Managing the small business

Managing the Small BusinessAs an example of the small family business the small UK electrical company (hereinafter UK EC) as described in the book of Denise E.

Fletcher is taken. This company was established in 1948 and involved in the electrical-engineering business. It survived in the second generation and this is a substantial positive feature which proves the ability of the beginner of the business to start, develop and pass over to his successors this small family business using the appropriate strategy. Moreover, this is the reason to provide such an example as many researchers consider the small family business to be true only when it survived in the second generation.

What is small family business? There are no common definition of the small family business, one " study defines " small family business" as " a business with 20 or fewer employees in which ownership lies within the family and two or more family members are employed" (counting the owner-manager as the first employee and two part-timers and one employee). A " family member" is defined as " a spouse, child, parent, grandparent, brother or sister (including step and adopted members), niece or nephew, aunt or uncle and any individual who currently shares the household." (Riordan 1993). What is the contribution of family business to economy? These businesses are a very important part of the nation's economy. " Family businesses represent the vast majority of all U.

S. business… Certainly some corporations are family businesses, but even without considering corporations, it appears that 80 to 84 percent of all businesses in the U.

S. are small family businesses.” (Kirchhoff 1987).”[I]n the U. S.

, single families control or operate more than 90 percent of the 15 million companies and represent 175 of Fortune 500 firms. It is estimated that these family firms account for the majority of all jobs nationwide and generate approximately 40 percent of the U. S. gross national product” (Stavrou and Swiercz 1998, p. 19).

Small family business plays a significant role in the economy of the country. “ It is clear, based on extensive research in the field that the small business sector as a whole contributes greatly to the strength and stability of the U. S. economic system.” (Wall 1998).

Theories and research approaches. There were several research approaches in the field of family business research. It is worth mentioning approaches developed by Hollander and Elman (1988): the rational approach in which owners are sometimes advised to excise the business from the family when making business decisions; focus on the founder approaches, also emphasizing the conflicts between the owner and the business; and business phase and stage concepts.” These approaches are good in the sense of avoiding conflict situations between family members involved in business by means of excising the business from the family. For example, for achieving business goals in the best manner the owner is expected to hire competent employees but if a relative is in need the owner may be expected to provide him with the job opportunity despite the profit of the business.

As for UK EC this problem never appeared as Robert didn’t hire those family members who were not interested in the business. Riordan (1993) suggested the field theory. Relying upon this theory, owner-managers are expected to direct behaviors simultaneously to achieve both family and business goals. As it is explained in the article “ using the terms of field theory, the owner-manager of a family firm will have at least two subregions directing forces in his or her life space… Management control problems arise when the needs of the family and firm conflict.

” (Riordan 1993). This approach is significant for understanding both individual and group behaviour of the owner-manager in the context of two groups, family and business. The main condition of the success in managing family business is to avoid conflicts between family and business. In other approaches “ those that emphasize the benefits of family involvement tend to apply the resource-based view (RBV) (Habbershon & Williams 1999), while those that focus on the negative side of family involvement take the agency cost approach (Schulze 2001).” These two approaches are opposite. RVB approach is better as it is obvious that family business will only benefit involving its highly committed members as they will work hard for achieving common goals.

“ Traditional agency theory assumes that when the same people own and manage a business, there will be no agency cost.” (Chrisman & Chua 2003). But these two ones have a weak point in assuming that wealth creation through competitive advantage is the sole goal of the firm. Chrisman, Chua, and Zahra (2003) extend Sirmon and Hitt’s (2003) think otherwise proposing that with family involvement, a family’s aspirations and values will affect all stages of resource management and competitive advantage building.

The strong point of their proposal is that family firm performance must take into account both wealth creation and non-economic benefits such as mutual understanding, effective cooperation. Relationships between the family and the business. Regarding the theories and approaches mentioned above for a business to be continuous as a family business in the extremely competitive global market of the twenty-first century there must be relationship of mutual understanding between the family and the business. The business must be performed in the way bringing value to the family and family must bring its input to the business in the manner in which it can be involved in it. And as well there must be a healthy positive tension among the family company, the family and the individual family member along with the wish to cooperate for the achievement of main goals. Both maintaining a market niche, and effective development of family members are of high importance, as well as business and individual mission statements.

