

# **Small Business Management and Control of the Uncertain External Environment**

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# **Small Business Management and Control of the Uncertain External Environment**

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# Foreword

*All countries are epitomised by highly uncertain and unpredictable business environments. From the vagaries of the economy through to varying degrees of social unrest or the impact of adverse weather, businesses of all forms and sizes must cope with ongoing change, uncertainty, and risk.*

## Introduction

The external environment is not only a multielement construct but also a multi-dimensional one. [Duncan's \(1972\)](#) two-dimensional environment (static–dynamic and simple–complex) and [Aldrich's \(1979\)](#) six-dimensional model (domain consensus-capacity, geographic concentration–heterogeneity and stability–turbulence) provided us a plethora of approaches to capture its indisputably complicated layers and nature.

Nevertheless, it should be said that there is a consensus on the view that task environments can be captured through three distinct attributes. These are dynamism, complexity and munificence. It should be noted that a review of both the conceptual and empirical literature pertaining to the above issue shows that both objective and perceptual approaches have been used in the advancement of these dimensions (e.g. [Dess & Rasheed, 1991](#)). These two diverse approaches have resulted in the development of a fourth dimension; that is *uncertainty*, which has been purely subjective; in contrast with the first three that have been treated as real and objective.

The initial writings regarding uncertainty were developed by informational and decision (e.g. [Luce & Raiffa, 1957](#)) scientists who have used primarily mathematical approaches to define the uncertainty concept. Whereas, early organisational theorists such as [March and Simon \(1958\)](#), [Cyert and March \(1963\)](#), [Lawrence and Lorsch \(1967\)](#), [Thompson \(1967\)](#) and [Terreberry \(1968\)](#) recognised the importance of uncertainty for organisations, all held heterogeneous views of the sources and effects of it. For example, [March and Simon \(1958\)](#) favour internal re-arrangements as the recipe for uncertainty while [Cyert and March \(1963\)](#) advocated actions which would influence or control such environmental situations.

[Duncan \(1972, p. 318\)](#), in his early review of the extant literature, concluded that three were the most common facets of uncertainty:

- The lack of information regarding the environmental factors associated with a given decision-making situation.

- Not knowing the outcome of a specific decision in terms of how much the organisation would lose if the decision was incorrect.
- The inability to assign probabilities with any degree of confidence regarding how environmental factors would affect the success or failure of the decision unit in performing its function.

In short, [Duncan \(1972\)](#) concluded that uncertainty is a function of both dynamism and complexity where the former dimension plays a prominent role. [Downey, Hellriegel, and Slocum \(1977\)](#) and [Miles and Snow \(1978\)](#) supported that there is a common element, which is the inability of an individual to understand the present state of the external environment and predict the course of events due to lack of sufficient information. According to [Galbraith \(1977\)](#), perceived environmental uncertainty is the difference between the amount of information required performing a task and the amount of information, which has already been obtained.

[Huber and Daft \(1987\)](#) and [Daft, Sormunen, and Parks \(1988\)](#) defined perceived environmental uncertainty as the absence of information about organisations, activities and events in the environment. Perceived uncertainty is the difference between available information and derived information. [Lorenzi, Sims, and Slocum \(1981, p. 29\)](#) and [Duncan \(1972, p. 314\)](#) expressed different views on this matter by suggesting that an individual's perceptions are influenced by both personal characteristics and objective environmental features.

[Milliken \(1987\)](#), who questioned the meaning of the perceived environmental uncertainty and suggested a thorough re-examination of the term, provided a break through on the discussion over uncertainty. It was suggested that literature had failed to distinguish among the extent that uncertainty is an objective state, or a subjective perceived, mental situation held by the decision-makers ([Milliken, 1987](#)). By defining uncertainty as 'an individuals perceived inability to predict something accurately' ([Milliken, 1987, p. 136](#)), three types of environmental uncertainty have been identified. The first has been termed *State uncertainty (or Perceived Environmental Uncertainty)* referring to the unpredictability of the environment. The second, *Effect uncertainty*, relates to the ability to predict the consequences of a potential change of the environment on an organisation. Finally, *Response uncertainty* relates to the attempts to understand the response options available to the organisation and what is the value or utility of them. Subsequent work by [Milliken \(1990\)](#) and [Miller and Shamsie \(1999\)](#) has further advanced both the conceptual and measurement proprieties of the uncertainty dimension.

