JOURNAL OF TOURISM INTELLIGENCE AND SMARTNESS

Year (Yıl): 2018 Volume (Cilt): 1 Issue (Sayı): 1 Pages (Sayfa): 57/69

SMALL BUSINESS SURVIVAL AND GROWTH

Prof. Dr. Nedim YÜZBAŞIOĞLU
Akdeniz University, Tourism Management, Turkey
E-mail: nedimy@akdeniz.edu.tr

Article Info:

Received: *28-06-2018*
Revised: *28-07-2018*
Accepted: *02-08-2018*

Keywords:
Small Business
Survival
Growth
Performance

Abstract

This paper examines the theme of small business growth in detail by investigating the types of growth which may be found in small firms. A review of the literature examines the factors which are most important in determining small business survival, growth and performance relations. Such information is clearly important for three particular reasons. Firstly, it may give an opportunity to diagnose any early indicators of economic problems of health in small and medium sized business sectors. In turn, any such study may contribute to the creation of a more healthy economic development climate (Birley, 1986). Secondly, it would allow an evaluation of how effective current initiatives are in their aim of helping small business growth. Thirdly, it may be argued that if the causal factors resulting in the successful growth of companies are known, it could assist in those beneficial characteristics which contribute to the growth process being identified.

1. INTRODUCTION

Businesses with these attributes could then be selected for special assistance. This should produce a more effective use of the resources aimed at promoting small businesses because firms thus selected would be much more likely to grow than the usual cross-section of companies which most agencies usually support. Fourthly, it could be the source of generation of relevant and effective training modules instead of, again, the current practice of providing training courses that are aimed at small business entrepreneurs in general.

Much of the current interest in the small business sector is stimulated by a belief that if the growth of individual small businesses can be encouraged widely enough throughout an economy, it will provide a source of economic regeneration and employment. Growth is the source of organisational vitality-and survival. Nothing else - not even a comfortable status quo - seems to bring contentment (Lief and Kilkeary, 1991) It may thus be argued that small firms make three major contributions to economic growth.

Year (Yıl): 2018 Volume (Cilt): 1 Issue (Sayı): 1 Pages (Sayfa): 57/69

- Firstly, an increase in the number of small firms increases employment potential.
- Secondly, some small firms may assist the rate of growth by advancing the pace of innovation, increasing the utilisation of capital and tackling projects with higher risk.
- Thirdly, some small companies contribute to growth directly by growing into medium and large companies (Chowdhury and Lang, 1996).

Small businesses are therefore an essential element in any nation's economic engine, particularly in terms of job generation and employment creation. Small firms tend to generate a disproportionately high number of new jobs and important innovations. Birley (1986) pointed out the importance of small and medium sized firms when she wrote:

> *...the small firm has enjoyed much public prominence; it has been seen as a hope for the future, the source of new jobs new wealth, new products and services. Indeed, a healthy small firms sector is seen by many as a prerequisite for economic growth* (Birley, 1986).

As a consequence, small and medium sized firms may be major contributors to reducing the levels of unemployment. This is particularly apparent in newly developing organisations, which need minimum skills or technological development. The health of these sectors is therefore very significant for the overall economic growth potential and future strength of an economy.

In practice it is, and will be, only a small fraction of the total number of the small businesses that actually generate growth. Some firms will remain small for years, while other small firms will grow into medium-sized or even large organisations in a relatively short period (Jenkins, 1993).

As a result, rather than the current blanket approach towards all small business, method of identifying those businesses which have the potential to succeed would allow them to be the focus of support and could be of major significance.

If it were possible to identify potentially successful start-ups then it would enable governments to focus support resources for start-ups with a more effective return on that investment. It would, therefore, appear to be imperative that governments should try to identify growing businesses, to specifically identify whether they are:

- intending to continue to expand;
- facing constraints or risks associated with growth;

Year (Yıl): 2018 Volume (Cilt): 1 Issue (Sayı): 1 Pages (Sayfa): 57/69

Intending to work with the Government and government offices such as Training Enterprise Councils (TECs), in identifying managerial solutions to these difficulties (Chittenden and Robertson, 1993).

