



## **Entrepreneurial Development And Firm Growth In Nigeria: Barriers And Prospect Among Sme's In Anambra State**

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***Abstract:***

*This paper, Entrepreneurship in Economic Development, firm growth and Barriers to doing business was undertaken to find out if there are impacts of Entrepreneurship to economic growth of any nation using firm growth and barriers as variables. The sample for this study consisted of people in managerial level of listed corporations. The methodology used in the study was a selection of 63 respondents from manufacturing firms. Questionnaires were administered to the respondents using simple random sampling technique*

*The general objective of the study is to investigate the place of entrepreneurship in Economic development and improving firm growth among manufacturing firms in Anambra State. In order for this study to achieve its objectives, the research was guided by research questions and hypothesis. The data gathered were analyzed electronically by chi-square method with SPSS package. The analysis of the result shows that there is a strong positive correlation between Entrepreneurship and Economic development.*

*The study recommends that there are needs for all individuals to place greater emphasis on skill acquisition and technology in planning for their economic existence.*

***Ke words:*** Economic Development, Firm Growth, SME, Entrepreneurship

**1.Introduction**

Entrepreneurship plays an important role in the economic growth and development of nation. Its purposeful activity includes initiation, promotion and distribution of wealth and service. An entrepreneur is a critical factor in economic development and an integral part of the socio-economic transformation. It is a risk taking activity and challenging task, needs utmost devotion, total commitment and greater sincerity with fullest involvement for his personal growth and personality.

The hypothesis that entrepreneurship is linked to economic growth finds its most immediate foundation in simple intuition, common sense and pure economic observation: activities to convert ideas into economic opportunities lie at the very heart of entrepreneurship. Entrepreneurship is a source of innovation and change and as such spurs improvements in productivity and economic competitiveness.

This paper surveys the progress from the perspective of the variety of economic development experiences, with the purpose of distilling the outlines for a more general theory of entrepreneurship in economic development. Despite the progress, entrepreneurship in economic development remains a relatively under-researched phenomenon. Lingelbach (2005:1) recently pointed out 'Entrepreneurship in developing countries is arguably at least studied significant economic and social phenomenon in the world today'. By surveying the current state of research, a secondary objective of this paper is to identify avenues for further research.

Entrepreneurship is closely associated with knowledge and flexibility, two factors that have gained new significance as a source of competitiveness in an increasingly globalized world economy. The shift in industry structure towards less concentration and more decentralization that OECD countries experienced between the mid – 1970s and the early 1990s is only one indicator of this development. With technological change and the intensified global competition brought about by globalization and economic liberalization, the assumption that fostering entrepreneurship means fostering a country's competitiveness today appears more valid than ever.

It is striking that the current debate discusses the importance of entrepreneurship mainly with regard to developed countries and that the question of how to foster entrepreneurship seems to be primarily a concern of policy makers in OECD countries. As a key element in securing the competitiveness of developed countries, entrepreneurship is even more central to developing countries trying to attain competitiveness in international markets.

### *1.1.Statement Of Problem*

The research on the determinants of the firm growth is extensive. However the results are far from being conclusive. This is partially due to the lack of theoretical grounding as well as differences in the unit of analyses, growth indicators, and research time frame. Consequently, Davidson and Wiklund (1999) pointed out that the knowledge about what facilities that hinder firm growth is still scattered and limited despite an extensive research. In addition, a large number of empirical studies have not given a very high yield of generalizable knowledge Davidson et al, (2006).

Nevertheless, nowadays it is widely recognized the important role of small firms for economic development. This role is even more emphasized in transition countries where it is expected that these firms become a main engine of transformation, job creation and income generation. Yet in most of the countries, small firms failed to take both this role. Inadequate and often hostile institutional environment in countries in transition was frequently mentioned as playing a major role in constraining small business development (Smallbone and Welter, 2001). In such setting, it was argued that the creation and the growth of new firms as well as the strategies that they adopt are substantially influenced by external environment (Peng 2003), in general, and the institutional context in particular (Welter and Smallbone, 2003). Moreover firms operating in this kind of transitional environment face rather different banners compared to the firms in western economies and developed countries. This is mainly because of the formal and informal constrains that emerge due to this particular setting.