Organisational demography (size, age and resource endowment; [Ebben & Johnson 2005](#); [Voss & Voss 2013](#)) has been important contributors to small business success. The literature is generally supportive on the claim that small firms that grow contribute greatly to the economy and social life. Academics and policy-makers increasingly pay attention to the benefits that small business bring to regional, national and worldwide economy as well their catalytic effect in terms of recession ([Coad, 2009](#)). However, despite this vast interest and increase in research there has been a distinct need of further research on several issues relating to small business creation, funding, acceleration and contributions to social and economic development.

The contributions in this volume address relevant and important issues to enlighten the current discussion on the interface of the external environment upon small business.

Chapter 1 provides informing context for the book in its totality – making explicit the distinctiveness of small business vis-à-vis large well-resourced companies. The hazy area of small enterprise definition is addressed and focus is given to the positive contributions that small enterprises make to economic and social development together with the potential benefits and challenges associated with smallness of operation.

Chapter 2 draws upon and integrates insight into how entrepreneurial growth-achieving small businesses respond to the changing external environment, thus presenting what constitutes best small business strategic management practice. The chapter examines the external environment within which micro and small businesses must strive to operate, and the findings and recommendations within this chapter are built out of the rich insights that has been unfolded during 10 years research into and strategic development support of growth-seeking small and medium enterprises in developed, emerging and transitional economy contexts.

Chapter 3 deepens and enriches the understanding of small business strategy process and practice embraced within Chapter 2 by delving further into the ‘black box’ of strategy development. Thus, making explicit the microlevel detail of management, organisational and learning practices and activities that make up the small business strategic management and control of their uncertain external environment.

Chapter 4 considers the need for nurturing of start-up business owners/managers’ entrepreneurial learning capabilities and highlights the fact that entrepreneurial learning and behaviour is different from other forms of learning and behaving. The chapter engages with social identity theory viewing the organisation as a social system where individual behaviours and attitudes are to a large degree influenced by psychological, behavioural, economic and sociological processes of group formation and membership.

Chapter 5 considers how various models of transnational education have evolved across the world, the impact this expansion has created for the local population in terms of skills development and accessibility to education and also for the local economy, and for small businesses in particular. The chapter makes explicit the opportunity for collaboration in the design and delivery of entrepreneurship and management education which is of high practical relevance to sustained small business development in both developed and developing economies.

Chapter 6 focusses upon key leadership skills, including how having a clear vision, communicating successfully across all business levels, leading by example and keeping the team engaged, are shared by all enterprises, regardless of size and nature. Emphasis is on the critical need for small business leaders to understand that each stage of an organisation’s life cycle brings with it different opportunities and challenges that should be dealt with by adopting different leadership techniques. A ‘one-size-fits-all’ approach will not work and could even become detrimental in the long term.

Chapter 7 offers critical insight into the issue of strategic change in today’s fast-paced global competitive environment. It focusses on contemporary drivers

of change and considers their implications for small businesses. The small business challenge relating to capacity to identify, react or respond to unfolding changes is of central concern in this chapter.

Chapter 8 identifies and offers practical solutions and opportunities for small businesses aiming at transforming themselves to effectively deal with skill shortages and the search for talent. It addresses the key small business development issue of ability to attract and retain high quality and committed workforce.

Chapter 9 focusses upon the exit of the UK from the European Union and the new conditions and issues that businesses must face. This chapter draws on key literature to highlight the distinctive managerial and organisational characteristics of small enterprises and to sketch out and map the challenge that Brexit poses for small business owners and managers.

Chapter 10 focusses upon how small businesses can better facilitate employee engagement using the six drivers of engagement recommended by Aon Hewitt and not only improve levels of productivity in the firm but also foster more effective worker contribution and involvement at both operational and strategic levels of the enterprise.

Chapter 11 offers a broad but comprehensive view of the impact and consequences of Brexit on UK small businesses. Providing analysis of theoretical work conducted in the fields of management of small businesses in the UK and control measures taken by them to cope with challenges that emerged due to complexities of the present uncertain environment. Brexit is considered as a key event that is demanding drastic changes in the undertaking of business and the management of small enterprises.

The findings from Chapter 12 will be useful for both scholars and employees (particularly third-country nationals) who want to work in Japanese small businesses. The chapter provides an original viewpoint on contemporary HR practices in Japan by providing a fresh understanding on HRM practices used by Japanese small enterprises and in so doing raises the question as to their potential relevance or at least partial application in other nations.

