to a great extent, concluding that in micro-businesses OME’s growth motivation is “vital in such small firms, being an essential growth driver”. However, Poutziouris (2003), Fielden et al. (2000), Davidsson (1989), Wiklund et al. (2003), Walker and Brown (2004), Greenbank (2001), Gray (2002), Baines and Wheelock (1998), and Reijonen and Komppula (2007) identified the lack of growth ambition as a constraint, as the majority of OMEs place more value on non-economic aspects of business ownership rather than being driven by financial gain and a willingness to succeed.

This is particularly the case of micro-businesses - 22% - 25% were identified as growth-oriented with just a small fraction intending to actually increase in size (Baines and Wheelock, 1998; Chell and Baines, 2000; Poutziouris, 2003) - where the lack of growth ambition acts as a greater constraint due to OMEs’ dominant role (Perren, 1999). Non-economic objectives of micro-business OMEs include being one’s boss, increased independence and flexibility, job satisfaction, product or service quality, and customer and work satisfaction (Fielden et al., 2000; Perren, 1999; Reijonen and Komppula, 2007). Growth intentions are limited to a desired income level which is often restricted to earning a satisfactory income or making a living rather than actively pursuing growth, and therefore “there is no drive to improve the business in terms of growth, sales and profitability” (Greenbank, 2001, p.108; Reijonen and Komppula, 2007). The studies highlight that the majority of micro-businesses tend to be lifestyle businesses, very few OMEs having the ambition to grow the business beyond a personal target income level.
Nevertheless, financial incentives can act as growth drivers for growth-oriented OMEs. For example, for high risk-return and growth-oriented OMEs, financial success is a top reason for venture creation and is positively associated with all measures of growth intention and preference (Cassar, 2007; Douglas, 2013). Risk aversion is identified in a number of studies as limiting the growth ambition of micro-business OMEs, growth being indeed associated with higher risk-propensity (Poutziouris, 2003).

Growth motivation is also influenced by expected outcomes, namely positive expectations about growth outcomes result in positive attitudes towards growth and vice-versa (Wiklund et al., 2003). OMEs of micro and small businesses are more concerned about the loss of independence, managerial control, employee well-being, crises survival, potential loss of control, and bankruptcy risk, which generate negative attitudes towards growth (Davidsson, 1989; Greenbank, 2001; Wiklund et al., 2003), confirming a tendency of micro-business OMEs to be growth-averse. An interesting finding of Davidsson’s (1989) study is that growth motivation diminishes as the business grows, deterring many micro-businesses to become small businesses. This may be explained either by a culture for very small business, a lack of growth ambition and/or expertise in managing growth, or may be a product of unfavourable institutional arrangements. While some do not aspire to grow their business at all or adopt an incremental approach (Walker and Brown, 2004; Hogarth-Scott et al., 1996), Gray (2002) unveils that micro-businesses generally tend to be growth averse or prefer the status quo, high change adopters being more likely to have growth intentions and increase sales performance. As growth is characterised by radical changes (Wiklund et al., 2009), dynamic micro-businesses are more likely to be growth-oriented, and therefore changes such as introducing formal management structures can support ambition by shifting the focus towards managing the business.

Larger SMEs exhibit a mix of economic and non-economic objectives. However, although increased profitability is an objective for most small businesses, similar to micro-businesses, just a small fraction actually intends to grow in size (Poutziouris, 2003). Independence remains the main motivational factor and non-economic objectives such as maintaining independence, increased leisure time, better standard of living, personal and job satisfaction, employee well-being, pride, family objectives, and a flexible lifestyle remain prevalent (Douglas, 2013; Gray, 2002; Poutziouris, 2003; Walker and Brown, 2004). Distinguishing between objective and subjective factors, Davidsson (1991) explains that subjective factors, (i.e. perceptions of ability, need and opportunity) mediate the influence of objective factors on growth motivation, and that small firms stop growing due to what the author calls
‘satiation’ (i.e. no need to grow). Moreover, Morrison et al. (2003) show that growth-oriented businesses attain a balance between OMEs’ intention, business abilities and the opportunity environment, arguing that the three factors are inherently interdependent. Therefore, the lack of growth ambition can also be explained by aspects that emerged in other themes, such as OMEs’ characteristics and the business environment, or the institutional environment.