This perspective has encouraged a number of research studies that seek to explain why some firms grow whilst and others do not. While a number of characteristics have been identified, there still does not appear to be a clear explanation of the differences between the fast growth rates of some, and the non-growth rate of others in the early stages of their business life (Storey, Watson and Wynarczyk, 1992; Dunne and Hughes, 1992).

2. RELATIONSHIP BETWEEN GROWTH AND PERFORMANCE

Usually growth is considered to be synonymous with success, if it is accepted that the objectives of businesses is growth. A company is generally regarded as successful if it grows in levels of either production or employment, or expands in ways which may be related to the growth of business, such as the physical expansion of the buildings (Muftuoglu, 1993) . It is important, therefore, at this point, to introduce a range of definitions of growth and success. The SBA (1991) offered the following observation on the successful small business.

> *A successful business also creates new jobs and provides an important product or service to the community. In addition, many people who are interested in starting or expanding a business tend to have more ideas than money* (SBA, 1991).

According to Ziegler (1990) an expanding business offers the potential for numerous growth opportunities.

> *Employees benefit from business growth through increased earnings and promotions. Customers benefit from expanded products and services. Owners benefit through increased profit potential. Society benefits through the new jobs created* (Ziegler, 1990).

The above quotation illustrates the process by which small businesses may help the economic development of country when they are able to grow. It may, therefore, be argued that growing businesses may well also be considered as successful.

As Ziegler (1990) and the SBA (1991) have pointed out, managing growth, although intrinsically rewarding, depends on the managerial skills and financial resources of the owner-manager. The following guidelines of the Ziegler (1990) illustrate that there is a relationship between management skills and business growth.

- *Growth should be attempted only in businesses which are already profitable.*
- *The existing debt position of the business must be balanced with equity, or additional equity must be obtained to balance future debt.*
- *Management skills abilities must be balanced with the increased demands on management in a growing business* (Ziegler, 1990).

The business should be profitable for several years before initiating a growth phase. From this standpoint profitability is seen as important to business growth because it makes it easier to obtain the finance needed to expand. In many cases, however, some businesses cannot take the time to accomplish consistent profitability before growth.

Growth is often used as an indicator of a successful small business. One of the main arguments in favour of this is made by Storey and Watson et. al. (1992) who state that growth includes others elements such as profitability, turnover and asset growth as well as employment. A growing firm should be profitable as that profitability reduces the likelihood of failure. Growing firms generate more funds internally and attract external financing. In addition, a growing firm will be in a better position to absorb any unexpected variations in the growth rate. In this latter respect, a growing firm can often use the advantages of becoming larger, such as specialisation and economies of scale.

There may, however, be times for a growing firm when it may not be able to provide the appropriate capital to finance its growth. Although a growing firm may be still be making a profit, it might find itself short of cash and become insolvent. The general assumption is, however, that a small business can overcome its smallness through rapid growth, greatly improving its profitability or long run success. Size also improves a firm's ability to defend itself against uninvited take over attempts (Boardman, Bartley and Ratlief, 1981).

Beckert and Walsh (1991) argued that predictors of good performance, particularly in the accommodation and catering based industries, are growth, expansion and advancement. There depended on service quality, management practices and good leadership characteristics; obviously factors of major importance behind the term growth. It may, therefore, be possible to support the argument that those businesses which achieve growth might already be profitable and successful. Thus profit, sales, return on investment and a variety of other monetary indicators are reliant upon the pricing, financial, operational, and personnel management policies of the business. Increases in production and output should be accompanied by an increase in the financial indicator of growth.

On the other hand, failure, marginal survival (minimal growth) are different performance outcomes. Entrepreneurship studies have typically used survival, or some measure of growth, as a performance indicator. Much of the new venture literature implicitly assumes that survival, success and growth reflect the same underlying process (Cooper, Gascon and Woo, 1991). One possible result of this may be that the identification of those factors that affect business failure and success can also be considered as responsible for business growth and the performance of the business. Boardman, Bartley and Ratlief., (1981) defined the growing small firm as:

> *A growing small firm is generally characterized as one which increases its leverage, decreases its liquidity and incurs a heavy investment in operational assets. Interestingly, it is also shown that these same characteristics, if taken to extremes, are typical of the failed companies in the sample. The reward of growth is success; the risk of growth is failure* (Boardman et. al., 1981).