Although the environmental factors play an important role in the small business growth and development, other factors shouldn't be neglected either. Surely, a significant potential for SME growth is located internally within the firm. Previous studies have explored the characteristics of the entrepreneur as important factors influencing the growth of the firm. Besides, well as firm related characteristics were also investigated within this frame work.

### *1.2.Purpose Of Study/Objectives*

In light of shortcomings in terms of the research on the growth of the firm from transitional perspective and particularly considering the specific context of the research, the general purpose/objective of this work is to contribute to the undergoing campaign of entrepreneurial development and skill acquisition in amongst Nigeria.

### *1.3. Our Specific Objectives*

- To identify the main barriers to doing business and to see how these barriers evolved in recent years.
- To analyze how firms belonging to different groups (exporting firm, innovative firms, firms with more educated entrepreneurs and employees, firms with young firms...) perceive barriers to doing business.
- What are the determinants startup size and firm growth.

To summarize, the following are the main research question that will be addressed within the study.

- What are the main barriers to doing business and how did they evolve?
- How do these barriers influence small business development in Anambra Nigeria
- What are the determinants of startup size and firm growth in Nigeri/Anambra State.

From the research questions, these hypotheses were derived in a null form:

- The barriers to doing business and how they evolved have not been ascertain
- the barriers to doing business has no influence on small business development.
- The determinants of startup size and firm growth in Nigeria is not yet known.

## **2.Literature Review**

### *2.1.Theoretical Framework*

There is no unique theoretical model explaining the post-entry performance of new firms Veciana (1999). Thus, the research on the firm growth is based frequently upon several different theories. Considering our general purpose of the research, we will utilize the Human Capital Theory and Institutional Theory. In addition we will be discussing upon Gibrat Law, a most elaborated framework in the context of the firm size and growth.

#### 2.1.1.Human Capital Theory

Human capital theory has been frequently utilized as a useful framework to explain the performance of the firm in the general terms including growth, survival, entry and exit issues of the firm. In fact this theory reallocates the attention toward internal capabilities of the firm, more specifically in direction of entrepreneur and employees itself.

Human capital theory posits that individuals with more or higher quality human capital achieve higher performance at a particular task (Becker, 1975). In fact human capital represents the knowledge and skills that individuals bring to an organization. Since it is developed through both education and personal experience, it contributes together in the explicit and tacit knowledge of the firm.

Becker (1964) distinguishes between general and specific human capital. General human capital refers to overall education and practical experience and is defined to be not only useful for the current employer but also for the other potential employers. On the other hand, the specific human capital refers to education and experience with a range of application restricted to a certain activity or context and potentially can lead to the increases in the productivity of the worker only with respect to the tasks that he is performing on his current job.

Previous empirical research have emphasized that human capital is one of the key factor in explaining organizational performance. Bruderl et al. (1992) argues that greater entrepreneurial human capital enhances the productivity of the founder, which results in higher profits and, therefore, lower probability of early exit. Moreover highly educated entrepreneurs may also leverage their knowledge and the social contacts generated through the education system to acquire resources required to create their venture (Shane, 2003). On the other hand Institutional Theory states that although entrepreneurial factors are likely to play an important role in explaining firm growth, the creation and subsequent development of firms in transition countries are substantially influenced by the external environment in general (Peng, 2003). In this context, institutional factors have been used to explore firm growth and performance in transition economies (Aidis, 2005; Meyer and Peng, 2006).

Institutional factors are discussed within a framework of Institutional Theory (North, 1990) that has been employed frequently for explaining the economic development of particular country. According to North (1990), institutions are the rules of the game in a society that reduce uncertainty by providing a structure to everyday life and guide human interaction. Institutions consist on formal constraints, such as laws and regulation, and informal constraint, such as conventions, codes of behaviour, norms and culture. Overall, both formal and informal elements strongly influence the goals and beliefs of individuals and organizations (North, 1990).

