工商管理精要系列·影印版

小企业管理

Small Business

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Small business today

Recent years have seen a major resurgence of small business throughout the developed world. Even in Eastern Europe and the Soviet Union, such skills are now greatly prized.

In most developed economies anything from 6 to 15% of the working population are small business men and women. This, for example, translates into about 3.4 million people in the United Kingdom, out of a working population of around 27 million. Over half of all the people in commercial and industrial employment in the United Kingdom work in a small business.

In Italy 90% of all industrial firms are small businesses and absorb 84% of total employment. In Denmark 92% of all manufacturing firms are small businesses employing 43% of the work-force.

But throughout history small business has received only modest attention. Few historians have bothered to record its contributions to society, even though the first known piece of writing appeared more than 4,000 years ago. It described how bankers loaned money at interest. [1] Since then, small business people have been the innovative backbone of most economies providing products and services to benefit the consumer.

Small business flourished in almost all ancient cultures. The Arabs, Babylonians, Egyptians, Jews, Greeks, Phoenicians and Romans contained a substantial population of small businesses. Their products and services, however, were often of poor quality. Consumers often were cheated and defrauded. The result was that small businesses became objects of contempt.

To protect consumers from unscrupulous small business proprietors Hammurabi, King of Babylon drafted a code of 300 laws.

Carved on marble columns 8 feet high, the original code now resides at the Louvre Museum in Paris, though much of it has been erased by time. Two of Hammurabi's laws follow:

> If outlaws hatch a conspiracy in the house of a wineseller and she does not arrest them and bring them to the palace, that wineseller shall be put to death.
>
> If a builder has built a house for a man and does not make his work perfect; and the house which he has built has fallen down and so caused the death of the householders, that builder shall be put to death. [2]

So even 4,000 years ago it was considered necessary to protect consumers from business and business from the consumers. It is also interesting to note that the first law deals with business women and their social responsibilities towards government.

Despite many successes, small business history, until recent years, has never excited the public at large. Greek and Roman historians virtually ignored small business. In their view, ideas and military deeds were the stuff of history. Yet it was largely through small business that civilization was spread throughout the known world. Small businesses transported such things as Babylonian astronomy and Greek philosophy, the Jewish calendar and Roman Law.

In the centuries that followed most religions held small business people in low esteem. The church branded retailers as sinners because they did nothing to improve a product, but charged a higher price. And, until the nineteenth century, the church often spoke against the practice of charging interest on loans.

Although now held in higher esteem than ever before, small business remains overshadowed by professions such as medicine and law. As one business historian points out:

> Physicians are now wrapped in such dignity that the public forgets how recently they occupied the status of barbers. Lawyers have climbed from the solicitor–family relation to a solemn eminence. Not so the businessman; he still struggles on, unfathered and unhallowed. He is his own ancestor, and usually, his memory does not reach back even to the last business crisis.[3]

Definitions of small business, using size

Small business defies easy definition. Typically, we apply the term *small business* to so-called one-man bands such as neighbourhood shops and restaurants, and we apply the term *big business* to such giants as IBM, General Motors, Shell and ICI. But between these two extremes fall businesses that may be looked upon as big or small, depending on the yardstick and cut-off point used to measure size.

The Small Business Administration (SBA), founded by the US Government in 1953 for the purpose of providing intermediate to long-term financing for small businesses which could not obtain money on reasonable terms elsewhere, has a definition of a small business which embraces almost 99% of full-time businesses (see Table 1.1).

The SBA goes to great lengths by even defining smallness differently by industry sector, within each main business category (see Table 1.2).

Those definitions are by no means hard and fast, and they can be relaxed in exceptional cases. In 1966, for example, the SBA classified American Motors as small to enable the company to bid on certain government contracts. At the time, American Motors ranked as the nation's sixty-third largest manufacturer, with 32,000 employees and sales revenue of $991 million. The SBA justified its judgement by applying a seldom-used test of smallness – namely, that a business qualifies as small if it does not dominate its industry. American Motors easily met that test.