The above quotation indicates that the same characteristics of a growing firm, if in appropriately applied, can become the characteristics of a failing firm.

Barret, Collenutt, Glynn, Jatfer, Jones and Ridyard (1990) identified some of the characteristics of growth-oriented small firms in their research sample, and sought to assess the prospects for each of the firms.

> *(1) Good Growth: Those firms expected to show good profits and prospects for growth.*
>
> *(2) Respectable firms: Those firms which demonstrated sound management practices and had expectations of profit, but saw themselves having limited prospects for substantial future growth.*
>
> *(3) Volatile firms: Those with extremely unpredictable prospects, with a significant chance both of failure and of success. Examples included those depending on the establishment of an un-proven product.*
>
> *(4) Struggling firms: Those with unclear management or other deficiencies and a significant chance of failure not counter balanced by a reasonable prospect of success.*
>
> *(5)Default firms: Those which had already defaulted on repayments at the time of the research* (Barret et. al., 1990).

According to the authors, volatile firms were identified as those positioned between the two extremes of the business spectrum, having equal chance for success or failure. Another point made in the research was that the main characteristics of struggling firms and default firms were seen as management deficiencies.

Year (Yıl): 2018 Volume (Cilt): 1 Issue (Sayı): 1 Pages (Sayfa): 57/69

Boardman et. al. (1981) went on to explain the causes for business failure and to identify the reasons for failure. They defined failure as a situation where available capital is insufficient to pay all the obligations of the business. This may have occurred because:

- the owner-manager may not have provided adequate capital to begin with;
- mismanagement of the financial resources that were available; and
- appropriate policies to finance subsequent growth were not determined.

The available literature indicates that factors related to the growth of small businesses can be equally related to success or failure: adequate capital leads to success but lack of adequate capital leads to failure.

3. FACTORS WHICH MAY AFFECT BUSINESS PERFORMANCE

Governments, economists, entrepreneurs, and managers have a variety of opinions as to why the survival rate of small businesses is so low (Curran, Kitching and Mills, 1993).

It may be argued that the individual's lack of knowledge about the business world in general, and about his/her business in particular, is the main cause of failure. It may also be suggested that the owner-manager may not have spent enough time in preparing for the business launch in order to get a clear picture of the criteria which relate to success. There is, however, no necessary correlation that time spent in the business or working hard will result in businesses success.

In this context, the quality of management is of major importance, qualities such as resourcefulness, self-discipline and expertise as identified by (Allen et. al., 1991). He also suggested that inadequate management competence often gives rise to financial problems for small businesses, leading ultimately to failure.

Management may be weak in respect of business judgement, computation of cost, estimation of the market and customer satisfaction. It may also be unable to cope with legal technicalities, government regulations and problems imposed by larger competitors. Other key factors may be the lack of experience of the entrepreneur in the major activities of the business, such as finance, purchasing, selling and production (Olufemi, 1985).

Pickle and Abrahamson (1981) indicated that owner-managers who may have been successful in one business venture may not necessarily be successful in another, simply because of a lack of relevant experience. Their research also showed that many owner-managers may become too single minded, or obsessional, about the business, having devoted most of their time to one area of management. Their findings indicated that lack of liquidity was another major cause of the small business failure rate.

Storey (1993) identified that the failure rate of small firms increased when interest rates were high and when output growth was low. Other factors which he felt were related to the potential success of the entrepreneur or owner-manager were those he referred to as ‘internal factors’. There has, however, been no comprehensive UK study that has attempted to relate these characteristics to the survival or non-survival of businesses.

Peterson, Kozmetsky and Ridgway (1983) identified the primary causes of failure and non-growth of small businesses as:

- lack of management expertise
- high interest rate
- recession or inflation/unemployment
- under capitalisation/over extension
- taxes
- competition
- cash flow
- government regulations
- high overheads

It may be argued that improving the quality of management education will be one of the most important first steps forwards reducing the business failure rate. The above factors indicated that failure rate may related to economic climate of businesses. Improving external environment of business may, therefore, help to decrease the failure rate of small businesses.