Importantly, a number of authors such as Ingram and Silverman, (2002); Peng (2003) are even more specific regarding the implication that institutions have for economy in

general and for firms in particular. They claim that the strategies that firms pursue are shaped by institutional frameworks. Therefore it is appropriate to claim that entrepreneurship as an activity and as a research field is also influenced and shaped by the institutional framework. North (1990:77) emphasizes that the kind of information and knowledge required by entrepreneurs are in good part consequences of a particular institutional context. When market-supporting institutions are weak, the ownership of resources, and the means by which an entrant can gain control over those resources, will be subject to considerable risk Meyer and Peng (2005). The less sophisticated the institutions supporting the market mechanism, the more political, economic and social uncertainties are likely to affect firms' strategies (Peng, 2003; Meyer and Nguyen, 2005). Especially in transition countries the business environment is heavily characterized by institutional barriers both formal and informal. Barriers such as tax burdens (Kontorovich, 1999) and high levels of bureaucracy (Bartlett and Bukvic, 2001) have been shown to be significant for firm growth in transitional countries. According to Smallbone and Welter (2001) frequent changes in the tax system, combined with a prohibitive tax level and an unpredictable behaviour of state officials, encourage entrepreneurs to shift some or all their activities to the informal economy, or in some cases abroad. According to Gibrat Law, One of the initial investigations in the firm growth is how the size and the age of the firm influence the growth of the firm. Usually these variables are discussed taking into consideration Gibrat Law (1931). According to Gibrat's Law the probability of given proportionate change in size during a certain period is the same for all firms in a given industry regardless of their size at the beginning of the period. This implies that both growth means and growth variance do not show any relationship with the size of the firm. The entire debate around Gibrat's Law is very important especially for policy makers. When the researchers in their analyses of Gibrat's Law introduce employment as a measure of growth, whether the Gibrat's Law holds or not it really matters for policy application. As Wagner (1992), correctly points out, if a small firms realize higher growth rates than larger ones then promotion would have a positive effect on the presently tense labor market in most industrialized economies.

Regarding the empirical evidence in support or rejection of Gibrat's Law the evidence is not yet conclusive. The very early articles in 50s and 60s of the last century, mainly confirmed the Gibrat's Legacy. Such an examples can be found especially in Hart and Prais, (1956); Simon and Bonini, (1958); Hymer and Pashigian, (1962). Importantly,

these articles empirically confirm that the size of the firm and its growth rate are independent. Though, similar results also can be found in some recent articles such as Pfaffermayr and Bellak, (2010); Geroski et al. (2003). Nevertheless empirical evidence after 80s mostly has rejected the Gibrat's Law. In this context Audretsch et al. (2004:302) have underlined that "a series of studies spanning a broad range of countries, and including both small as well as large enterprises, resulted in a singular result – growth rates (of surviving firms) tend to systematically decrease with increasing firm size". The vast majority of the literature published in last 10 years, reviewed for the purpose of this research work, has rejected as well the Gibrat's Law such as for example Nerlinger (1999), Harabi (2003), Yasuda (2005).

### *2.2. The Empirical Approach*

There are various strands in the empirical literature on entrepreneurship and economic growth using different measures of entrepreneurial activity. For instance, while one strand of empirical studies measures entrepreneurship in terms of the relative share of economic activity accounted for by small firms, other studies use data on self-employment, the number of market participants (competition) or firm start-ups as an indicator of entrepreneurial activities (Carree and Thurik 2002:16; OECD 1998: 11-12). Together with recent studies on OECD countries, the analyses of the Global Entrepreneurship Monitor (GEM) represent one of the most important sources for statistical analysis of the links between entrepreneurial activity and economic growth. The GEM is a research programme launched in 1999 that provides annual assessments of the national level of entrepreneurship. GEM analyses are based on a harmonized assessment of the level of national entrepreneurial activity for all participating countries and represent one of the rare sources of data on entrepreneurship conducive to cross-country comparison.

In its latest report (2002), the GEM shows that the national level of entrepreneurial activity has a statistically significant association with subsequent levels of economic growth. GEM data also suggests that there are no countries with high levels of entrepreneurship and low levels of economic growth (Reynolds et al 2002:7, 24).