Many of the SBA's definitions really cover medium-sized businesses. For example, a manufacturer employing 1,000 people probably has sales revenue in excess of $50 million a year. Few people would really view such a business as small.

In the United Kingdom a committee was set up in July 1969 under the chairmanship of J. E. Bolton [4] to consider the state of small firms in the national economy, the facilities available to them, and to make recommendations.

Small firms were at that stage defined as those with less than 200 employees. The committee found this definition somewhat unhelpful and added some views of their own. They felt that the firm should have a relatively small share of its market, it should be run by its owner and should be independent and not the subsidiary of a larger firm. The quantitative limits were set at 200 employees in

Table 1.1 Small US business as defined by the SBA

Category	Sales ($ million)	Employment
Retail	2–8	
Wholesale	9.5–22	
Construction	1.0–9.5	
Manufacturing		0–1500
Agriculture	1.0	

Table 1.2 SBA standards of smallness for selected industries

Manufacturers	**Employing fewer than**
Aircraft	1,500 persons
Calculating machines	1,000
Household vacuum cleaners	750
Men's and boys' clothes	500
Macaroni and spaghetti	250
Retailers	**Earning sales of less than**
Mail order houses	$7.5 million a year
Grocery stores	7.5
Automobile agencies	6.5
Variety stores	3.0
Radio and television stores	2.5
Wholesalers	**Earning sales of less than**
Paints and varnishes	$22.0 million a year
Tyres and tubes	22.0
Groceries	14.5
Sporting goods	14.5

Source: 'SBA Rules and Regulations', *The Code of Federal Regulation* (Washington, D.C.: US Government Printing Office, 5 October 1978), section 121, 3–10.

manufacturing firms, an annual turnover of £50,000 per annum (1970 prices) in retailing and 25 employees in construction.

Two other studies in the United Kingdom, under the chairmanship of Sir Harold Wilson [5] and Harold Macmillan, [6] saw small firms as differing from large firms mainly in the way in which they were financed. For example, the small firm is more reliant on bank finance and the use of trade creditors. Small, and for that matter medium-sized, firms were characterized by their inability to raise risk capital from the public, depending instead on the owner's stake and loans from directors.

In France the usual translation of small business yields the phrase, *petite et moyenne enterprise* (small- and medium-sized enterprise), abbreviated as PME. However, this term excludes those companies with less than ten employees, representing over 90% of all businesses and employing about one-sixth of the total work-force. These very small businesses predominate in *artisanat* (crafts), non-food retailing, the hotel and restaurant trade and automobile repairs and distribution.

In France, as in most countries, there is no single official definition of 'small business'. However, numerous quantitative definitions are used in taxation, industrial relations and government incentives. The most widely used (and widely criticized) definition is based on employment:

- Less than 10 employees: *artisanat* and very small enterprises.
- 10 to 40 employees: small enterprises.
- 50 to 500 employees: medium-sized enterprises.
- Over 500 employees: large enterprises.

It should be noted that the term 'employees' only includes salaried employment and thus generally excludes the owner-manager and his immediate family members. Over half of the businesses in France have no salaried employees.

In France the threshold of 50 employees has long been important, since this is the level at which a works committee becomes obligatory. Many owner-managers, concerned that this committee could limit their authority and independence, are known to have created new businesses in parallel rather than cross this threshold. The lowering of the thresholds in recent years has altered the significance of the 50-employee barrier. The term PMI (*petites et moyennes enterprises industrielles*) covers those PMEs engaged in industrial activities – this does not include building and civil works. Below 10 employees, a distinction is drawn between the *artisanat,* and other very small businesses.

Certain financial incentives are available to individuals and companies who are registered with the Chambres des Métiers (Craft Chambers), registration being restricted to businesses with less than ten employees (not counting certain family members and apprentices) and carrying on specified crafts.

