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Assessing the Impact of Firm Age and Location on SME Growth Potential in Namibian Markets

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ABSTRACT

This study investigates the impact of business age and location on the growth of small and medium-sized enterprises (SMEs) in Namibia. Using a cross-sectional survey design and descriptive-analytical approach, data were collected from SMEs operating in five key towns. A stratified sampling technique ensured robust representation, yielding a high response rate of 94.5% from 189 questionnaires. The findings reveal that a substantial majority of SMEs are in their early stages, with 66% of firms operating for less than five years, indicating limited operational experience and resource bases that may hinder their rapid growth. Favourable environmental conditions, including proximity to customers, safe neighbourhoods, and advantageous lease terms, were identified as key enablers of operational efficiency and competitive advantage. These insights highlight the need for targeted policy interventions and innovative management practices that support young SMEs and leverage locational benefits to foster sustainable growth. This study contributes to the understanding of SME dynamics in emerging markets and offers actionable strategies for enhancing business performance in a competitive landscape.

Keywords: Business location, Emerging markets, Firm age, SME growth

1. INTRODUCTION

According to Oteh (2010), there is no universally accepted definition of SMEs; each country has its own definition based on the peculiar needs of public plans. Even within a country, definitions change over time depending on the circumstances and specific objectives of institutions. Most definitions tend to have some common indicators, such as the size of capital investment (fixed assets), the amount of annual turnover (gross output), and the number of paid employees (Oteh, 2010). The popularity of these three indicators is largely derived from their ease of measurement.

The National Policy on Micro, Small and Medium Enterprises (MSME Policy) introduced by the Ministry of Industrialisation, Trade and SME Development in 2016, established that SMEs in Namibia are categorised based on the number of full-time employees and their annual turnover (MITSMED, 2016). The policy was developed to provide clearer and more practical guidelines for implementation, monitoring, and evaluation, replacing earlier definitions that were considered inadequate. Under this updated policy framework, a micro enterprise is defined as a business employing between 1 and 10 individuals with an annual turnover of up to N$300,000. A small enterprise is classified as one employing 11 to 30 workers and generating an annual turnover between N$300,001 and N$3 million, while a medium enterprise employs 31 to 100 employees with an annual turnover ranging from N$3 million to N$10 million (MITSMED, 2016; IPPR, 2023). Businesses exceeding these thresholds fall under the category of large enterprises.

Small and medium enterprises (SMEs) are pivotal to the economic advancement of developing nations, serving as key drivers of job creation, economic growth, poverty reduction, improved income distribution, and overall macroeconomic stability (OECD, 2020; Premaratna et al., 2018). According to the World Trade Organisation (WTO, 2016), SMEs constitute over 90% of the business population in developed economies, accounting for 60–70% of employment and contributing approximately 55% to the GDP. In Indonesia, SMEs are recognised for generating employment, intensifying competition with larger firms, and enhancing market diversity (Aladdin et al., 2021). In Namibia, Iguna and Sazita (2018) observed that SMEs substantially contribute to job creation, particularly among the youth, mitigate poverty levels, reduce income inequality, and add nearly 12% to the national GDP. Similar studies by Onjefu and Ndjaba (2022) explore the significant impact of entrepreneurial orientation on the growth of small and medium enterprises in Namibia. Nevertheless, there is a need for further study to explore other variables impact on the sustainability and growth of SMEs in Namibia.

Namibia is constrained by high income inequality and a high level of youth unemployment. This underscores the importance of SMEs in job creation and support of livelihood in the country (Mwatange, 2017; Shilinge, 2016). In line with this, Mwatange (2017) established that SMEs in Namibia provide approximately 12% of the country's GDP and employment to nearly 20% of the workforce. SMEs provide jobs and income to nearly 160,000 people (Ogbokor, 2012). The existing assessments showed that the small business segment offers full-time job opportunities for around 160,000 people, positioning it alongside the Government as the largest employer in the country (Mwatange, 2017). Based on the current literature, SMEs are recognised as the most important channel for job creation, revenue generation, economic development, and poverty reduction in Namibia.