Thus the lack of growth ambition, fuelled by fear of failure, risk aversion, negative growth expectations, and a focus on non-economic objectives, represents an important constraint for the OME centric micro-businesses but also a challenge for policy makers. Ambition is not something that can be influenced directly as it is the result of the influence of both an individual’s characteristics and the business environment. It can rather be stimulated by creating the conditions that enable growth-oriented OMEs to pursue their ambitions and by supporting micro-business to build capabilities at both individual and firm level.

**Growth and the business environment**

The business environment encloses the activity of businesses, influencing the extent to which OMEs can pursue their ambitions, and can therefore create an additional layer of constraints through elements external to the business. Business growth requires both a supportive business environment and OMEs to perceive the business environment positively (Morrison et al., 2003). However, factors such as the state of the economy, dynamism, hostility, competition, and demand, which are outside OMEs’ control, can constrain growth regardless of the level of ambition and capabilities and can even suppress growth ambition (Lee, 2014; Perren, 1999; 2000; Wiklund et al., 2009), often influencing whether micro-businesses remain very small or grow significantly (Johnson et al., 1999). As a business grows, the business environment becomes increasingly important as shown by Scott and Bruce’s (1987) small business growth model where each growth stage is preceded by a crisis, most likely of external nature (e.g. competition, information needs, complexity of moving into new markets, external focus need).

Furthermore, the institutional environment can constrain business growth if it fails to create the conditions that enable growth-oriented OMEs to pursue their ambitions. Some of the most problematic issues are access to resources - particularly finance - and business support (Fielden et al, 2000; Greenbank, 2000a; Lee, 2014; Perren, 1999). Resources can increase survival chances and subsequent growth (Coad et al., 2013) and therefore access to adequate resources is vital for micro-businesses. While high-growth oriented SMEs are more
likely to use multiple sources of finance (Vos et al., 2007), the number of accessible finance sources used by micro-businesses does not predict their performance (Smith, 1999). The issue for micro-businesses is rather the adequacy of available finance options. For example, micro-businesses face inaccessible, inadequate or inflexible grants, criticising the reluctance of financial institutions to provide adequate capital (Fielden et al., 2000), other barriers including the lack of capital, fears of increased financial risk (Robertson et al., 2003), fear of being unable to obtain finance, and perceptions of finance being inaccessible (Williams and Williams, 2011). Due to limited access to adequate external finance some businesses resort to pursuing organic growth, but this limits their growth potential (Brush et al., 2009). Nevertheless, resource availability does not directly imply growth, the relationship being mediated by other factors such as entrepreneurial orientation which unveils that, regardless of the type or level of resources available, growth is contingent on OME’s entrepreneurial behaviour, namely their ability and intention to use them for growth (Wiklund et al., 2009). This reinforces the importance of issues highlighted in previous themes, such as skills and ambition, highlighting the OMEs’ central role. Access to finance is also problematic for larger SMEs and, although these are less likely to perceive potential government barriers as barriers to growth (Lee, 2014), this does not imply that institutional arrangements do not affect micro-businesses to a greater extent, as micro-businesses do not benefit from the same capacity as larger, high-growth SMEs to comply efficiently with legal requirements.

Moreover, the creation of a supportive business environment is facilitated by the provision of adequate business support. However, a recurrent issue reported by the literature is the inadequacy of business support available for micro-businesses. Micro-businesses do not seek external advice and, even when received, it is perceived as either unhelpful or as “useful, but too general in nature” (Greenbank, 2000a; Fielden et al., 2000, p.302), and small business advisers tend to offer advice for survival rather than suggesting riskier growth strategies, incongruent with government’s growth policies (Mole, 2000). Fielden et al. (2000) argue that rather than a lack of growth motivation, it is the lack of adequate support that impedes micro-business growth. This argument is supported by a series of studies which identify government-backed support provisions as inefficient (Robson and Bennett, 2000). Confirmed by Matlay’s (2004) size-related effect, a major issue is the lack of fit between available training and development programmes and the needs of micro-business OMEs, support providers assuming that micro-businesses are similar to larger SMEs (Lean, 1998; O’Dwyer and Ryan, 2000; Greenbank, 2000b). Start-up and pre-start-up governmental support provision fails to address some key development needs, especially for growth-oriented micro-
businesses (Lean, 1998), available training and development programmes being considered more appropriate for larger businesses (O’Dwyer and Ryan, 2000). Devins et al. (2005), Greenbank (2000b), Matlay (2004), Perren (1999) and O’Dwyer and Ryan (2000) acknowledge the uniqueness of micro-businesses and argue for the need of programmes that are flexible, timely and tailored to the needs of micro-businesses.

