ICSIM

Entrepreneurship and SME’s Organizational Structure. Elements of a Successful Business.

Apostolos D. Zaridis*, Dimosthenis T. Mousiolis

Department of Business Administration, Univ. of the Aegean, Michalon 8, Chios 82100, Greece

Abstract

Theories developed about Entrepreneur and SME highlight the important role of certain factors like business size, market share, management and ownership, data relating to the survival and competitiveness of sme, potential fundraising, sales, profitability and liquidity, lack of skilled personnel in the industry, distribution channels data and market information, barriers to entry in certain markets, changes taking place in markets, birth of niche markets, operation in a niche, closed or protected local or regional market, data on acquisition of a business, use of innovation or new technologies, organizational structure, customers, suppliers, creditors and relationship with public institutions and policies, lack of confidence in external consultants, resources control, networking and clustering. Factors affecting business size of sme, such as characteristics of entrepreneur, characteristics of enterprise, management strategies, and external environment’s influence, constitute elements of a successful or non-successful business.

© 2014 Elsevier Ltd. This is an open access article under the CC BY-NC-ND license (http://creativecommons.org/licenses/by-nc-nd/3.0/).

Selection and peer-review under responsibility of the 2nd International Conference on Strategic Innovative Marketing.

Keywords: Entrepreneur; SME; Organizational Structure; Entrepreneurship; Business Size.

1. Introduction

Internationally, there are many different definitions for smes. This fact makes difficult to compare smes between different countries, particularly when the benchmark is not the number of employees, but the economics of business - annual turnover and total assets. Transnational studies, however, prefer the number of persons employed as size comparison and delineation of smes (Carter & Jones-Evans, 2006). There is difficulty in collecting financial data

* Corresponding author. Tel.: +302651042152.
E-mail address: a.zaridis@ba.aegean.gr
from companies, mainly due to voluntary aversion of entrepreneurs to the assignment in question, and is compounded in SMEs due to the absence or ignorance of these.

2. Definitions

The existence of diversity of economic entities requires a classification of these various categories. The distinction of these can be done based on a number of criteria. One of these is business size. Thus, economic units are divided into small, medium and large. This discrimination is performed under separate criteria such as number of employees, turnover, invested capital (equity), installed power (Bourandas & Papalexandri, 1998), market share, if managed and owned by an independent and personal way (Murphy, 1996), etc. Small and medium-sized entities, based on size, were termed SMEs. Economic theory has pointed, until early 70’s, the advantages of large enterprises and especially the economies of scale that come from large-scale production and thus promoted the survival and competitiveness of an enterprise. However, technological and economic progress turned attention into new flexible production systems and set forth smaller in size businesses. Today, one realizes the prevalence of three criteria that define and delimit the modern concept of an sme. These are number of employees, annual turnover, and amount of total assets of the annual balance sheet. Within E.U. countries, the criterion of number of employees is mandatory for inclusion of a business in the category of sme, while business have to satisfy only one of the next two criteria. That tries to imply justice with regard to the delimitation of the sme since businesses come from different areas and sectors of the economy. For example, in distribution and trade enterprises was observed higher annual turnovers than those in manufacturing industry. Each criterion mentioned above, such as number of employees, turnover, invested capital (equity), total assets, installed capacity, market share, management and ownership, etc. has advantages and disadvantages in trying bounding the undertakings forming groups of smes (micro, small, medium).

3. Business Success or Failure Factors in SMEs

Smes internationally are a remarkable size because of their large number, but mainly because of their contribution to employment. Nevertheless, role of smes in economy is often underestimated because of image formed for them to have a reduced role in economic activities, in relation to large business, especially multinationals, but also difficulty in estimating their number (Curran & Blackburn, 2001). Some common characteristics of sme - not exclusive, nor definition – are that owned by an individual or a small group of people exercising managerial role and financing business since it is usually difficult raising funds. Also, smes are labour intensive, have inadequate distribution networks and market information, shortage of skilled labour, and their R&D depts. do not exist or have limited role. They may be established and easily enter the market but high infant mortality in businesses is presented (Bourandas & Papalexandri, 1998).