Despite these significant contributions, high mortality rates persist in the SME sector. Premaratna et al. (2018) report that while a considerable number of new SMEs emerge annually, over 90% exhibit high failure rates. In the United States, only 7.2% of newly established SMEs survive after experiencing a 38.6% decline post-formation, despite a formation rate of 45.8% (Premaratna et al., 2018). Correspondingly, research in South Africa indicates that more than 70% of small-to medium-sized enterprises (SMMEs) cease operations within the first five to seven years due to factors such as entrepreneurial inefficacy, unfavourable business environments, and inadequate enterprise-specific competencies (Bushe, 2019). These findings underscore the urgent need for enhanced support frameworks and capacity-building initiatives to improve the sustainability and growth prospects in emerging markets.

Shilinge (2016) points out that SMEs are failing at an alarming rate in Namibia and conducts a study on the factors that hamper the growth of registered small and medium enterprises in the Katutura central constituency. The study revealed the non-existence of subsidies, stringent government policies concerning SMEs, and certain micro-and market environmental factors as contributors to the lack of SME growth. Due to these limitations, Earlier research has increasingly examined firm characteristics as determinants of SME growth. For instance, Zarook, Rahman, and Khanam (2013) found that demographic factors such as firm age and size have a positive and significant impact on SMEs' ability to access finance. Similarly, Backburn, Hart, and Wainwright (2013) argue that the size and age of an enterprise influence performance more than the strategy and entrepreneurial characteristics of the owner. Against this background, the present study seeks to assess the impact of firm age and business location on the growth potential of SMEs in Namibian markets.

2. LITERATURE REVIEW

Many theories have been established to describe SME growth. The Resource-Based View (RBV) theory asserts that a firm's internal resources and capabilities, if valuable, rare, inimitable, and non-substitutable (VRIN), are fundamental drivers of competitive advantage and long-term growth (Barney, 1991). These resources include physical assets, human capital, technological capabilities, and organisational knowledge. In the context of Small and Medium Enterprises (SMEs), certain firm-specific characteristics, such as age and size, serve as critical internal resources influencing their growth trajectory. While RBV typically focuses on resources such as human capital, technological capabilities, and organisational knowledge, a firm’s location can also be considered a significant resource.

Location, as an external resource but an influential factor, can provide a firm with access to strategic resources that are critical for growth. For example, a firm's location may determine its proximity to markets, suppliers, customers, and competitors, influencing its ability to acquire knowledge, build customer relationships, and leverage economies of scale, which also justifies the adoption of this theory for this study. Penrose’s Theory (1959) further reinforces this perspective by highlighting that firms grow by effectively utilising their internal resources and managerial capabilities. As firms age, they develop a repository of knowledge and experience that enhances their decision-making and competitive advantage. Larger firms, due to their increased resource base, may experience greater growth opportunities, whereas firms in strategic locations benefit from better market access and supplier networks. These theoretical insights justify the selection of firm age, size, and location as the key independent variables in this study.

Both the RBV and Penrose’s theory highlight the importance of internal resources for firm growth. However, while RBV places significant emphasis on the strategic value of resources like location, human capital, and technological capabilities, Penrose underscores how firms leverage accumulated resources over time to fuel growth, particularly through managerial expertise and organizational knowledge

2.1 Age of the Firm

Recent studies have continued to explore the relationship between firm age and various performance metrics, employing diverse definitions of firm age tailored to specific research objectives. For example, Rwakihembo et al. (2023) examined the link between firm age and financial performance among private limited companies in Uganda. They defined firm age as the number of years since a company's commencement and found that firm age accounts for 14% of the variance in financial performance, suggesting that older firms tend to perform better. Additionally, Mallinguh et al. (2020) explore the effects of firm age and the business sector on financial performance, considering the mediating roles of foreign ownership and financial leverage. They defined firm age based on the duration since a firm's establishment and found that older firms often attract higher levels of foreign ownership, which, in turn, positively influences financial performance.