These crafts essentially require the direct involvement of the owner of the business in the production, and include such activities as baking, butchery, plumbing, building and carpentry. The owner may also be a qualified craftsman or master craftsman, but this is not required for registration.

Turnover figures are principally used for fiscal purposes. If sales are below 1.8 million French francs (FFr) certain simplified income tax returns may be applicable.

Smaller countries such as Denmark and Eire have definitions that more appropriately narrow their size. In Denmark, for example, a small business is one with under 49 employees, a medium one has 50–199 employees and a large business employs over 200 people. Denmark only has 400 firms that meet the large business (LB) definition; if it adopted the American definition they would have virtually no large businesses. Figure 1.1 and Table 1.3 although only covering the United Kingdom and the United States, give a good example of business in developed countries.

Organizational definitions of small business

Someone once defined a small business as one where the person running the business thought it was small. There is a considerable element of truth in this view.

The American organization researcher, L. E. Greiner, [7] identified five distinctive phases in a company's growth pattern, and provided an insight into the changes in organizational structure, strategy and behaviour that need to be achieved if they are to move on to the next phase and so become a larger business (see Figure 1.2). By implication his research revealed that most firms never learn the lessons, or at any rate not in time. At best they bounce up and down against the frontiers of the phase they are in. At worst they fail and flounder.

Phase 1: growth through creativity

Any business starting up does so because somebody has a good idea about providing a product or service for which they believe there is good demand. If the idea is successful then the business can grow or evolve with equal success. The founder of the company is at the

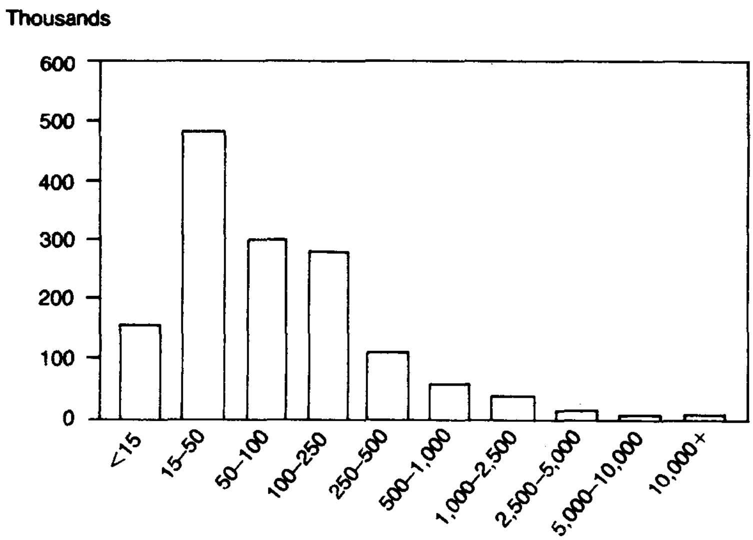

Figure 1.1 Number of VAT-registered businesses by turnover size (Source: *Employment Gazette*, November 1990)

Table 1.3 Percentage of small business in the United States

Percentage of businesses	Number of employees fewer than
88.9%	10 persons
94.7	20
99.2	100
99.9	500

Source: US Department of Commerce, *Enterprise Statistics*.

heart of everything. Assuming the business has been successful and shows steady growth – a description which fits only between 60 and 70% of start-ups, the rest have already failed by this stage – there comes a time when the person who started the business with their creative ideas and personal, informal style of operation can no longer cope effectively. The person who provided all the drive, all the ideas and made all the decisions becomes overloaded with administrative detail and operational problems. Unless the founder