Farrell and Hitchens (1989) identified the major constraints on small business growth as taxation, government paper work, inadequate marketing, employment legislation, the nature of regulatory constraints, and imperfections in capital markets. Other factors identified included product design quality, pricing, limited skills in management and unskilled personnel, all of which may lead to inferior products and services.

Glancey and Pettigrew (1997), for their part, indicated that the potential performance of small firms depended on the following factors:

- Entrepreneurial characteristics,
- Management practices of owner-manager,
- Entrepreneurial objectives,
- Markets in which firms operate,
- Financial performance of the firm.

Year (Yıl): 2018 Volume (Cilt): 1 Issue (Sayı): 1 Pages (Sayfa): 57/69

As a result, factors related to performance of businesses can be classified as characteristics of owner manager, managerial skill and external factors.

4. SURVIVAL OF SMALL BUSINESSES

Having discussed the importance of the small business in developed and developing economies, it is necessary to examine the continued existence of those businesses. It has already been stated that small businesses are very important to the economic development and health of the economy in (Bennet, 1986; Stanworth and Stanworth, 1990). The survival as much as the success or growth of small businesses is therefore, crucial to both the stability and the health of the economy. As a result, this study seeks to discover those factors which may be responsible for the survival, as well as the failure and success, of small businesses. Such, an evaluation of businesses, based on factors linked to small business success, could contribute to a reduction in the number of start-up failures among firms operating in different sectors (Lumpkin and Ireland, 1988).

Ibrahim and Goodwin (1986) suggest that four key factors are responsible for the success of small businesses.

- Entrepreneurial values: entrepreneurial behaviour (as measured by personality attributes) is perceived as a key success factor in small businesses.
- Managerial skills: the owner-managers of a small businesses should strengthen their managerial abilities in order to avoid serious problems and eventual failure. The managerial areas of accounting, cash flow management, marketing and personnel management are inter-related and lack of knowledge in any one of these areas may give rise to problems in other areas.
- Interpersonal skills: good relationships with the banker, good customer relations, good employee relations and good interpersonal skills.
- Environmental characteristics: these factors include interest rates, taxes, and government assistance.

Ibrahim and Goodwin (1986) considered that the following factors were non-significant: luck, union concessions, personal fitness, employees involvement in decision-making, intelligence, subsidised loans, family support, decision making, the political situation and ethnic background.

In turn, is suggested that entrepreneurial behaviour and managerial skill count as key success factors for small businesses' survival. In order to reduce the small business failure rate there is a clear need for increased management skills on the part of owner-managers.

Sharon (1992) illustrated following factors as obstacles to business success.

- not knowing how to manage and operate a business
- lack of cash;
- growing too rapidly;
- poor interpersonal relationship;
- lack of strategic planning
- failure to innovate;
- trying to make it alone
- poor communications
- failure to recognise one's own strengths and weaknesses, and;
- failure to seek and respond to criticism

Larson and Clute (1979) agreed that some of the previously listed factors, such as, personal characteristics, managerial deficiencies and financial shortcomings can be responsible for the success as well as the failure of businesses. Likewise, Wichmann (1983) listed the following characteristics of successful entrepreneurs: energy, health, inquisitiveness, confidence, boldness, empathy, a good sense of timing, independence, innovativeness, a sense of ethics, politeness (tact), adaptability, imagination, sociability, consideration, and good management. This author did not consider that experience in the same line of business is not necessarily related to the growth and survival of the business, but the previous ownership of a business, particularly in the same line is advantageous.

O'Farrel and Hitchens (1989) argued that the local milieu may be an important influence on small business expansion. Obstacles to growth vary according to nature and scale between different regions; for example lower rates of economic growth and lower levels of income prevent the opportunities for small firm expansion based upon local and regional markets.

It may, therefore, be argued that SMETE may grow in a region which has already opened up to tourism and has attracted many tourists and businesses or organisations which contribute to the local economic development. In turn, small businesses themselves might want to grow in order to increase their share of the market.

Muller and Inman (1994) proposed three theories, which may affect small business success.

- Central place theory: the geographic makeup of a retail trading area will affect the placement of market centres. The theory states that as population centres

Year (Yıl): 2018 Volume (Cilt): 1 Issue (Sayı): 1 Pages (Sayfa): 57/69

expand, the retail trade within them will become more complex. As complexity increases, more people will travel to the central market place to conduct their business because more choice is offered. All of this will happen due to the geography of the region which makes the market convenient and accessible to the consuming public, the demographics become the indicators of the market's success.