Several studies have examined the impact of firm age on SME performance and their growth. Gaur and Gupta (2011) found that established businesses tend to perform better than those in their initial stages. This study is consistent with recent studies on firm size and SME growth. For instance, Okunbo and Oghuvwu (2019) reported a positive and significant relationship between firm age and performance, recommending that new and developing entrepreneurs' network with established entrepreneurs to leverage their expertise and business connections. Zhou and Gumbo (2021), in their study on manufacturing SMEs in KwaZulu-Natal, South Africa, also found a positive relationship between firm age and SME growth. Their research indicates that older firms experience faster growth than younger firms, regardless of their size. However, when firm size was measured using employment and total assets, smaller firms exhibited higher growth rates than larger firms regardless of age.

2.2 Size of the Firm and SME Growth

Firm size is a critical determinant of a company's operational capacity, resource allocation, and overall market position. Shaheen and Malik (2012) define firm size as "the quantity and variety of production capacity and resources a firm possesses or the range and diversity of services it can simultaneously provide to its customers." This definition highlights the role of firm size in shaping internal operational efficiency and external stakeholder interactions.

Empirical studies have consistently established the significant impact of firm size on the growth of small and medium-sized enterprises (SMEs). Babalola (2013) posits that larger firms exert greater influence on their shareholders and, consequently, outperform smaller firms in terms of financial performance and market sustainability. Similarly, Ahmed et al. (2023) established a positive relationship between firm size and profitability, attributing this correlation to improved capitall structure decisions. Their findings suggest that as SMEs expand and strengthen their financial stability, they are better positioned to secure external funding, facilitating sustained growth.

Furthermore, Ben Moussa and Hedfi (2023) found that larger firms leverage their resources more effectively to achieve higher financial returns, reinforcing the notion that size contributes positively to financial success. Yadav, Pahi, and Gangakhedkar (2022) examined firms across 12 emerging Asia–Pacific markets and concluded that the economies of scale and market power associated with larger firms contribute to higher profitability. These findings suggest that firm size provides SMEs with competitive advantages that enhance their financial sustainability and long-term growth. Similarly, Ibrahim et al. (2024) reaffirm this relationship, demonstrating the positive influence of firm size on SME profitability.

However, the effect of firm size on growth depends on the metrics used to measure firm size. Suyadi et al. (2021) examined the impact of firm size, measured by the number of employees, on SME income within Indonesia's livestock sector. The findings indicate that the number of employees does not significantly affect SME income, suggesting that increasing workforce size alone may not necessarily lead to higher revenue. This implies that other factors, such as operational efficiency, market conditions, and managerial practices, may play a more critical role in determining SME income.

Similarly, Bentzen and Tung (2023) examined 578 publicly listed Vietnamese companies to evaluate Gibrat's law, which posits that a firm's growth rate is independent of its initial size. Their study found that revenue growth did not support this hypothesis, indicating that firm size influences the growth. However, when growth was assessed based on total assets, the findings were consistent with Gibrat's Law, suggesting proportional growth rates relative to firm size.

The existing literature highlights the key role of firm size in SME growth, primarily through its influence on profitability, financial resource access, and operational efficiency. While smaller firms may exhibit higher growth rates in their initial stages, their long-term sustainability is closely linked to their ability to expand, secure financing, and leverage economies of scale. These findings highlight the importance of considering multiple dimensions of firm size when assessing the impact on SME growth and financial performance.

2.3 Location of the Firm

Location has been defined as the selection of an ideal site to establish a business, such as in urban or rural settings (Kala and Guanghua,2010). Similarly, Lafuente, Vaillant, and Serarols (2010) defined location as a decision to establish a business either in rural or urban centres, which is also linked to the type of product or service the firm may want to offer. However, location could refer to "the nearness of the firm to raw materials, infrastructures, customers, and suppliers".

