

# Chapter 1

## Small Business

### ABSTRACT

*Small businesses are quite unique in many ways. They make a major contribution to employment specifically and the economy in general. Decision making at all levels is affected by resource limitations. Many of the aspects of failure or success of the small business relate to management issues. When a small business is formed it may grow quickly. If they do not fail the growth may lessen. While this growth may be regarded as a success, longevity and the consequent multi-generation existence may also be a consideration for an interpretation of success. This chapter covers the gamut of small business perspectives.*

### INTRODUCTION

This chapter presents a description of generic small business from a number of different perspectives. To begin, a definition for the term “small business” is discussed. There are many varied definitions used by government agencies and researchers. Thus, a contingency approach is usually taken with the investigator providing the adopted definition.

Next the importance of small business to a nation’s economy is presented. The small business sector consists of a large proportion of overall employment and contributes a significant amount the national Gross Domestic Product (GDP).

Small business is not a small big business. Thus, small business managers take a different approach to making decisions than managers in large corporations. Mainly small business managers’ decisions are affected by limited resources and the liabilities created by these limitations.

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Many perspectives may be taken regarding what constitutes a small business. At a senior level there are alternative structures which facilitate policy decision making. At an operational level decisions are made relative to the resource limitations, experienced by all small business, concerning skills, time, and finances.

Small business will tend to focus on a small customer base because of the number which can be served. This approach entails risk regarding the loss of a few customers or a general down turn in the market.

Many small businesses must deal with the dynamics created by family member's involvement in the business. Initially family members may be employees. However, they may grow to become owners and decision makers, especially the children of the founding entrepreneur. Another issue revolves around participation versus non-participating family members.

There are intangible resources, such as culture and reputation that will contribute to the performance of a small business. Also, knowledge and skills of employees and managers; as well as the ability to pursue personal relationships both internally and externally will facilitate performance and contribute to competitive advantage.

Unfortunately, small businesses fail. The main contributing factor relates to poor management and the soft skills involved in dealing with employees and customers. Successful small businesses will initially make a profit. Then, the small business may grow. Although growth tends to lessen as the small business matures. A small business may be considered successful without growth if this is the objective of the small business manager. Another perspective of success is longevity, evidence of which is shown in multi-generation small business.

A major issue for small business is succession. The small business may be passed on from one generation to the next within the family or the business may be sold and continue under new management. A positive result for succession requires the current owner/manager to make a decision about their eventual cessation of involvement.

This chapter is organized as follows. The next section presents various definitions for small business. The importance of small business is related to employment and contribution to the economy. Then small business is differentiated from large companies. Various perspectives on policy and operational decision making are outlined. Then aspects which contribute to small business failure and success are compared. Issues regarding growth suggest this is a possible measure of success. But, so is longevity which leads to the final section of the chapter about succession.

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