- Population ecology theory: is used by behaviourists to attach biological measurement to the study of the market environment and competitive business firms. Thus this theory may be applied to the study of restaurants and hotels. This view of organisations in a complex marketplace suggests that demographic, economic and consumer statistics may act as predictive variables for the estimation of a firm's potential survival in any given location or place.
- Theory of imperfect competition: which suggests that firms will act to maximise their differentiation in a competitive market environment not only through price but also through location, products offered and advertising.

These three theories can be used in explaining how external variables affect the survival and success of SMETEs, and the effect of the management strategies of the owner-manager.

In order to control or diminish the adverse affects of these factors, the owner-manager must be alert to changes in the market or environment and must know about possible advantages and disadvantages which exist for their competitors in order to be different from them, and to attract the customers (tourists). An entrepreneurs or owner-manager, must evaluate his or her strengths and weaknesses in order to improve their skills and managerial capacity. They may bridge the gap between their strength and weakness through education or training.

Sheeline (1989) claim that the growth of the tourism market was a consequence of the chance growth of the individual businesses which service it. Changes in tourism markets, changes in the technology, changes in the services offered, changes in the way the owner-managers finance their expansion, changes in the relationships with governments all affect business in the tourism sectors. In order to preserve order and profitability the owner-manager must learn not only how to cope with change but also how to manage it. The future success and growth of tourism enterprises depend on how well owner-managers manage change, and on how well they anticipate and respond to the volatile forces which exist at any time (Durbin, 1982).

Year (Yıl): 2018 Volume (Cilt): 1 Issue (Sayı): 1 Pages (Sayfa): 57/69

The survival and growth of the business may, thus, depend on the owner-manager's ability to cope with the environmental development of the business, rather than merely concentrating on the daily management practices or problems related to the operational management of the business.

5. CONCLUSION

Small firms have been recognised as the essential engine of the economic development of the developing and developed economies particularly in terms being a source of new jobs, new wealth, new product and services. Health of the small firms sectors, therefore, very crucial for economic development of countries.

This paper revealed that without creating a health and growing small businesses sector it would not be possible to expect the stable economic development. Understanding of why are some firms successful and others are not?, is therefore, an important question which has generated many academic theories and pragmatic prescriptions from experts in the field. Academicians and practitioners alike generally acknowledge that the specific strategies for success used in one firm can rarely be applied directly in other firms, even within the same industries, because every firm is unique. Despite similar circumstances and environments, the unique characteristics of individual firms make it difficult to develop prescriptions based on factors related to performance or failure of these businesses.

The literature review has been shown that there is a direct relationship between growth and the performance of the business. Growing businesses are generally considered as profitable and good performers, business growth is however, dependent on the characteristics and managerial practices of the owner-manager and the presence of favourable conditions in both the internal and external environment of that business are also important for their growth.

REFERENCES

Allen, S. & C. Truman. 1991, Prospects for Women's business and self-employment in the year 2000. In *Paths of Enterprise: The future of the small business*, ed. J. Curran & R. A. Blackburn, (pp. 114-128), London: Routledge.

Barret, S., D. Colenutt, D. Glynn, S. Jatfer, Jones.I, & D. Ridyard (1990). *An Evaluation of the Loan Guarantee Scheme.* London: National Economic Research Associates for the Department of Employment.

Beckert, J., & K. Walsh. (1991). Development Plans Replace Performance Reviews at Harvey

Year (Yıl): 2018 Volume (Cilt): 1 Issue (Sayı): 1 Pages (Sayfa): 57/69

Hotels. *The Cornell H.R.A Quarterly*, December:72-80.

Bennet, B. (1986). Social and Economic Transition a Case Study in Portugal's Western Algarve. *Journal of Rural Studies*, 2(2): 91-102.

Birley, S. (1986). Succession in the Family Firm: the Inheritor's view. *Journal of Small Business Management*, 24(3): 36-43.

Boardman, C. M., B. Bartley Jon W., & R. L. Ratlief (1981) Small Business Growth Characteristics. *American Journal of Small Business*, V(3), Winter (Jan.-mar.): 33-45.