Location is a key factor influencing the success and growth of small and medium-sized enterprises (SMEs) in the region. Recent studies have reinforced the significance of strategic locations in enhancing business performance. For instance, Lumbwe et al. (2018) found that SMEs in Johannesburg benefit from strategic locations that offer advantages such as affordable electricity tariffs, high customer flow, and safe environments, all of which contribute to improved business performance. Similarly, Kakooza et al. (2023) found that both business choice and location decisions positively and significantly contribute to SME success. The study highlighted that SMEs in Uganda that carefully select their business locations, considering factors such as market access, competition, and labour availability, tend to achieve greater success. Their research emphasises that a well-chosen location provides SMEs with competitive advantages, including customer convenience and resource access.

Furthermore, a study by Rahman and Kabir (2019), focusing on manufacturing SMEs in Khulna City, Bangladesh, revealed that location-specific factors such as the availability of low-cost space, suitable transport facilities, and agglomeration significantly influence location selection and clustering patterns. These factors, in turn, impact the performance and sustainability of SMEs in the region. Existing studies highlight the critical importance of location decisions in the strategic planning. By carefully considering location factors, businesses can improve their performance.

While numerous studies emphasise the importance of location in the success and growth of small and medium-sized enterprises (SMEs), some research presents a more nuanced perspective, suggesting that location may not always be a decisive factor in sustainability and growth. For instance, Ipinnaiye et al. (2017) indicate that firm characteristics, strategies, and macroeconomic conditions can significantly influence SME performance, sometimes overshadowing the impact of location. Their research highlights that factors such as firm size, age, and strategic orientation play crucial roles in determining the success of a business. Similarly, a study by Kanyinji and Tembo (2019) on SMEs in Zambia's mining sector found that geographical location, including road infrastructure and electricity costs, can act as barriers to SME participation in the mining global value chain. A study in Namibia by Tafirenyika et al. (2025) reflects the importance of policy reforms in shaping the ease of doing business (EODB) and thereby increasing Namibia's participation in the Global Value Chain (GVC). This suggests that while location can present challenges, the EODB is essential in shaping the success or failure of SMEs.

The empirical literature review supports Penrose's theory and the Resource-Based View (RBV), which emphasises that a firm's internal resources play a crucial role in its growth. This study connects internal resources, specifically the age and size of the firm, as independent variables. Furthermore, RBV considers location as an external factor that influences firm growth, providing a comprehensive understanding of the variables affecting SME success.

3. RESEARCH METHODOLOGY

This study employed a quantitative research approach with a descriptive-analytical design to examine the potential impact of business age and location on the growth trajectories of small and medium-sized enterprises (SMEs) in Namibia. The methodological framework was designed to ensure rigorous data collection and robust analysis, thereby providing insights that are both reliable and applicable to strategic decision-making in emerging markets.

A cross-sectional survey design was implemented, allowing for the systematic collection of primary data from SMEs operating in five strategically selected towns in Namibia. The descriptive analytical design enabled the investigation of the relationships between business characteristics, specifically the age and location of the enterprises, and their growth performance. This method was chosen to facilitate an objective assessment of the inherent business dynamics while also enabling the identification of trends that could inform both policy and managerial practices.

This study targeted SMEs in the five towns of Oshakati, Otjiwarongo, Rehoboth, Rundu, and Katima Mulilo. A stratified sampling technique was adopted to ensure that the sample was representative of the diverse business environments across the towns. A total of 200 questionnaires were distributed evenly, with each town receiving 40. The achieved response rate of 94.5% (189 returned questionnaires) enhanced the robustness of the findings, ensuring a comprehensive representation of the regional SME landscape. The primary instrument for data collection was a structured questionnaire designed to capture key business characteristics, including firm age, number of employees (as a proxy for firm size), and various locational attributes. Data analysis was conducted using descriptive statistical techniques, including frequency distributions and percentage calculations, to summarise the key variables. These analytical methods facilitated a clear depiction of the distribution of business age and location factors and their perceived impact on SME growth. The use of tables and graphical representations, such as histograms, provides visual clarity and supports the interpretation of complex datasets.