All these features help family members create and preserve identity within the family and business. Advantages of the small family business." Family businesses also may be nimbler, more customer oriented, and more quality focused–perfectly suited for the global competition." (Poza 1998). " Other research suggests that because of their private ownership, family firms can take unusual market risks that publicly held companies cannot take." (Haley 2001).

The two suggested in the articles advantages are good enough as they help small family business to compete with other companies. One more advantage is that family labour is more productive, family employees work harder and even use the unpaid family labour at first stages of the business.

Robert from UK EC says, “ I worked twice as hard as I did before but I found myself obligated because it is a family company… You can’t slam the door and think, sod it, I’ll go and work somewhere else, which I’ve done many time.”(Fletcher 2002). This is because the first importance for the family business is its survival in high enough competition market.

As to the use of paid and unpaid labour it can be said that both contributes positively to productivity. A positive feature of unpaid family labour is the decrease of the labour cost but negative is the dissatisfaction with the situation of the family member-employee as he feels not to get enough for his or her labour. As family member works harder and his participation in the business increases wages and salary expense to encourage the working member increases as well thus causing profit as a percentage of sales to decline. But general incomes increase, they are simply spent to the goals of encouraging the labour.

Thus we see the so-called “ cycle of family member involvement.” (Haley 2001). When the business starts family members work unpaid, as the business becomes more profitable all family members get their salaries. From many contacts with family businesses is seen they could be very aggressive and innovative in their markets because they possess relatively smaller size, greater local market knowledge and financial independence if compared to big national and international companies. Strategy. Basic strategy for both family and non-family business is similar “ in that any strategy must be formulated, implemented, and controlled in the context of a set of business goals.

(Sharma, Chrisman, and Chua 1997) and in relation to its business environment.” (Porter 1980). Differences are observed in the specific goals, in the strategy implementation and the participants of the process. Main goal for any business is earning profit. But in small family business this strategy is implemented regarding the family members’ interests and the participants of the process are family members as well which is not highly appreciated in other types of business for preventing corruption and subjecting the interests of a big company to a small group of related people. Thus small family business is the only one allowing positive relatives’ involvement.

There are several types of strategies involved for achievement the main goals:- Defender strategy when participants stick to what they know how to do and do it better than anyone else.- Innovator/Prospector strategy when participants are innovators and are willing to take the necessary risks of providing new products and services.- Analyser strategy when participants do not want to be first in their industry to offer an unproven product or service, but try to be close behind with a similar product or service that is competitive.- Reactor strategy when participants do not follow a specific programme or plan for making them competitive, although, when they are faced with strong threats, they definitely make changes. (Haley 2001).

From the article “ forty-two percent of the firms described themselves as product or service innovators (Prospectors), while 40 percent preferred to stick to what they know and do well (Defenders)… Analyzers (11 percent) or as Reactors (8 percent).” (Haley 2001). So far it is seen that the most appropriate strategy for small family business is either Prospectors or Defenders as give more opportunity to compete either doing the product best of all or bringing some innovative product for the needs of the potential customer. In UK EC the defender strategy was used as they were involved in the electrical-engineering business and tried to do it better than anyone else.

What are the major differences of small family business from others and how these differences influence the business itself? The major difference is described below " family businesses differ from traditional businesses in that they are owned or controlled by family members and thus have a great potential for the family to be involved in or to influence business matters. Because of the potential for family member influence, family businesses face many unique and complex problems not found in more traditional businesses." (Davis 1998). 1) Level of dependence in general. One of the unique problems found in the small family business is its great level of dependence on the owner-manager decision-making.

Major points of discussion are to determine "(1) the degree of dependence of family-owned businesses on a single individual; and (2) the factors associated with this reliance." (Barnett & Feltham 2005). A certain investigation was led and after the survey it was stated by the facts proved that self-report responses from family business owners provided evidence of a high level of dependence on the owner-manager. " In 75 percent of all family businesses, respondents believed that the company was either dependent or very dependent on them. First, 65 percent of owner-managers responded that they made all the major decisions in at least three of five functional business areas.