This assumption is supported by a variety of other empirical studies using different indicators of entrepreneurial activity. Nickell (2006) and Nickell, Nicolitsas and Dryden (2007) examine, for instance, the effect of market competition, measured as an increase in the number of competitors in relation to the development of companies productivity

performance. An increase in the number of competitors is a possible measure of entrepreneurship, since the introduction of a new product or the start-up of a new firm is an entrepreneurial act. Using data from around 600 UK manufacturing firms from the periods 1972 – 86 and 82 – 94, the authors find evidence that competition, or an increase in the number of competitors, has a positive impact on total factor productivity growth (Nickell 2006:741; Nickel et al. , 2007).

Carre and Thurik (2008) who examine how the share of small firm's affects subsequent industry output growth have likewise established positive effects between this measure of entrepreneurship and growth. Basing their study on a sample of 14 manufacturing industries in 13 European countries, the authors investigated whether or not a higher share of small business at the beginning of the 1990s led to higher output growth in subsequent years in European manufacturing. The results of their study indicate that industries with a high share of small enterprises relative to the same industries in other countries performed better in terms of output growth during the subsequent 3 – 4 years Carree and Thurik ( 1998:144).

This evidence suggests an increase in the importance of entrepreneurship as a feature of the economy, often referred to as the transformation from a “managed” to an “entrepreneurial” economy (Think and Wennekers 2001:3; Frijs et al 2002:11). The transformation to an “entrepreneurial economy” occurred between the mid 1970s and early 1990s and became evident in a change in industry structure shifting economic activity away from large enterprises to smaller entities, in particular to small and medium-sized enterprises (SMEs).

### **3. Research Design**

Several steps were taken in order to assure the reliability of data gathering process. First the appropriateness of the questionnaire was verified by conducting a text survey with 10% of the sample. Later, the facilitators concluded that the research instrument was suitable for proceeding with interviews. A thorough data quality assurance, during the entire research was undertaken by controlling the questionnaire for potential mistakes or consistency failures. The field control was performance as well. In case of observed errors, the interviewers were sent back on the field, while research later on contacted the entrepreneurs directly or through telephone.



### *3.1. Definition Of Variables*

#### 3.1.1. Dependent Variable

In the literature of firm growth one can observe different indicators used for measuring growth such as assets, employment, market share, physical output, profits, and sales, etc. the problem of comparability of studies becomes significant, if not misleading when researchers use different measures of growth, employ different formulas for calculating it and moreover the time frame of the research studies differ. Therefore Weinzimme et al. (1998) correctly claims that researchers who seek to advance theory need to define clearly what they are measuring so that fairly a replicate and extend previous research.

In our thesis we use employment growth, since we are especially interested to measure the contribution of fast growing in overall employment.

We measure growth by observing the change of employment between two points. Measuring the growth between two points is build upon several assumptions that might lead in failing to capture the complete phenomenon of firm growth. According to (Davis et al., 1996) the firm growth, measured in this way may be substantially affected by the stochastic variation. Moreover, this method implies a rather strong assumption of certain growth pattern and fails to recognize the developments between the start up period and the data of survey. Nevertheless our data set is limited only to identifying the number of employees at start up phase and interview.

In terms of barriers to entrepreneurship, following Robson and Obeng (2007) we introduce a categorical variable, that is, entrepreneur's perception on various barriers as a dependent variable. Although perceptions are not objective measures, empirical research has indicated that subjective opinions of the entrepreneur have an influence on both motivation and direct behaviour (Davidsson, 1991). Since the decision to become an entrepreneur is made at the individual level, entrepreneur's perceptions about the environmental conditions are of special relevance in terms of firm development and growth. Therefore, we assume that perceived barriers may have an effect on various choices that entrepreneurs make.

#### 3.1.2. Independent Variables

Following Miller and Friesen (1984), which emphasize the necessity of testing the impact of a large number of variables simultaneously in order to create a more complete and realistic, image of the growth phenomenon, we group the independent variable into

three separate components, such are human capital, environment related factors and firm related characteristics.

The first group representing the human capital contains variables such as entrepreneur formal education, entrepreneur training and employee training. In addition we control also for entrepreneur age gender and intention to grow.

The second component gathers variables related to perceived barriers which are likely to have an impact on small firm development in the particular context of transition countries. These variables were designed based on Likert scale where the entrepreneurs had the possibility to perceive barriers from 1 meaning a very high barrier, to 5, implying

### 3.1.3.Presentation And Interpretations Of Results

Sixty three (63) copies of the questionnaire were administered to management officers of the 21 selected manufacturing firms in Anambra State. Twenty one copies were administered to each duster of which 3 copies went to each of the seven firms in each cluster (zone). All the 63 copies distributed were well completed and returned. The percentage of the useable copies of the questionnaire was 100 percent.