This study adhered to rigorous ethical standards, ensuring the confidentiality and anonymity of all respondents. Informed consent was obtained from all participants before data collection, and the research was conducted in accordance with ethical guidelines to protect the integrity of the data and the rights of the participants.

4. ANALYSIS AND RESULTS

This study explored whether the age of a business and its geographic location possess the potential to impact the growth of small and medium-sized enterprises (SMEs) in selected towns in Namibia. A descriptive analytical approach was employed using responses gathered from SMEs operating in five major towns. These results provide insights into the influence of these two key business characteristics on firm growth. As shown in Table 1, a substantial proportion of the enterprises surveyed were relatively young, with 37% of firms operating for less than three years and an additional 29% established between three and five years. Additionally, 21.2% had been in operation between 5 and 10 years. Only a minority of businesses had been in operation for more than ten years (with 8.5% operating between 10 and 15 years and 4.3% beyond 15).

Table 1: Age Distribution of SMEs among Respondents

Years of Business Operation	No.	%
Less than 3 years	70	37

Between 3 and 5 Years	55	29
Between 5 and 10 Years	40	21.2
Between 10 and 15 Years	16	8.5
15 and above	8	4.3

Source: Authors' construct

This suggests that most SMEs in the sampled regions are in the early stages of development. The relatively young age of these firms may be associated with limited accumulated experience and resource bases, potentially constraining their capacity for rapid growth. Moreover, the developmental phase of these enterprises could indicate a dynamic market environment where newer entrants continually emerge, necessitating adaptive strategies to sustain growth trajectories.

The role of business location in influencing SME growth was examined through both subjective perceptions and objective measures of the locational attributes. Table 2 shows the respondents who disagreed or strongly disagreed that their business location was a barrier to growth. However, the perception of location as a limiting factor was not unanimous: 44.44% (when combining those who agreed and strongly agreed) viewed location as an inhibiting factor. This divergence in perceptions may reflect the varying market strategies and differences in the goods and services offered by SMEs.