Chitten, F., & M. Robertson. (1993). Small Firms Public Policy issues in Recession and Recovery. In *Small Firms Recession and Recovery*, ed. Francis Chittenden, M. Robertson, & D. Watkins, 1-15. London: Paul Chapman Publishing Ltd

Chowdhury, S. D., & J. R. Lang. (1996). Turnaround in Small Firms: An Assessment of Efficiency Strategies. *Journal of Business Research*, 36: 169-78.

Cooper, A. C., Gimeno- Gascon, FJ, & C. Y. Woo. (1991). A resource- Based Prediction of New Venture Survival and Growth. In *Best Papers proceeding Academy of Management*, ed. J. L. Wall & L. Jauch, 68-72. Northeast Louisiana: Northeast Universities.

Curran, J., J. Kitching, & V. Mills. (1993). *ESRC Center for Research on small service Sector Enterprises" Employment and Employment relations in the Small service sector Enterprise- A Report.* Vol. February. Surrey: ESRC Center for research on small Service Sector Enterprises Kingston University.

Dunne, P., & A. Hughes. (1992). Age, Size, Growth and Survival Revisited. *Small business research center, University Cambridge Working Papers series*, September: 1-36.

Glancey, K., & M. Pettigrew. (1997). Entrepreneurship in the small hotel sector. *International Journal of Contemporary Hospitality Management*, 9(1): 21-24.

Ibrahim, A. B., & J. R. Goodwin. (1986). Perceived causes of success in Small Business. *American Journal of Small Business*, 11: 41-50.

Jenkins, M. (1993). Thinking about Growth: A Cognitive Mapping Approach to Understanding Small Business Development. *The Cranfield School of Management Working Paper Series* SWP12: 1-10.

Larson, C. M., & R. C. Clute. (1979). The Failure Syndrome. *American Journal of Small Business* 4(2), October: 35-43.

Lief, T., & N. Kilkeary. (1991). Adjust Small Firm Philosophies To Through Barriers. *Public Relation Journal*, 47: 22-27.

Lumpkin, J. R., & Ireland, D. R.. (1988). Screening Practices of New Business

Incubators:The Evaluation Of Critical Success Factors. *American Journal of Small Business*, 12: 59-81.

Muftuoglu, M. T. (1993). *Small and Medium Sized Businesses in Turkey*. Ankara: Desen offset.

Muller, C. C., & Inman. C. (1994). The Geo. demographics of Restaurant Development. *The Cornel H.R.M Quarterly*, 35(3): 88-95.

O'Farrel, P. N., & Hitchens. D. (1989). *Small Firm Competitiveness and Performance.* Dublin: Gill and Macmillan.

Olufemi, S. O. (1985). What Makes a Successful Small Business with Reference to the Unitrd kingdom. MBA Thesis, Cardiff Business School & Cardiff, 101.

Peterson, R. A., Kozmetsky, G. & Ridgway, N. M. (1983). Perceived Causes of Small Business Failures: A Research Note. *American Journal of Small Business*, 8(1), July-Sept: 15-19.

SBA, F. (1991). *Record keeping in Small Business: Financial Management Series.* Washington, D.C: SBA.

Sharon, N. (1992). Ten Key Threats to Success. *Nation's Business (NAB),* 80(6): 18-28.

Stanworth, J., & C. Stanworth. (1990). Small Firm Policy its Regional Implication in Britain in. *Piccolo Impress Francco Angel* Vol.1.

Storey, D. (1993). Should We Abandon Support to Start-up Businesses? In *Small firms recession and recovery*, ed. F. Chittenden, M. Robertson, & S. Watkins, 15-27. London: Paul Chapman Publishing LTD.

Storey, D., Watson, R. & Wynarczyk. P. W. (1992). Fast growth Small Business: Case Studies of 40 Small firms in North East England. *Research paper Department of Employment* Research Paper No:67: 1-75.

Wichmann, H. (1983). Accounting and Marketing- Key Small Business Problems. *American Journal of Small Business*, VII(4), April-June: 19-27.

Ziegler, B. (1990). *Financial Management for the Growing Business.* Washington DC: SBA.