Second, these businesses had few key managers–in 57 percent of all businesses, there were only two or fewer key managers in addition to the owner. Third, in 62 percent of all family businesses, neither had a successor been chosen nor had a process been put in place for choosing a successor." (Barnett & Feltham 2005). Such results strongly show that family businesses are highly dependent on a single individual. And it should be said that such tendency may be dangerous for the business in case the family business has not planned to change such strategy.

In UK EC the level of dependence was very high. And this prevented the company owner-manager from hearing other family members' notes and suggestions positive for the business. This dependence was especially observed in finance and accounting. " Fred (the owner) was very secretive with his daughters and whatever. He gave them shares but they were never given accounts or anything.

They were asked to sign bits of paper but never knew what they were."(Fletcher 2002). 2) Level of dependence in finance and accounting. The data from the investigation demonstrate the high level of dependence across the business functions especially in finance and accounting. This dependence may lead to negative results in omitting reasonable suggestions for investment. 3) Comparing this situation of decision-making to larger firms.

Larger firms possess greater resources and more complex organisations and thus have more devolved decision process leading to lesser dependence on the owner. Small family business rather to follow larger companies' tendencies in decentralizing powers and responsibilities for the family members involved. 4) The way of solving the problem. The problem of high dependence may be solved by means of strategically reduction of dependence on himself or herself by the owner-manager. This reduced dependence has large positive impact on the further business survival and prosperity and as well the success of the owner-manager children. Choice of the successor problem.

In UK EC appeared a problem of choosing the successor. As the owner had four daughters he shared property among them and their husbands would have become the managers of the company. But nobody was really aware of the situation in the company at full extent as the owner did not allow anyone to participate in managing the company. Moreover, two husbands of four refused from participating in the business as it was not of their interest. And the problem appeared to be difficult. "…then the only alternative is to go to a competitor and say, do you want to buy us…" (Fletcher 2002).

But Robert and Stuart felt themselves obliged to solve the company problems and remain it in the family property. So they entered the business. Below are the possible ways to coop the problem and avoid such situations in the future succession. " The founder must determine whether or not his or her children will play a role in the firm. If the answer is " no," arrangements should be made to hire professional management or sell the business. If the answer is " yes," one must determine how to arrange for the entry of the younger generation.

” (Barach & Carson 1988). 1) Reasons to choose the successor. When business owners enter their fifties, they are better able to teach the successor about the management of the business. “ Among the more important problems facing family businesses is that of succession, the transference of leadership for the purposes of continuing family ownership, which must be addressed in order for the business to survive and be passed on to subsequent generations.

Research shows a mere 30% of family businesses survive past the first generation, and only 10% to 15% survive to a third generation.” (Davis 1998). One of the obstacles in choosing the successor of the small family business is that owners either do not think of the successor at all for a long period of time or they do not have the strategy of the planning process which both have negative impact on the business as a whole as it is seen from the figures above. 2) Planning process. Planning for the incorporation of the younger generation into the family business is of high significance, though it offers challenges and finds a place for younger members of the family, or adjusts the organization to the new generation’s inputs and demands. “ As one family business owner said: I started this firm to gain freedom and security not available elsewhere.

The success I have had is something I would like to pass on to my children. I hope they come into the firm, but they must have the patience to learn the business before they take over.” (Barach & Carson 1988). As it is suggested by the researchers a planning process should consist of three following steps:“(1) the identification of the pool of potential successors;(2) the actual designation of the successor;(3) the notification of the successor-designate and other major power figures of the designation by the predecessor or by appropriate higher authority.

” (Davis 1998). This is rather reasonable process as it allows choosing the successor carefully for the further prosperity of the business. 3) Gaining legitimacy. One of the main factors when joining the family business for the successor is to gain legitimacy among the existing members of the company. He or she must understand the importance of the role playing in the business, and not only the owner/manager, but other family members, employees must see him as having earned rather than inherited the respect and responsibility of his position. The successor must be able to prove his ability to the other executives and win their confidence.

Despite the fact that he has the legal authority and future ownership for business to work further successfully he should earn a real respect of his associates. “ The father can appoint the son to the office, but he cannot force acceptance by the organization.” (Davis 1998). The winning entry to the family business may be threatened in case two generations (younger and older) wish to accept each other but do not recognize each other.

It is correctly noted that credibility and gaining respect among future colleagues is important to winning integration of the successor into the business. 4) Entering strategies. A number of writers suggested strategies for the younger generation to enter the family business. “ Most agree that children should work elsewhere early in their careers.