Therefore it is not the factors that are different but the way in which those factors affect micro-businesses differently. Given the importance of business support for OMEs’ development, the gap reported by these studies is not only an important micro-business growth constraint but also a challenge for growth-oriented government policy which has so far not been translated into suitable business support. Therefore, although not the focus of the paper, the business environment itself can be growth-constraining and create additional challenges for micro-businesses.

**Conclusions**

This systematic literature review identifies the specific characteristics of micro-businesses, as distinct from other SMEs, and emphasises the importance of focusing policy development for micro-businesses on the basis of these specific characteristics. The analysis reveals that research on SME growth focuses on four main areas: business capabilities and practices, OME’s characteristics, OME’s growth ambition, and the business environment. However, micro-businesses distinguish themselves from larger SMEs in all four areas.

More specifically, micro-businesses are OME centric, as growth often depends entirely on OME’s efforts, ambition, human capital and skills. The review highlights a lack of growth ambition and OMEs’ tendency to be growth-averse, placing greater value on non-economic objectives. They are also constrained by underdeveloped capabilities in key business areas such as networking, marketing, business planning, and HR, which limits their ability to build more advanced capabilities which could stimulate and support growth. Time constraints impede OMEs to engage more actively in these key business areas, hence why growth requires the transition from day-to-day business operations towards business management. Nevertheless, these issues also echo absent or underdeveloped OME capabilities. Managerial and business skills, along with better education, facilitate the engagement in more advanced growth-driving business practices, emphasising management’s role in driving growth. Moreover, besides the influence of various external factors, the institutional environment can
constrain growth by failing to create conditions supportive of growth-oriented businesses, a major issue being the adequacy of business support provision.

Therefore, in the case of micro-businesses, growth can be stimulated by supporting the development of key capabilities and the implementation of key practices, which may highlight growth opportunities and stimulate ambition, whereas in larger SMEs it is an issue of growth opportunities and scale up. In the case of OMEs with more experience, it is likely that experience has shaped their characteristics differently, influencing how they perceive and interpret growth challenges and opportunities. Finally, regarding the business environment, the issue is not about the factors that are different, rather about the way in which those factors affect micro-businesses differently. These key differences highlight the complexity involved in understanding micro-business growth.

**Future research**

Highlighting how micro-businesses are distinct from larger SMEs, the paper provides directions for future research. The heterogeneous nature of micro-businesses makes it difficult to generalise broad SME findings to micro-businesses, and therefore more research on micro-businesses is needed. Future research may focus, for example, on the factors shaping motivation and ambition. In keeping with Shepherd’s (2015) call for exploring entrepreneurial cognition, this could be extended to incorporate a focus on micro-business growth. Such an approach will provide a more in-depth understanding of what determines growth orientation and ambition. In addition, there is a need to understand the role of business expertise and skills in supporting micro-business growth, particularly the impact of managerial skills on facilitating the growth process. There is very limited evidence on the influence of managerial, marketing, financial, sales and HR skills, and of business expertise accumulated through experience or education, in micro-businesses. Therefore, future research may explore how these capabilities are accumulated in micro-businesses as well as their impact on OMEs’ growth ambition and subsequent business performance.

Further research may also investigate the level and appropriateness of certain business practices in micro-businesses. The reliance on OMEs to perform the majority of business functions restricts their ability to engage in time-consuming or unnecessarily advanced business practices. However, a lack of business expertise and skills is equally constraining. Thus future research may examine whether OMEs’ level of business expertise and skills influences the engagement in key business practices or whether it is unviable for micro-
businesses to engage in advanced business practices, thereby addressing barriers to scaling up micro-businesses.