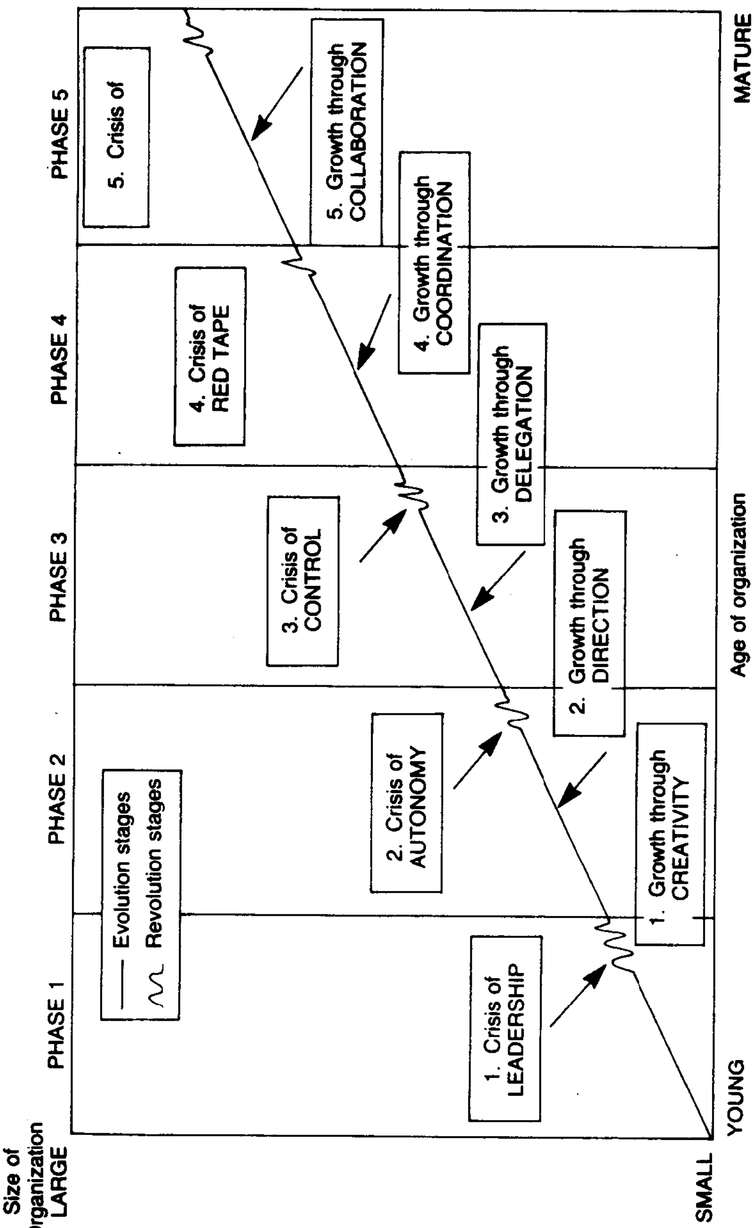

Figure 1.2 Organizational phases of growth: the five phases of growth (Source: L. E. Greiner, *Harvard Business Review*, July/August 1972)

can change the organizational structure of their firm and put in place a management team, any further growth will leave the business as vulnerable as it was before. It will be incapable of becoming a substantial firm with a life independent from that of its founder. A cycle of one step forward and two steps back will probably begin, or else a gentle decline will set in. The end of this first growth phase, which can take anything from a few years to decades in extreme cases, is signalled by a 'crisis' of *leadership*. (Crisis, incidentally, derives from the Chinese and translates literally as, 'dangerous opportunity'.)

Table 1.4 provides some idea exactly how dangerous this opportunity is, as over 50% of businesses that fail do so in less than five years – a further 25% go in less than ten years.

Phase 2: growth through direction

A strong leader is required to pull the company through this crisis. He or she must be able to make tough decisions about priorities and provide clear, single-minded direction and the sense of purpose needed to move the business forward.