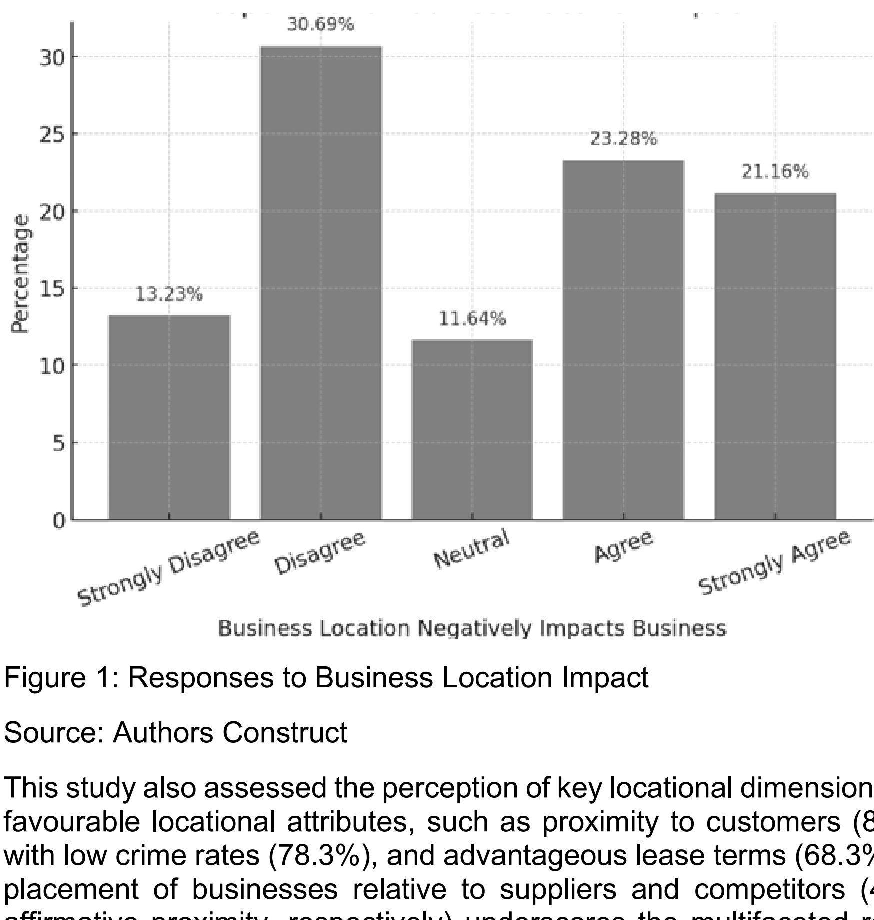

Figure 1: Responses to Business Location Impact

Source: Authors Construct

This study also assessed the perception of key locational dimensions. Most respondents reported favourable locational attributes, such as proximity to customers (83.6%), safe neighbourhoods with low crime rates (78.3%), and advantageous lease terms (68.3%). Nonetheless, the strategic placement of businesses relative to suppliers and competitors (48.1% and 20.6% indicating affirmative proximity, respectively) underscores the multifaceted role of location in operational contexts. These findings suggest that while certain locational factors may not directly inhibit growth, they could indirectly affect operational efficiency and market competitiveness, thereby influencing long-term growth potential.

Table 2: Respondents' Perception on Location

	No%	Yes%
Proximity to Supplier	48.1	51.9
Proximity to Customers	16.4	83.6
Proximity to Competitors	20.6	79.4
Safe Neighbourhood (Low Crime)	21.7	78.3
Favourable Lease Terms & Rents	31.7	68.3

Source: Authors' construct

The perception drawn from the findings shows that both the age of the business and its location have potential implications for SME growth. Younger firms, which constitute the bulk of the sample, may face inherent challenges because of their limited operational experience and resource accumulation. Concurrently, the impact of location on growth is multifactorial. Although a significant segment of respondents does not perceive location as a primary growth impediment, the strategic advantages of proximity to key market actors and favourable environmental conditions cannot be ignored. These insights underscore the need for policy interventions and strategic management practices that address the unique challenges faced by younger SMEs while leveraging their locational advantages to foster sustainable growth.

5. DISCUSSION

The findings of this study indicate that a substantial proportion of SMEs in the sampled regions are in the early stages of their development, with 66% of businesses having been in operation for less than five years. This aligns with the existing literature, which highlights the challenges faced by younger firms, particularly regarding limited resources and experience. According to Gaur and Gupta (2011), established businesses typically outperform younger firms because of their more developed resource bases and stronger market positions. Similarly, Okunbo and Oghuvwu (2019) found a positive relationship between firm age and performance, suggesting that newer businesses may benefit from networking with more established entrepreneurs to gain valuable insights and connections. The findings of this study support these perspectives, indicating that budding SMEs often encounter constraints that hinder rapid growth. However, strategic networking and mentorship from well-established businesses can provide critical support to overcome these challenges. Furthermore, fostering relationships with experienced firms may facilitate knowledge transfer and resource sharing, ultimately contributing to the growth and sustainability of emerging SMEs.

Regarding the location of the firm, the findings showed that the location of businesses had no noticeable impact on the growth of SMEs in the towns that were investigated. This result might be explained by the fact that most of the businesses examined are strategically located near competitors (79.4%), suppliers (51.9%), and customers (83.6%). Additionally, the majority of SMEs have advantageous lease terms and rental circumstances (68.3%) and operate in safe neighbourhoods with low crime rates (78.3%). These results imply that SMEs in the chosen areas might gain from homogenous location benefits, which would lessen performance level variation caused by geographic positioning.

The findings of this study are consistent with other scholarly findings in emerging markets such as Namibia. Lumbwe et al. (2018) found that SMEs in Johannesburg benefited from strategic locations, which provided access to affordable electricity, high customer traffic, and secure business environments. Similarly, Kakooza et al. (2023) demonstrated that well-selected business locations positively influence SME success in Uganda by enhancing market access and competitive positioning. As posited by Adeyanju et al. (2024), leveraging geographic location and market access can pave the way for SME's operating in Namibia in the African Continental Free Trade Area (AfCFTA). The findings of this study suggest that while location alone may not determine SME growth, it significantly influences operational efficiency and market competitiveness.