Chapter 13 offers researchers and practitioners a comprehensive view of the benefits and drawbacks that influence small businesses in adopting internet-based e-business. In recent years e-business has been adopted by many corporations to improve operational efficiency, profitability, and to strengthen their competitive position and facilitate survival in the new economic era. This chapter gives emphasis to opportunity for a more concerted small business uptake of e-business.

Chapter 14 considers the issue of small business funding in the context of the recent economic and financial challenges encountered by Greece. Comparison with prior years and with other European markets show the main challenges and obstacles small businesses faced and the solutions they found during the crisis. Crucially, the chapter highlights the need for robust small business entrepreneurial management capabilities if micro and small enterprises are to survive and prosper in highly uncertain contemporary operating environments.

Dr Dimitrios Koufopoulos

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# Preface

We write this book at a time of unprecedented global health pandemic. National economies throughout the world are experiencing devastating human and economic impact. Businesses of all sizes find themselves fighting for survival as they attempt to navigate the vagaries of the crisis-torn external operating environment. Amid fast-changing cultural and societal norms and consumer behaviours, enterprises grapple with newly unfolding enabling and constraining forces and events within both their external and internal business contexts. Warned to expect a ‘new normal’ of severe competitive challenges, weaker enterprises struggle and sink, more astute business leaders seek innovative solutions and sense potential development opportunities. An unfolding invisible enemy was cruelly crystallising business thinking – a high-level ‘strategic awareness’ capability was needed to firstly keep the ship afloat and then navigate it forward through what were totally uncharted waters.

It would, thus, be reasonable to contend that our reasons for writing this book with its focus on how small businesses manage and control highly uncertain environments was spurred by the Covid-19 crisis and all the turbulence that it has spawned.

Certainly, the unprecedented Covid-19-generated business context reinforces the urgent need for this book. Yet, for me, the seeds of this text were actually sown some 25 years ago at an international entrepreneurship conference in the city of Sheffield when I nervously presented one of my first academic papers. I had entered academia from a hospitality industry background employed by a large brewery to help manage its tenanted tied estate of some 180 public houses. It was here, operating in a paradoxical situation of pursuing large brewery company objectives and profitability targets through the fostering of small business development aspirations of the pub tenants that the distinctiveness of small enterprise vis-à-vis large well-resourced organisations really hit me. Small business are ‘not little big businesses’. They are not a microcosm of a large company. They are qualitatively as well as quantitatively different from a large organisation. They experience different developmental challenges and difficulties.

I had, thus, through my embed in the world of business practice conceptually distinguished micro and small enterprises as endowed with potential benefits of smallness of operation, but also facing unique size-related problem types. Yet to my surprise, on entering academia I discovered that such distinctiveness of small business was barely recognised, with both undergraduate and postgraduate business management programmes and small business management training provision

predominantly underpinned and informed by large company-oriented management theories, concepts and tools. The distinctive managerial, organisational and developmental characteristics of small business were not being addressed – with, at worst, an assumed universal utility of management theory and concepts across organisations of all sizes, and, at best, a presumption that a simple watering down of such large company concepts to the small business context would suffice.

My first solo conference paper thus responded to this deficiency. From my experience, I had recognised how a key size-oriented problem impacting growth-seeking small businesses was their difficulty in relating to their fast-changing external environment – and how within academia the proffered antidote to this dilemma was the offering of rational long-term planning models of strategic management. Faced with an audience of lead international academics and creative growth-seeking small business owner managers. I, thus, apprehensively took to the conference stage to present my paper ‘Small Business Interaction with the External Operating Environment – the Role of Strategic Management and Planning’. The content of which flew in the face of much conventional academic wisdom with its offering of alternative conceptualisation of what small business do as best management practice in control of their highly uncertain operating environments – and its integral suggestions for future focus and direction of small business research.

My nerves were soon to give way to emotions ranging from relief to sheer delight as positive reception to my perspectives emerged across the audience. Responses such as ‘a breath of fresh air’ and ‘a total revelation’ reverberated in my mind for days after – and provided me with the motivation and confidence to pursue investigation of the phenomena as central focus of my research in the years that have followed.

Despite recognition within much of the present-day small business literature that micro and small enterprises have unique characteristics and support needs, large swathes of the management literature still do not adequately address distinctiveness features of small firms. For example, neither the strategic management literature or ‘how to’ texts offer practical guidance on the issue of small business management of the uncertain operating environment – the latter continue reliance on traditional rational long-term planning models of strategic management and integral pedestrian use of overplayed and static SWOT analysis techniques.