Ideas that the pioneer founder used to carry in his or her head now have to be formalized. Policies need to be evolved, teams built

Table 1.4 Ages of 61,209 businesses that failed in 1987

Age of business	All types combined	Manufacturing	Wholesale trade	Retail trade	Services
1 year or less	10.0%	7.8%	7.7%	12.0%	14.9%
2 years	12.4	13.0	12.5	15.9	12.7
3 years	11.4	11.3	11.3	13.7	11.2
4 years	9.4	9.9	9.5	10.1	8.9
5 years	7.5	7.0	8.4	7.6	7.8
Total 5 years or less	50.7	49.0	49.4	59.3	55.5
6–10 years	24.6	23.3	25.5	22.0	24.6
Over 10 years	24.7	27.7	25.1	18.7	19.9
Total	100.0	100.0	100.0	100.0	100.0

Source: Dunn and Bradstreet, 1988.

up and key people appointed with specific roles to play and objectives to achieve. The personal management style of the founder becomes secondary to making the business efficient. Sometimes the founder is no longer the right person to lead the organization through this phase and either through lack of management skills or temperament he or she may opt to give up or sell out.

Success at this stage of growth depends on finding, motivating and keeping key staff – no mean task. A Cranfield Study [8] concluded that over 80% of the proprietors of growing firms rated this a major problem, compared with around 50% who were most concerned about finding customers and only 25% who rated raising money or high interest rates as a top issue.

Eventually, as the company grows and matures, the directive 'top down' management style starts to become counterproductive. Others working in the organization acquire more expertise about their particular sphere of operations than the central 'director'; not surprisingly, they want a greater say on the strategy of the business. Such subordinates either struggle for power so that they can be heard, or become demotivated and leave. This is the crisis autonomy and if it is not recognized and managed, it will absorb so much energy and time that it will drag the company down. In the same study referred to earlier, three out of five of the growth companies surveyed reported the loss of key employees. Two-thirds of them experienced this loss within a year of making the appointment.

Proprietors usually give the reason for the loss of key employees as 'better pay elsewhere'. In this they are usually wrong. A MORI poll conducted in 1989 on 1,000 employees for the Industrial Society asked people to identify the five most important things they looked for in a job: 66% said having an interesting and enjoyable job; 52% said job security; 41% said feeling they had accomplished something worthwhile; 37% said basic pay; and 30% regarded the chance to learn new skills as being of prime importance.

Interestingly enough this study concluded that employers generally saw pay as the key factor in recruiting and retaining staff and only 11% thought job satisfaction was an important factor.

Phase 3: growth through delegation

The solution to the crisis of autonomy is to recognize that more responsibility has to be delegated to more people in the company. The trouble is that most founders hang on to too many jobs in their firms, mostly out of a belief that nobody else can do the job as well as them. The reasons for this argument are legion:

- It takes more time to explain the job than to do it myself.
- A mistake would be too costly.
- They lack the experience – and so on.

There is probably an element of truth in all of these reasons, but until you learn how to delegate decisions rather than simply to dump tasks, your organization will never reach full maturity.

Two problems arise at this stage. First, a number of the 'managers' appointed earlier on will simply not be up to the task of accepting the new responsibilities. Not all people who can take direction can take part in a bottom-up planning process that is dependent on high-quality inputs. So this means founders are back in the recruiting game. They could be wise at this stage to stop relying on personal contacts or direct-press advertising as the majority of small firms do, and go for executive search through a consultancy using sound selection techniques. They probably thought this too expensive at Phase I and possibly so at Phase II – but by now founders will have made enough mistakes in recruitment to know that it is a profession in its own right and requires the knowledge and skill they may not have. Furthermore, the indirect costs of getting the wrong people more than outweigh the cost of paying for an expert.

One owner-manager was a little startled, to say the least, when he discovered that doing the recruitment himself cost him over six times as much as using an agency. Table 1.5 shows the differences in business structure, systems, styles/people, and the relative strengths and weaknesses at each stage in a small firm's growth.

The second point to be aware of is that every solution creates new problems. For example, delegating decisions to give people a strong sense of involvement will eventually lead to control problems.