5.1 Implications for Theory

The study's results have a number of significant implications for theory, practice, and policy concerning the growth of SMEs in Namibia and other emerging economies. In the aspect of theoretical implication, the study supports the relevance of the Resource-Based View (RBV), which claims that businesses grow as they develop resources, organisational procedures, and market expertise over time, by revealing that internal business characteristics, particularly firm age and accumulated experience, play a crucial role in influencing SME growth. Additionally, the result that showed that location had no influence on SME growth contradicts conventional location-based theories, indicating that contextual factors like consistent access to suppliers, consumers, and secure trade conditions may mitigate the impact of geographic location. This offers a greater insight into locational benefits in developing nations.

5.2 Implications for Management, Policy and Practice

Regarding the practical implications, the findings highlight the significance of enhancing internal competencies, such as operational expertise, business networks, and managerial skills, for SME owners and managers, especially in the first stages of firm development. In order to overcome resource constraints, younger businesses may profit from mentorship programs, business networking sites, and collaborations with more established businesses. Although the SMEs in the selected towns have advantageous geographical conditions, the results suggest that these advantages are not enough to guarantee growth. To improve operational performance, businesses must supplement these benefits with innovative thinking, efficient management techniques, and strategic decision-making. These findings emphasise the need for focused policy interventions and creative management techniques that assist inexperienced SMEs and take advantage of regional advantages to promote long-term growth. For policymakers and SME support organisations, the findings point to the need for specialised actions targeted at supporting new businesses that are still developing their resource base. This could involve financial literacy assistance, entrepreneurship training, incubation projects, and capacity-building programs.

Furthermore, the consistency of locational benefits found in the selected towns suggests that continued investment in safety, infrastructure, and reasonably priced rental spaces is still essential to maintaining a favourable business environment. To ensure that all towns have equitable access to markets and business opportunities, policymakers should keep improving these environmental conditions.

5.3 Implications for Future Research

This study solely focused on the age and location of a firm on the growth of small and medium-sized enterprises (SMEs) in selected towns in Namibia. Other studies may consider the implications of other variables, such as the disruptive nature of Artificial Intelligence (AI) on SMEs, or examine the role of human capital as a pivotal factor in determining the growth of SMEs in Namibia. On a regional level, other studies may also consider using the gravity model to analyse the age, location, and Ease of doing business for SMEs. This will add to the body of knowledge on how Africa can develop its SMEs in alignment with the Agenda 2063.

6. CONCLUSION

This study offers insights into the interplay between business age and location in shaping the growth trajectories in Namibia. The quantitative, descriptive-analytical approach adopted allowed for the assessment of the dynamic factors influencing SME performance in Namibia as an emerging market. The findings underscore that most SMEs in the sampled regions are in the early stages of development. The prevalence of budding businesses implies that limited operational experience and resource accumulation may constrain rapid expansion, necessitating adaptive and innovative management strategies to overcome these developmental challenges.

While a significant proportion of respondents did not perceive their geographic location as a critical barrier to growth, a substantial segment viewed it as a potential inhibiting factor. Notably, the study highlighted that favourable locational attributes, such as proximity to customers, safe neighbourhoods, and advantageous lease conditions, play a crucial role in enhancing operational efficiency and competitive positioning. Conversely, proximity to suppliers and competitors emerged as a complex factor, reflecting the multifaceted nature of location as both an operational asset and potential constraint. The results of this study affirm that both business age and location have substantial implications for SME growth. The early developmental stage of many SMEs underscores the need for targeted policy interventions that bolster resource allocation and capacity-building. Whilst the youthful nature of many enterprises may present inherent growth challenges, the strategic exploitation of favourable locational factors can serve as a catalyst for enhanced performance.

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