

## Chapter 8

# Entrepreneurs' Contributions to Small Business: A Comparison of Success and Failure

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### ABSTRACT

*This chapter compares success factors and failure factors of small businesses. In an attempt to determine the relative importance of these factors, the two sets are compared. Thus, each failure factor is related to a corresponding success factor. A discussion of the aspects related to small business success and failure sets the context for the comparison. The relatively more important success factor involves aspects related to administration. Unfortunately, this is the one aspect that most small business owners/managers either lack the skills to perform or the time to allocate to this function. Within the administration, function leadership emerged as a relatively important skill contributing to small business success.*

### INTRODUCTION

Small business contributes a significant portion of the national Gross Domestic Product (GDP) of many economies. For instance, in Canada small businesses contribute a total of 29% toward GDP and in the United States the contribution is 30%. Furthermore, small business employs a large percentage of the total workforce as shown in Table 1.

In general, few small businesses survive for very long. Zontanos and Anderson (2004) reported that over two thirds of small businesses close within the decade they open. More specifically, Industry Canada (2010) reported that 30% of

small businesses fail within one year and up to 75% after nine years. In the United States (Small Business Administration, 2010) a full 33% of start-ups have failed by the end of the second year and 50% have failed after four years. Additionally, very few small businesses exist for a long time as the attrition rate is quite high. According to Cater et al (2006), only 30% of small businesses are passed to the second generation with only 12% being passed to the third. Further, only 4% survive to the fourth generation.

This chapter investigates those aspects of small business which contribute to both success and failure. To provide some context, the next section

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*Table 1. Percentage employment of total workforce*

Country	Percentage Employment of Total Workforce	Source
Canada	48	Industry Canada (2010)
United Kingdom	47	Department for Business Innovation and Skills (2013)
United States	50	Michma and Bednarz (2006)

reviews the concepts related to small business and entrepreneurs. Then, success and the requisite characteristics are presented. As a comparison to success, issues related to small business failure are reviewed. Each of the success and failure discussions is concluded with reference to a set of specific contributing factors. A subsequent section maps these two competing sets of factors to form an analysis from which an emphasis is proposed for the owner/manager upon which to focus in an attempt to create an environment of success for the small business. While the emphasis of this chapter is on research conducted in a Western cultural context, some brief general comments are included relating to other cultural influences.

## **SMALL BUSINESS DEFINED**

Some decades ago, an interesting definition of a small business was developed by the Wiltshire Committee. A small business is, "...a business in which one or two persons are required to make all the critical management decisions." (Wiltshire Committee, 1971:7).

There currently exist many different definitions of "small business". While some measures such as total assets or annual sales or revenue may be considered, they tend not to be employed because they are difficult or impossible to determine. Many small businesses are privately held and

are not required to report such statistics. Indeed, research shows that small business managers tend not to rely upon these statistics even when they are available (Halabi et al, 2010). Therefore, most research investigations and many government agencies employ the number of employees as a way to define small business (Longnecker et al, 1997). This statistic is readily available because of the income tax remittance requirement of payroll systems.

However, there are inconsistencies in how this statistic (number of employees) is operationalized to define small business. In Canada, the number is 100 employees for goods producing firms and 50 employees for service firms (Industry Canada, 2010). Firms employing between 101 and 499 persons are considered medium. In the United States, a small independent business is defined as having fewer than 500 employees (Michma & Bednarz, 2006). There does not seem to be a differentiation made based upon sector as in Canada. Perhaps the most specific definition of small business is provided by the European Parliament (2002). They define micro businesses as having 0 – 10 employees. Small businesses include up to 50 employees, and medium-sized businesses have up to 250 employees. Because of these inconsistencies, researchers tend to take a contingency approach to defining small business based upon number of employees for each research project. While these definitions vary, investigators usually follow relatively closely their adapted version of one of the above categories.

## **SMALL BUSINESSES VERSUS LARGE COMPANIES**

It is important to note that, "... a small business is not a little big business ..." (Welsh & White, 1981). Managers of small business adopt a perspective and make decisions which are different from those made by administrators of large companies.

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