Finally, it is as well to remember that evolution and growth in business are not automatic. It is the Chief Executive's job to know when the time for strategic change has come and exactly what that strategy should be.

But even with good management teams in place further problems can occur. Once managers that can be delegated to are in operation they will make their own decisions, as well as the decisions delegated to them. In time, the organization will become increasing-

Table 1.5 The stages of growth

	Phase 1 Creativity	Phase 2 Direction	Phase 3 Delegation	Phase 4 Coordination	Phase 5 Collaboration
Structure	Informal	Functional Centralized Hierarchical Top-down	Decentralized Bottom-up	Staff functions Introduced SBUs Decentralized Units merged into product groups	Matrix-type structure
Systems	Immediate response to customer feedback	Standards Cost centres Budget Salary systems	Profit centres Bonuses Management by exception	Formal planning procedures Investment centres Tight expenditure controls	Simplified and integrated information systems
Styles/people	Individualistic Creative Entrepreneurial ownership	Strongly directive Impersonal	Full delegation and autonomy	Watchdog	Team-oriented Inter-personal Skills at a premium Innovative Educational bias
Strengths	Fun Market response	Efficient	High management motivation	More efficient allocation of corporate and local resources	Greater spontaneity Flexible and behavioural approach
Crisis point	*Crisis of leadership	*Crisis of autonomy	*Crisis of control	*Crisis of red tape	*?
Weaknesses	Founder often temperamentally unsuited to managing Boss overloaded	Unsuited diversity Cumbersome hierarchy Doesn't grow People	Top managers lose control as freedom breeds parochial attitudes	Bureaucratic divisions between line/staff, headquarters / field, etc.	Psychological saturation

ly fragmented and uncoordinated. This often becomes apparent in fairly dramatic ways, such as loss of profits, margin erosion, unplanned development and the lack of an overall strategy that everyone can be committed to. Another crisis looms. The crisis of control.

Phase 4: growth through coordination

During this phase the crisis of control is overcome by achieving the best of both the delegation and the direction phases. Decision-making (and power) is still delegated, but in a systematic and regulated way. Accountability becomes a byword for the first time. At this point the organization begins to put in place strategic planning of some sort, to combine bottom-up and top-down planning methods. Systems and policies are developed to regulate the behaviour of managers at all levels. Communication is vital and a corporate culture takes shape, giving 'new boys' a feel for the way things are done in the company.

This growth phase usually ends in the crisis of red tape, where the clutter of rules and regulations that bind it results in missed opportunities. Bureaucracy rules and development and initiative are stifled. This crisis can be overcome, or even circumvented by introducing innovative, non-bureaucratic planning procedures, or by subdividing the business into management units with their own separate missions and management. This is fine as long as founders don't return these units back to a Phase I-type growth in a desperate bid to release creativity.

Phase 5: growth through collaboration

The way to circumvent red tape is to inculcate an attitude of collaboration throughout the organization. This calls for simplified and integrated information systems and an emphasis on team-oriented activity.

Many successful Japanese and European firms now organize their work-forces into teams, where there used to be production lines. Volvo, for example, has a team responsible for making and assembling the whole of one car. This has the effect of making a group of people responsible for the whole of one major portion of a task, rather than having individuals responsible for small and sometimes rather meaningless parts of the process. In this way people can be encouraged to generate solutions rather than just pass problems on down the line.

A further emphasis at this stage of growth is on management education and personal development. This activity is viewed as a luxury in a new venture, and as a good investment in a mature venture.

Most small businesses will lie somewhere between crisis of leadership and the fourth stage of growth, using Greiner's model. It is useful for founders to keep some points in mind as they steer a course through these troubled and largely uncharted waters.

First, tempting though it will be, don't try to skip phases out of impatience. Each phase results in certain strengths and learning experiences that are essential for success in subsequent phases. When one owner-manager was introduced to this way of looking at growth, the scales fell from his eyes. He had tried to delegate authority and involve his key managers in developing strategy