Creation factors of an sme are related in economic, social and psychological parameters. The differences between successful and unsuccessful smes are few (Lussier & Corman, 1995). International literature identified specific factors they lead smes to actual failure or success. Of course, different authors contribute in many ways to specific literature, since different factors were identified, maybe conflicting, but ultimately there is no definitive cataloging, which is rather natural if we take into consideration the complexity of smes. Main factors mentioned in international literature are as follows (Lussier & Corman, 1995):

- Capital. Smes beginning their life underinvested have increased chances of failure compared to those with sufficient investment. But in many countries, fundraising for smes remains a major problem in primary and secondary sector (Zaridis, 2006).
- Record keeping and financial control. Increased chances of failure for smes do not do so.
- Industrial experience. Smes, managed by persons possess it, have more chances of success.
- Managerial experience. As above.
- Planning. Small or medium-sized businesses that do not have developed a specialized business plan face many chances of failure.
- Professional advice. Smes using it face higher chances of success.
- Educational level. Entrepreneurs that received university level education have higher chances of success.
• Personnel. Smes, which attract and retain quality staff, have greater chances of success.
• Election of appropriate time to provide products or services. Smes providing very young or old products / services increase chances of failure.
• Economic circumstances. Smes starting in economic recession are more likely to fail than others starting in economic prosperity.
• Age. Younger entrepreneurs have a greater chance of failure.
• Partners. Businesses established by two or more people are more likely to succeed than those by one.
• Parents. Entrepreneurs whose parents were business owners face decreased chances of failure than those whose parents did not own a sme.
• Minorities. Greater chance of failure for these entrepreneurs.
• Marketing. Smes owners having marketing skills have a greater chance of success.

But we should consider the diverse conditions and markets in which research is done and the contexts. Therefore, we think that we should expect variations in research results from both the context of the markets, as well as the type, industry, sector of the economy. Helpful for this respect seems to appear the research of Lussier & Corman (1995) that examined 216 pairs of businesses and discovered only two (professional advice and parents) of the above factors to be statistically significant. Instead, two factors (educational level and personnel) contradict the belief formed by the literature. Perhaps, business size is another factor that separates successful from unsuccessful smes, and it is supported that it is difficult to be made a valid and reliable list of relevant variables even within a particular industry (Lussier & Corman, 1995). It is recommended (Lussier & Corman, 1995; Robinson & Pearce, 1984; Cochran, 1981) that it is very important for research studies for smes to focus on a single industry.

In literature, it is mentioned that the ease of sme's creation - easy entry, freedom of opportunity, and freedom of decision making - and lack of managerial skills - skills and knowledge to manage smes - generated by the increase of business size are causes for sme's failure (Zaridis, 2012).

The mortality rate of smes is a function of the ease or difficulty of overcoming the obstacles encountered, some of which are found in the areas of competition, technology, markets (saturated or not, market knowledge, market dispersion or not), production capacity (excess or full), product range, level of entrepreneurs’ skills and product quality assurance (Murphy, 1996).

The end of business life certainly has implications in the specific (micro) and the general (macro) external environment, as well as internally, since affects directly or indirectly the owners, employees, customers, suppliers, creditors, but also the government itself.

When barriers to entry are low for smes then the survival rate is also low, while higher chances of survival exist when entry barriers are high (Murphy, 1996). Low barriers to entry are related to factors such as rapid assets circulation, low skill level of the workforce, existence of protection in specialized areas, rapid market growth, slow technological change, low-level total investment and technological inputs, while high barriers to entry have relation in factors such as large amount of total investment, inaccessible technology and specialized skills, high investments in research and development and slow assets circulation, absolute cost advantages in market, excess production capacity and capital intensity, markets specifically regulated, and finally, forced exit (Murphy, 1996).

A young businessman, besides the desire and perhaps a certain amount of capital, has no knowledge of prudent business planning, which is leading to the presence of high sme mortality, as posted in Greece, where in West Athens, e.g. in 1994 there were 10,597 enterprises, and in 1997 had left only 8,610, that is a fall of 18.8% (Lambropoulos, 2005).

Diversified customer base and slow growth in business size in order to be supported by adequate funding are also factors that can lead to success or at least to prevent the failure of a sme (Lussier, 1996).