### **4.Socio-Demographic Characteristics Of The Study**

Results from the analysis of the Socio-Demographic characteristics of the respondents indicated that majority of the respondents are male suggesting that most of the management teams of manufacturing firms are male. Moreover, the respondents concentrated within the age bracket 26 to 41 years. Most of the respondents are Bachelors degree holders. This implies that most small/medium enterprises in Anambra State are managed by graduates.

*4.1.Socio-demographic Characteristics*

<b>Variable</b>	<b>Frequencies</b>	<b>Percentage</b>
<b>Gender</b>		
Male	55	67.3
Female	8	12.7
<b>Age</b>		
18 – 25 yrs	9	14.3
26 – 33 yrs	31	49.2
34 – 41 yrs	19	30.2
Above 40 yrs	4	6.3
<b>Education</b>		
No formal education	4	9.5
Secondary	24	41.3
B.Sc / HND	35	49.2
<b>Location</b>		
Awka	21	33.3
Onitsha	21	33.3
Nnewi	21	33.3
<b>Cadre</b>		
Manager	42	66.70
Others	21	33.33
<b>Years of service in the company</b>		
Less than 5 yrs	8	12.7
5 – 10 years	20	31.7
11 – 20 years	29	46.9
20 and above	6	9.5

*Table 1: Socio-demographic Characteristics*

The locations of the respondents were evenly distributed among Awka, Onitsha and Nnewi zones scattered across the L.G.A.s in Anambra State. The respondents that fall

into staff cadre of manager, and other senior staff of which most of them have spent 11 to 20 years in the firms.

#### 4.2. Analyses Of Research Question

- Questions 1: What are the main barriers to doing business?

SN	Variable	SA	A	U	D	SD	Remarks
7	High taxes, administrative burdens, law enforcement.	27 (42.9)	12 (19.0)	15 (23.8)	4 (6.3)	5 (7.9)	Agreement
8	Corruption, and fiscal evasion	35 (55.6)	20 (31.7)	5 (7.9)	1 (1.6)	2 (3.2)	Agreement
9	Unfair competition and shallow economy	0	5 (7.9)	7 (11.1)	40 (63.5)	11 (17.5)	Disagreement
10	Employees skill, Managerial skill	33 (52.4)	3 (4.8)	16 (25.4)	0	11 (17.5)	Agreement

Table 2

Source: Computation from SPSS 17 Analysis

Question Items 7 – 10 were used to address research question one. The response to research question one is shown in table 4.2 above. The study showed that Entrepreneurs have many barriers in doing business. This is evident from the results with indication that majority of the respondents staff of the firm were in agreement that their firms have high taxes, administrative burdens, law enforcement, corruption, fiscal evasion, unfair competition, employee skill and managerial skill as the barriers in doing business which influences them. Ticking agreement of these variables implies that these firms actually have those problems in their course of doing their business.

- Research Question 2: How do these barriers influence small business development?

SN	Variable	SA	A	U	D	SD	Remarks
11	The productivity is low	18 (28.6)	38 (60.3)	3 (4.8)	4 (6.3)	0	Agreement
12	Underemployment of staff	0	8 (12.7)	22 (34.9)	33 (52.4)	0	Disagreement
13	Laying off of the expert for inability of paying them	12 (19.0)	31 (49.2)	12 (19.0)	12 (19.0)	8 (12.7)	Agreement

*Table 3*

*Source: Computation from SPSS 17 Analysis*

The research question two tries to find out how these barriers influence and affect small business development. Questionnaire item numbers 11 – 13 were used to analyze research question 2.

The respondents were of the view that the influence of these barriers will bring low productivity, underemployment, laying-off of the expert because (of low in per capital income) their income will be low and could not be able to pay them. These responses imply that these barriers influence small business in Anambra State.

- Research Question 3; what are the determinants of start-up size and firm growth?