Thus, within this book, we address ongoing deficiencies within the academic literature and practical self-help business books with regard to how growth-achieving small businesses not merely cope with but also exploit often-hostile operating environments and create and implement innovative and sustainable strands of development.

Our approach throughout the book to consideration of key concepts and issues is such as to accommodate a dual readership. In the world of academia, we reach out to undergraduate and postgraduate students and to academics seeking to push forward their research careers. Our synthesis of relevant existing literature-based understanding with findings from our own small business development research, accompanying summaries of our innovative research methodologies that produced those findings and our novel and creative conceptualisation

of small business managerial, organisational and developmental processes and activities produces theoretical and conceptual frames of understanding that are academically rigorous and practically relevant. For the world of small business practice, our illustrative use of live small business development case studies and capture of theoretical perspectives and own innovative conceptualisation of small business management and organisational processes and activities as ‘guiding lenses’ orients the book towards informing support vehicle for growth-seeking owner managers as they strive to progress in the turbulent environment. Moreover, in this latter respect graduating university students are further served with informing contribution with regard to career-readiness and knowledge and ability relevant to set up and running of their own enterprise.

As co-editor most steeped in the idiosyncrasies and informalities of small business, I have been asked to write this preface. We present content of this book not as incremental chapter-by-chapter build-up of insight, rather as standalone chapters of guiding perspective. The chapter contributors are all lead academics with expertise in their own specific management fields who are providing perspective in the form of free-standing essays, capturing their own take on accommodating of the ‘distinctiveness of small business’ from the departure of their own specialist knowledge base.

It is thus not necessary that the reader progressively digests each chapter from book start to finish. He or she can randomly dip in and out of the text. Though I have suggested that Chapter 1 provides summary contextualisation of the distinctiveness of small business and that my own contribution to the text with focus on the specifics and minutia of small business strategic management and control of the external environment builds sequentially out of the introductory chapter as Chapters 2 and 3.

Thus, for our dual readership we have constructed a small business development tome that:

- At its core, is founded on qualitative research investigations which embrace small business operation and development within comparative operating contexts: thus, the developed economy context of the UK and Japan, the emerging economy contexts of Malaysia and Ghana and the transitional economy context of Russia.
- Provides a creative working conceptualisation of the contemporary external business environment that makes clear and explicit that most change situations encountered by growth-seeking small businesses are totally unpredictable in terms of timing and consequences – thereby dismissing as futile any utilisation of rational long-term planning approaches that rely upon information from the recent past and present to identify and plot business development into what is an unknowable future.
- Makes explicit the distinctiveness of small business vis-à-vis large companies – and how key distinctiveness characteristics manifest themselves in unique problem types which in turn contrive to concur a highly complex strategic learning task upon the small business in its interaction with its unforgiving external environment.

- Presents, by way of indication of rigour of investigation, an innovative case study research methodology with example of its rich, thick outputs in informing small business strategic development context. But also in microlevel detail which transcends the generalist, surface ‘black box’ insight of small business strategy process and content presented in much of the current strategic management and small business literatures.
- Shows how entrepreneurial learning differs from other forms of learning and lies at the heart of successful and effective small business–external environment interfaces.
- Identifies a unique ‘natural makeup’ in small businesses in the form of idiosyncratic, formal and informal infrastructures, organisational forms, management and work activities and capabilities; and owner manager- and size-related potential unique problem types and benefits of smallness. And how these are exploited and utilised by more progressive, entrepreneurial owner managers to facilitate strategic learning and strategic control processes and activities to manage the external environment.
- Gives focus to the size-related staffing and skilling problem impacting most small firms surrounding ability to attract and retain high quality workforce – affording attention to processes of recruitment, and skills development; to creative organisation and leadership of such workers to get the best out of all competency levels and to foster productivity increases through employee engagement.
- Demonstrates areas of commonality and relevancy of ‘leader skills’ across large and small organisations alike and inadequacy of a ‘one-size-fits-all’ leadership approach, showing how an owner manager must adapt in the face of the different challenges and opportunities that both day-to-day change events and organisational growth unfold.
- Addresses the issue of smallness of operation-related issues constraining the raising of reasonable cost finance – drawing upon the unique economic challenges encountered by Greece to highlight need for robust entrepreneurial management abilities to circumvent small business funding constraints.
- Embraces the issue of owner manager’ technology awareness’ capability – analysing opportunities for and potential drawbacks in small business adoption of e-commerce as an operational tool to improve operational efficiency and strategic development vehicle to enhance competitive positioning and increase profitability.
- Produces innovative conceptualisation and provision of ‘guiding lenses’ for informing small business management – resulting in the germinating seeds of small business management theory leading management practice. To date, in the main, the converse has been true.

