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DETERMINANTS OF SMALL AND MEDIUM SIZED FAST GROWING ENTERPRISES IN CENTRAL AND EASTERN EUROPE: A PANEL DATA ANALYSIS

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Abstract

The purpose of this paper is to explore the main determinants of growth in small and medium sized enterprises (SMEs) in Central and Eastern Europe. The important role of SMEs for economic development of Central and Eastern European (CEE) countries has been attracting the recent attention of academics and policymakers but remains relatively unexplored. The empirical research has suggested that firm growth is determined not only by the traditional characteristics of size and age but also by other firm-specific factors such as indebtedness, internal financing, future growth opportunities, process and product innovation, and organisational changes. Although growth in manufacturing and service SMEs in transition economies is well explained by the traditional firm characteristics of size and age, no empirical evidence exists on what other specific factors may be associated with SMEs growth and performance in these countries. Using a panel dataset of 560 fast growing small and medium enterprises from six transition economies we find that firm size when measured by firm total assets can explain to a large extent the growth in SMEs in these countries. When size is proxied by a firm's number of employees the results are ambiguous. Firm specific characteristics such as leverage, current liquidity, future growth opportunities, internally generated funds, and factor productivity are found to be important factors in determining a firm's growth and performance. Age and ownership do not seem to be able to explain firm growth. The results of our empirical study will help decision-makers and SME managers in transition economies engage in more efficient decisions in order to improve firm competitiveness on the EU market and thus, enhance their growth potential.

Keywords: transition economy, small and medium enterprise, growth, panel data analysis

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