SN	Variable	SA	A	U	D	SD	Remarks
14	If the firm has enough capital	22 (34.9)	35 (55.6)	0	6 (9.5)	0	Agreement
15	Branch Networks	0	4 (6.3)	37 (58.7)	22 (34.9)	0	Undecided
16	If the firm operates in manufacturing sector or otherwise	7 (11.1)	48 (76.2)	4 (6.3)	4 (6.3)	0	Agreement

*Table 4*

*Source: Computation from SPSS 17 Analysis*

The research questions 3 that addresses issues on the determinants of start-up size and firm growth is captured with questionnaire items 14-16. The results of the respondents indicated that capital and whether the firm operates as a manufacturing firm determines the start-up size and firm growth, it was not known (decided) whether the start-up size and firm growth by small firms can engender branch networks.

The study generally implies that Entrepreneurial Development brings about firm growth.

#### 4.3. Test Of Hypotheses

- Ho 1: The Barriers To Doing Business And How They Evolve Have Not Been Ascertained.

Variables	Agreed	Disagreed	Total
High taxes	27	15	42
Administrative burden	12	9	21
Total	39	24	63

Table 5

For a 2 x 2 contingency table Ch-square statistics is calculated by the

- formular  $X^2 = \frac{(ad-bc)^2}{(a+b)(c+d)(b+d)(a+c)}$
- \*Chi-Square = 0.303
- \*Predetermined alpha level of significance (0.05), df = 1
- \*Since a P value is less than conventionally accepted significance level of 0.05, we reject the null hypothesis.
- \*In other words the barrier to doing business and how they evolved is ascertained.

- H0 2: What is the significant level of these barriers to small business?

<b>Variables</b>	<b>Strongly Agreed</b>	<b>Strongly Disagreed</b>	<b>Total</b>
Low Productivity	18	38	56
Under-employment	3	4	7
Total	21	42	63

*Table 6*

- \*Chi-Square 0.321
- \*Since a P value is less than accepted significance level of 0.05, we reject the will hypothesis.
- In other words the significance level of these barriers is high.

- H0 3: What are the determinants of the start-up size and firm growth known?

<b>Variables</b>	<b>High</b>	<b>Low</b>	<b>Total</b>
Firm capital	22	23	45
Branch network	6	12	18
Total	28	35	63

*Table 7*

- \*Chi-Square 1.26
- \*Significance Level = 0.05
- \*Since P Value is less than significance level, we reject the null hypothesis.
- In other words the determinants of start upsize and firm growth are known.



#### *4.4. Summary Of Findings*

Studies have shown that to curb unemployment, corruption and attitudinal change among individuals and firms, skill acquisition and setting up a small firm is of a paramount important. Studies have equally suggested that entrepreneurship boost economic development. This is because entrepreneurs is an integral part of the socio-economic transformation because its activities promotes, distributes wealth and service to development of nation.

Despite these, no research work has targeted to investigate the impact of Entrepreneurship to Economic Development, firm growth and barriers to doing business. Existing studies in Nigeria aimed at Entrepreneurial Models (Gianneti and Simonor 2004: 272), related studies on this study was on Entrepreneurship in Economic Development (Nim Naude 2008).

Based on the above premise, the study investigates the level of entrepreneurship in economic development on manufacturing firms in Anambra State. This study used sampled respondents from only managers and senior staff cadre of manufacturing firms.

Descriptive and Chi-square test indicated the following findings:

- The barriers to doing business and how they evolved have been ascertained in manufacturing firms in Anambra State such as High taxes and
- The significant level of these barriers to small firm is high taxes and administrative burden.
- The determinants of the start-up size and firm growth is known for instance firm capital and branch network.

#### **5. Conclusion**

Entrepreneurship has been identified as veritable tool for improving economic development and improving standard of living among individuals and manufacturing firms in Anambra State in particular and Nigeria in general.

#### **7. Recommendations**

The study recommends that further studies be carried out in Nigeria to investigate the causes of negligence of entrepreneurship in Anambra State in particular. The causes of

this when known and curbed, small and medium scale industries in Nigeria might become more competitive in boosting the development of Nigeria economy.

The entrepreneurial centre and business schools in Nigeria should incorporate entrepreneurial studies into their curricula. This will engender sound skill acquisition and boost performance of individuals and firms in Nigeria.

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