Our underlying motive in compiling this text is, thus, dual-pronged. To entice yet more robust academic interest in the unfolding of microdetail understanding of the intricacies of small business development and help engineer a bridging vehicle between academic theorising-conceptualisation and the world of small business practice. While no single high-level theory of small business growth is

likely to exist in our lifetimes, well within our grasp is development of low-level theory in the form of ‘guiding lenses’ of best small business management practice capable of informing small business start-up and sustained business growth. The focus and contents of this book are a first step towards such ‘guiding lenses theory’.

*Professor Peter Wyer*

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# Chapter 1

## The Distinctiveness of Small Businesses

*Shaun Bowman and Peter Wyer*

### Chapter Contribution

Small businesses are ubiquitous across the globe and they form a large part of the enterprise population in most economies. Understanding of the sector remains sketchy, despite there being concerted efforts since the 1970s to conduct research to give insight into the behaviour of small businesses.

All businesses have to cope with their external environments, but the resource poverty of small businesses means that they may suffer disproportionately, and they certainly do not have access to the resources, financing and knowhow that large firms have to inform them about the most effective way to manage their resources, minimise threats and optimise opportunities in the environment. This chapter provides a holistic framework to enable deeper understanding of subsequent chapters.

### Introduction

Our focus within this book is upon how growth-achieving small businesses cope with uncertain operating environments and create and implement innovative and sustainable strands of strategic development.

Within this opening chapter, we provide summary contextualisation of the distinctiveness of small business compared with well-resourced large companies – effectively, a contextual frame of reference to inform the reader’s study of subsequent chapters. We clarify through the provision of a working definition the nature and size classifications of micro-enterprises and small businesses that form our predominant focus, provide insight into the key potentially enabling and constraining characteristics that distinguish smaller enterprises from large organisations and highlight the significance and importance of small business in terms of contribution to social and economic development.

In most economies, small businesses make up most of the total enterprise population. The definition of such businesses is difficult, but generic characteristics include quantitative measures such as small numbers of employers and qualitative considerations of how risk capital is often provided by owner-managers who also have significant hands-on input to the management and control of the business.

Notwithstanding the significance of small businesses, understanding of the sector remains patchy. A rigorous and robust research base has unfolded over recent years, providing rich insight in many areas of entrepreneurship and small business development but only a surface grasp of key issues in others. Moreover, there is an ongoing tendency in parts of academia and the world of small business support provision to view and treat the small business as if they are 'little big businesses'. Indeed, the support given to them by national and local governments is often tainted by this 'microcosm of large company' assumption, leading to their specific needs being inadequately addressed. The sheer size of the sector and the significance of the potential developmental contribution makes it important that policy design and implementation is backed-up by research evidence that enhances understanding.

We aspire throughout this book to contribute to one such existing area of hazy and surface understanding of small business development – how growth achieving small businesses copes with, manage and control their often-turbulent external environments. Thus, addressing key issues such as what constitutes effective small business strategic management. The remainder of this chapter is devoted to providing the foundations, context and reference points to aid the reader's journey through the subsequent chapters.

## **Uncertain Business Environments**

As stated above, the theme of this book is the approaches of small businesses in the context of managing and controlling their uncertain external environments. By this, we mean that conditions are constantly changing for the business within its environment and it struggles to influence the factors that make up its external environment, either because it does not have requisite knowledge and skills or is unable to access resources that would enable it to exercise control. This results in a lack of resilience and ability to predict, react and modify in the face of gradual change and unexpected disruption.

The dynamic nature of the business environment is due to several factors, amongst them pressures caused by globalisation, trade and regulatory liberalisation and modernisation which increase risk (Akhtar, 2018) and heighten competition (Liñán, Paul, & Fayolle, 2019). These have acted as drivers for different approaches to coping with the external environment leading to more innovative and flexible responses focussing on outcomes that incorporate increased efficiency, effectiveness, productivity, quality and key stakeholder satisfaction.

Besides the constant and unremitting pressures described in the foregoing paragraph, there can also be sporadic, but significant events that occur in the business environment. The current situation with COVID-19 is a particularly good

example of how the landscape can swiftly alter for a business. Businesses need to prepare for such dramatic changes in their external environment to enable them to respond in an effective manner.