One of the common smes characteristics internationally is the lack of available time for planning, business organizing, even arranging entrepreneur’s ideas and thoughts about optimizing business functions, while entrepreneur usually has the impression that sme has no need for reform or he could achieve it himself, without outside help, just with difficulty due to the limited time and his preoccupation with business matters, and shows no confidence in external consultants and the so-called 'scientific management' (Pappis, 1996).

Success or failure factors may depend on the phases of sme’s lifecycle and there are indications that job creation in each of the three classes of smes can vary in their lifecycle (Haltiwanger, 1999).

Small and medium-sized firms are basic contributors in the world economy and the leverage of knowledge is
critical for them, while innovation and new products development in some sectors, e.g. food sector, constitute for those smes efficient ways for obtaining competitive advantage in the market (Zaridis, 2009).

There is difficulty in smes scientific research, mainly due to the fact that this field presents crux to be investigated, although it seemed easier to look at a small rather than a large enterprise because of factors such as smaller personnel number, simpler organizational structure and perhaps greater transparency in relationships and transactions. However, small business does not mean simple, nor small is a miniature of the large (Curran & Blackburn, 2001).

Also, state intervention policies are subject of controversy since there is a dispute if smes’ state financing is beneficial for the economy or not. Some authors (Clay, Creigh-Tyte & Storey, 1996) argued that a proper government economic strategy is appropriate to exercise targeted policy in smes, which are likely to show significant levels of economic activity. Firstly, many entrepreneurs would turn anyway self-employment regardless of state intervention, which, secondarily, is ineffective in smes development.

Often, sme - or rather its owner - and entrepreneur are treated as related and neighbouring meanings, but many times and in many high frequency in smes there is co-ownership, as happened in one of our field researches (Zaridis, 2012). Besides, it has been challenged the model of 'lonely businessman' in sme as the unique model of it (Curran & Blackburn, 2001).

Besides that and many other similarities of entrepreneur and small business owner, it is considered that while most business efforts start by creating a sme, few are those who gain significant size - after start-up or growing rapidly - and therefore require increased administrative skills (Longenecker, Moore & Petty, 2003). Therefore, we see the aspect of growth that separates entrepreneur from sme owner. Thus, entrepreneur is one who discovers market needs and creates a business to meet them while he is a risk taker (Longenecker, Moore & Petty, 2003).

Other authors (Robinson & Pearce, 1984; Hosmer, Cooper & Vesper, 1977) adhere to the same aspect more or less. Also, it should be said that all efforts to start a new business are not necessarily "efforts of an entrepreneur", while an entrepreneurial firm may belong to any class of businesses - large, medium, small and micro - but focus on diachronic growth (Carland et al., 1984).

We think that the role of business size should be sought in the “entrepreneurial behaviour” of a sme, specifically in the sector of economy of the field research, since Storey (1994) considers that should probably exist specificities and thus diversity in the various sectors of smes.

However, it is accepted that small firms have a higher probability of failure than large ones (Murphy, 1996). Furthermore, specific factors affecting probability for a firm to fail identified (Storey, 1994b). These are business size, age, property, activity sector, former performance, personnel, geographical location, business type, macroeconomic environment, government funding (subsidies) and some other reasons.

It is commonplace for researchers that failure is closer in the early years of businesses and in particular immediately after their launch, with failure rates ranging between 50 and 80% in first five years of their life.

Business failure factors divided into two categories (Murphy, 1996): environmental factors and symptoms of management disability. Apart from environmental factors, there are three categories of failures mentioned: functional knowledge, managerial skills and managerial behaviour.

Factors affecting smes’ size such as characteristics of entrepreneur, characteristics of enterprise, management strategies, and external environment’s influence constitute elements of a successful or non-successful business (Carter & Jones-Evans, 2006). The latter, by some writers such as Storey (1994b), is not considered as a distinct factor, but seems to separate large firms from smes, concerning their ability to control these influences.

As business size increasing, it is harder for an organization to perform functions of control and supervision, while all measures will be taken by the owner in such a case of increase, such as tighter control on financial and administrative level, administrative levels, and standardised procedures, tend to transform entrepreneurial firm to bureaucratic one. This was known as “Entrepreneur’s Dilemma” (Deakins & Free, 2005). For this reason, in recent decades, involvement of smes in innovation networks (networking) or clusters (clustering) were promoted as a policy measure internationally. So, while smes manage to maintain their size and the advantages of it, they gain some prerogatives of large companies.

References