Policy implications
The systematic literature review also generates a number of questions for policy in how best to respond to growth challenges faced by micro-businesses. There is an argument to be made that policy needs to consider micro-businesses as distinct from larger SMEs. There is a need for flexible and tailored business support programmes to assist micro-business OMEs in developing core business skills. This in turn will enable them to build business capabilities and engage in growth-driving business practices, thereby increasing micro-businesses’ productivity and competitiveness. Such programmes should target the development of managerial and business skills essential in accumulating expertise in managing growth.

Programmes that seek to encourage networking and knowledge sharing between larger SMEs and micro-businesses are also key to promoting growth through business-to-business collaboration. One way in which micro-business growth can be stimulated is through supply chain-led entrepreneurial growth programmes whereby micro-businesses are linked with larger SMEs to create strong supply chain networks. The knowledge and support available through such networks and the growth of larger SMEs in the network would ultimately prompt the growth of micro-businesses.

To overcome perceived financial barriers, there is a need to stimulate micro-business financing and provide finance options tailored to the needs of micro-businesses and accessible when growth opportunities arise. Simplifying employment regulation to overcome the perceived difficulties of recruiting employees and improving incentives to up-skill staff through adequate training programmes will overcome skills mismatches and shortages, thereby improving the competitiveness of micro-businesses. Therefore, a focus on micro-business growth and scale up may generate a broader positive impact on the economy through the creation of a stronger business base.

Seeking to understand micro-businesses as a distinct category of SMEs and to stimulate further questions for research, this systematic review has provided a foundation for further empirical and conceptual academic enquiry into micro-business growth. In doing so, it highlighted future research avenues and generated a number policy implications regarding how best to support the scale up of micro-businesses.
References


## Appendix 1 – Keywords and search strings

<table>
<thead>
<tr>
<th>Keywords</th>
<th>Search strings</th>
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<tbody>
<tr>
<td>barrier</td>
<td>micro business OR micro enterprise AND grow*</td>
</tr>
<tr>
<td>growth</td>
<td>micro business OR micro enterprise AND barrier*</td>
</tr>
<tr>
<td>micro business</td>
<td>micro business OR micro enterprise AND owner AND manager*</td>
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<tr>
<td>entrepreneurship</td>
<td>“business support” OR “business development”</td>
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<td>enterprise</td>
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<td>manager</td>
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Appendix 2 – Inclusion and exclusion criteria

### Inclusion criteria

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<thead>
<tr>
<th>No.</th>
<th>Criteria</th>
<th>Reasons for inclusion</th>
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<tbody>
<tr>
<td>1</td>
<td>Published journal papers (peer-reviewed)</td>
<td>Focus on high quality published work.</td>
</tr>
<tr>
<td>2</td>
<td>All sectors and industries</td>
<td>Capture evidence across all sectors and industries.</td>
</tr>
<tr>
<td>3</td>
<td>Empirical and conceptual articles</td>
<td>Include seminal papers that develop entrepreneurship research both empirically and conceptually.</td>
</tr>
<tr>
<td>4</td>
<td>Qualitative and quantitative empirical studies</td>
<td>Capture empirical evidence collected through different methodological approaches.</td>
</tr>
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<td>5</td>
<td>All SMEs</td>
<td>Enable a comparison of growth constraints between SMEs of different sizes.</td>
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### Exclusion criteria

<table>
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<th>No.</th>
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<td>1</td>
<td>Pre-1980</td>
<td>Research into entrepreneurship and SMEs attracted academic interest and grew substantially from the 1980s onwards.</td>
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<tr>
<td>2</td>
<td>Gender related studies</td>
<td>The investigation does not consider gender either a growth driver or constraint.</td>
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<td>3</td>
<td>Foreign language</td>
<td>Exclude articles not written in English.</td>
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## Appendix 3 - Journal titles for acronyms in Table 1

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<tr>
<th>Acronym</th>
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<td>Env Plan C</td>
<td>Environment and Planning C: Government and Policy</td>
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<td>IJEBR</td>
<td>International Journal of Entrepreneurial Behaviour &amp; Research</td>
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<td>ISBJ</td>
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<td>JBV</td>
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<td>Journal of European Industrial Training</td>
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<td>JRME</td>
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<td>JSBED</td>
<td>Journal of Small Business and Enterprise Development</td>
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<td>MIP</td>
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