Small businesses could be more sensitive to or impacted by such changes because of the limitations placed upon them by their size which mean they may have restricted access to knowledge, skills and resources affecting product and process development in the widest sense. This deficiency has been termed resource poverty (Welsh & White, 1981). However, it has also been claimed that a lack of relevant personnel, expertise and finance can also drive innovation by pushing small businesses to find flexible and unique solutions to overcome barriers (Clohessy & Acton, 2019).

### **Defining a Small Business?**

There is no universal definition of what a small business is (Storey, 1994; Tonge, 2001). They are diverse and complex, and despite the label, have differing needs. So, does it matter that a business is designated as small or not? It can because government policy may provide benefits to businesses that are small, for example, the US Small Business Administration (SBA) has a commitment to award 23% in value of government contract to small businesses. The UK government allows small companies to submit abbreviated accounts. Other benefits could include tax breaks or support with loans and grants.

It also matters from an academic standpoint because we need to interpret and understand enterprise decision-making and performance in the context of their size. The ability to define and classify small businesses as subjects for analysis better informs research into the area.

So, the reason for identifying a small and medium-sized enterprise (SME) and categorising it according to size is so it can receive special attention, either from a policy perspective or a research or business support standpoint. We wish to understand the behaviour of small businesses and unless the definition is suitable and reliable this is difficult. The choice of definition drives results (Headd & Saade, 2008) and mixing data can distort results. Despite this, a study found that there was no consistent approach to the definition of SMEs or their sub-categories in a range of 217 articles in 20 specialist entrepreneurship and small business journals.

In general terms, a small business is a privately owned company, partnership or sole trader that is smaller in employment and financial terms than a large business. The definition of what 'small' is can be quite complex (see SBA, 2019, e.g., of different definitions for different industries even within the same sector) because the explanation can change:

- From sector to sector, for example, the SBA has different levels of employment from industry to industry. Their starting point for the manufacturing sector is 500 employees whilst for the retail sector is 100 (SBA, 2020).
- From jurisdiction to jurisdiction (see Table 1).

Table 1. Business Size Criteria Across Jurisdictions.

| <b>Jurisdiction</b>   | <b>Micro</b> | <b>Small</b> | <b>Medium</b> | <b>Large</b> |
|---|--------------|--------------|---------------|--------------|
| Australia (Australian Small Business and Family Enterprise Ombudsman, 2019) | 0–4          | 5–19         | 20–199        | 200+         |
| UK (Department for Business Innovation and Skills, 2019)                    | 0–9          | 10–49        | 50–249        | 250+         |
| Canada (Government of Canada, 2018)   | 0–4          | 5–99         | 100–199       | 500+         |

In addition, definitions of what constitutes a small business may be reviewed periodically and change over time to reflect economic and social changes (Table 1).

For example, the SBA recently (22 February 2020) amended industry-specific financial-based measures upwards to take account of inflation since the last amendment in 2014 (SBA, 2020).

The normal way of defining a small business is by reference to a quantitative threshold, but as noted above small businesses are not homogenous and can be differentiated along many criteria, such as size, age, sector, legal structure, business model and objectives with the result that there is no one size fits all approach to them. The main problem is that jurisdictions differ widely in their classification of SMEs, for example. India uses levels of investment whilst South Africa uses number of employees and revenue (Wittig, 1998). The most common forms of criteria used are the following:

- Number of employees.
- Level of investment or assets (balance sheet value).
- Business turnover or revenue.

The European Union (EU) uses several criteria to determine a business's size (Table 2).

Financial measures are one way of defining the type of business. This can either be by referring to the overall amount of revenue generated or by the value of the balance sheet. The UK also uses financial values to identify the level of compliance with financial reporting by small companies. An advantage of using financial measures is that they can be readily derived from financial reports that the business already prepares. However, the public availability of these figures depends very much on the legal structure of the business and the legal requirements of the jurisdiction operations are carried out in.

Reports are also subject to professional requirements which may change over time and to price inflation.

Another way is to identify the size of the business in relation to the number of employees it has. Although harder to identify from publicly available information

Table 2. European Small Business Criteria (European Commission, 2003).

| Business | Balance Sheet (€M) | Turnover (€M) | Employees (No) |
|----------|--------------------|---------------|----------------|
| Micro    | <2                 | <2            | 0–9            |
| Small    | 2 < 10             | 2 < 10        | 10–49          |
| Medium   | 10 < 43            | 10 < 50       | 50–249         |
| Large    | 43+                | 50+           | 250+           |

it does have the advantage of remaining relatively stable over time. One major deficiency is that small businesses in undeveloped economies will not be as well-equipped and so will possibly have to rely on more headcount.

The UK follows the EU definitions of the different categories of businesses and what comprises an SME. Which type of categorisation to use has been debated (Curran, Blackburn, Woods, & ESRC Centre for Research on Small Service Sector Enterprises, 1991) for some time. The EU definition based on employee numbers is widely accepted and generally held to be easily understood. Internationally it is also one of the most widely used (Wittig, 1998; Auboin, et al., 2016), being accepted by the World Trade Organisation (Auboin, et al., 2016) and the Organisation for Economic Co-operation and Development (OECD). Overall, as headcount is the simpler measure across national boundaries, this is the measure we will use in this book. For the avoidance of doubt, this book concentrates on micro (0–9 employees) and small (10–49 employees) businesses.

## What is the Significance of Small Businesses?

Since the early 1970s, it has been recognised in the UK that SMEs outnumber larger businesses and their role in the economy is significant through their employment opportunities, perceived entrepreneurial nature and attitude towards innovation (Bolton, 1971). It is believed by many authorities that having a vigorous SME sector is vital for a strong market economy. They are also said to be more sustainable by supporting local economies through local employment and business to business relationships. In some jurisdictions, for example, India, social policy outcomes are given more prominence and so attainment of goals such as political stability, social cohesion and fairer distribution of wealth are seen as ways of overcoming disadvantage and discrimination (Wittig, 1998).

According to the Department for Business, Energy & Industrial Strategy, there were 5.9 million private businesses in the UK at the start of 2019 – more than 99% of which were SMEs. SMEs are estimated to have generated £2 trillion revenue in 2018, 52% of the private sector's combined turnover. Furthermore, SMEs accounted for 60% of all private sector jobs in the UK, a total of 16.6 million.

Globally there are over 351 million SMEs formally registered over 176 economies according to the MSME Economic Indicators database 2019. These can be analysed between the categories as:

- Micro 299 million.
- Small 16 million.
- Medium 3 million.
- Uncategorised 33 million.

From a global standpoint, it can be seen from [Table 3](#) that SMEs comprise the majority of enterprises in all types of economies, and that micro-businesses form the greater part. Approximately 83% of firms worldwide are micro-businesses ([International Finance Corporation, 2019](#)).

With over 99% of all businesses being SMEs, creating 60% of employment and up to 60% of added value, they are seen as key drivers of economic and social welfare ([OECD, 2019](#)). Job creation is still seen as a major benefit of encouraging them. Small businesses employ over 16 million people, accounting for around 60% of private sector employment. The OECD make the point that, in hard times, small businesses may find it difficult to cope because their smallness means that reducing headcount affects operating capability, and at the same time they will have less access to funding.

Many small businesses are not employers, sole traders make up approximately 59% of the UK's private sector businesses. Non-employing enterprises (nano-businesses, employing just the owner–manager) have been found to be the most common type of small business in most economies ([McKeown & Philip, 2014](#)). An increasing number of these are to be found in the 'gig economy' ([McKeown et al., 2018](#)), adding to the self-employed tradespeople, contractors and freelancers.

Furthermore, small businesses contribute to their local economies by bringing growth and innovation to the supply chains of larger organisations. By succeeding in what they do, they also enable the success of larger firms by participation in the outsourcing process. And success does not necessarily come from fiercely competing with other businesses, it can come from collaboration with them and generating shared value. Participation in the complex supply chains of larger businesses means that over 50% of small business generates the

Table 3. Share of Micro-, Small- and Medium-sized Enterprises in the Total Number of SMEs ([International Finance Corporation, 2019](#)).

| Group                     | Micro (%) | Small (%) | Medium (%) |
|---------------------------|-----------|-----------|------------|
| Developed                 | 87.1      | 10.7      | 2.2        |
| Developing                | 80.5      | 15.6      | 3.9        |
| G20 developing            | 82.1      | 13.2      | 4.7        |
| Other developing          | 80.5      | 14.9      | 4.5        |
| Least developed countries | 78.6      | 20.7      | 0.6        |
| Total                     | 82.9      | 13.8      | 3.3        |

majority of their revenue from other businesses (Deloitte Access Economics, 2016).

Some of the perceived flexibility and innovation of small businesses is because there is a strong motivation for independence and autonomy (van Gelderen & Jansen, 2006). Although businesses are started for many reasons, most people who set up in business have this as a central motivation. This may be so strong as to reduce the desire to seek growth and affect levels of innovation.

## **Small Businesses' Environments**

Major external factors that may affect an organisation can be identified as:

- *Political* – government policy in areas like tax, fiscal policy or trade tariffs can change according to the political views of the government in power.
- *Economic conditions* – which have an impact through the spending of consumers. Changes in employment and interest rates, for example, can affect consumption in the economy.
- *Social* – demographic changes in the makeup of the population can especially affect small businesses when they happen at a local level. The social environment of the market also includes things like cultural and buying trends.
- *Technology* – recent rapid change of this factor has affected various functions in business especially production and sales and marketing. The use of social media has particularly affected HR disciplines such as recruitment.
- *Legal* – businesses may have to negotiate the minefields of environmental, consumer, safety and workplace regulations besides complying with tax law.
- *Environmental* – leisure, tourism and agriculture in particular may be affected by this. In reality, however, all businesses will be impacted by climate, weather, geographical location, global changes in climate and environmental offsets.
- *Competitive forces* – the strength of which will vary as competitors enter and leave the market, affecting marketing strategy, product and service offering and pricing.

Conventional 'big' business management principles would dictate a detailed examination of the various elements of the businesses' external environment using a range of tools as displayed in Fig. 1. Studies show that environmental analysis can boost small businesses performance (Chege & Wang, 2020), but this does not have to be through attempted reliance upon 'big' firm techniques (as we will see in Chapters 2 and 3 of this book).

A businesses' internal environment, on the other hand, is controllable, being concerned with the human and other resources at the disposal of the business, together with the way in which work is undertaken. Control and change are established by planning and management to achieve the objectives of the business. Major factors in the internal environment of a business and their influence can include:

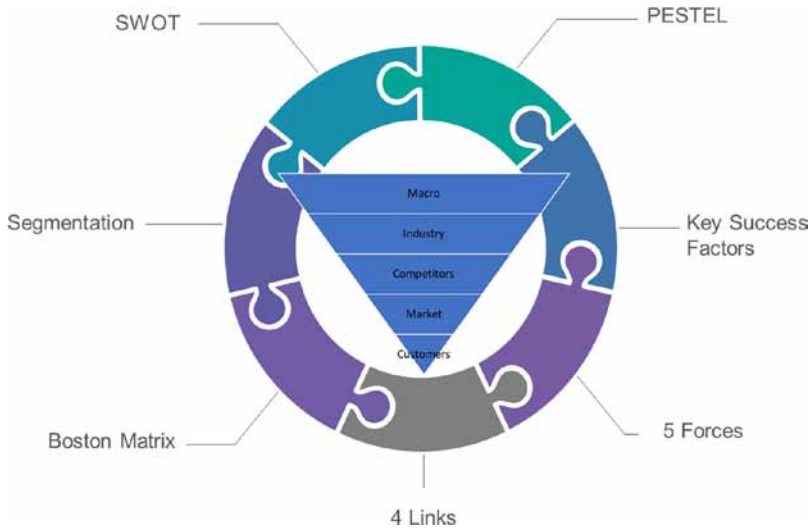


Fig. 1. Businesses' External Environments and Possible Analysis Techniques.

- *Organisation structure* – the way that areas of work need to be allocated amongst the people in the business to achieve objectives and how the workers are accountable.
- *Management* – capability of management impacts the probability of success and leadership styles utilised influences employee morale.
- *Human resources* – particularly competences, the knowledge, experience and capability embedded in the businesses' human capital are said to be a critical success factor.
- *Organisational culture* – the attitudes and values of people within the business have a great effect on success or failure.
- *Physical assets* – availability and condition of key assets can severely impact performance and perception.
- *Financial strength* – cash is the lifeblood of a business and a shortage may have a knock-on behavioural effect if staff have to exercise tight budgetary control over an extended period.

### **Small Businesses are Not Little Big Businesses**

Large businesses are usually rigidly structured with formal processes and communication channels. Informal ways and groups may co-exist, but the need to achieve objectives by marshalling and controlling resources, and implementing strategy and plans on a large scale, usually on behalf of arms-length owners, requires recognised systems that are strictly adhered to. Large firms have the expertise, resources and finance that allow them to specialise internally, meaning