Some writers have pointed out that entry into the family business via summer or low-level jobs is less than ideal in creating the image of a competent leader in the eyes of other employees, customers, and other groups significant to the transition. Yet 80 to 90 percent of family members do enter the firm through summer jobs or low-level employment.” The following rules are proposed: “ 1. The child should work elsewhere and act as if he or she did not have the family firm to fall back on.

2. He or she should be treated like any other employee, instead of as the heir to the company throne.” This proposal of Barach & Carson (1988) is very reasonable as the future successor could feel the business from inside seen how it works from the lowest levels to the highest and understand the process from his own experience. What is the role of commitment for small family business? As well in the question of successor entry into the business the commitment plays a very important role.

“ Committed family members are more likely to pursue a career in their family firm, be cooperative in performing their role in the leadership transition, and be satisfied with the succession process.” (Irving 2005). Irving as well (2005) proposes four bases of successor commitment to family business:- affective (based on perceived desire);- normative (based on perceived sense of obligation);- calculative (based on perceived opportunity costs involved);- imperative (based on perceived need). Affective commitment is based on person’s “ emotional attachment to, identification with, and involvement in the organization” (Meyer & Allen 1991). Such people are highly contributive to the goals of the business they enter as there is a strong sense of association of both organizational and individual goals.

The basis for normative commitment is a person's feeling of obligation to the targets. A person with high level of normative commitment feels obligated to stay in the business. " Continuance commitment is based on an individual's awareness of the costs associated with leaving an organization." (Meyer ; Allen 1991).

This type of commitment is based on the " cost-avoidance" mind-set. Both calculative and imperative commitment are considered cost-based forms of commitment. It results from the understanding certain require of better opportunities which are not available outside the business. But except alikeness there is a particular difference between last two types of commitment. " Calculative commitment is a consequence of a perception that remaining in the family business is the best of a number of attractive opportunities available, whereas imperative commitment is based on a perception that remaining in the family business is the only alternative, or the least bad of a number of unattractive alternatives." (Irving 2005).

The best commitment is affective as it gives most output from the future successor, less effective is normative as the person is rather obligated than emotionally involved, thus could present less effective work, calculative and imperative commitments may become effective by time-pass as the successor sees his satisfaction from the work results. In UK EC the next generation owners the husbands of two Fred's daughters entered this business in calculative commitment. Their wives did not want to enter their father's business as well as other two daughters and their husbands, so Robert and Stewart decided to manage the business as it was more attractive to them within other possible opportunities. And as the time passed Robert began to realize that this business became more significant for him than when he started. “ You know, I’ve found myself caring more about this company than I thought when that happened.

” (Fletcher 2002). Conclusions. Summarizing the given information it is clear that small family business have both advantages and disadvantages based on the family interrelations and goals to be achieved. This type of business plays significant role in the economy of the country and sometimes occurs more effective just because family members are simply committed and cannot leave the business and let it be in somebody other’s hands. For the survival of the family business in next generations, which is as well a specific feature, the owner/manager should carefully and in time choose the successor to teach him to manage the business.

It is very important as small family businesses are highly dependent on the owner/manager decision making. The academic material discussed in the paper helps determine significant impact of small family business on the economy, strong and weak points of approaches to better understanding of this business type, importance of the mutual cooperation and conflict avoiding between family members involved, level of dependence impact on the business, types of commitment and certain ways for the successor to enter the business, and finally the understanding of the family business phenomenon as a business entity with wealth creation and non-economic goals rather prospective in the highly competitive modern market.;;

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Sirmon D G, Hitt M A 2003, ‘ Managing resources: Linking unique resources, management, and wealth creation in family firms’, Entrepreneurship Theory and Practice, 27(4). Stavrou, Eleni, Swiercz P 1998, ‘ Securing the Future of the Family Enterprise: A Model of Offspring Intentions to Join the Business’, Entrepreneurship Theory and Practice 23(2). Wall R A 1998, ‘ An Empirical Investigation of the Production Function of the Family Firm’, Journal of Small Business Management, Vol. 36. Appendix 1.

Personal Studying. During the course “ Managing the Small Business” it was a lot of interesting to learn and to think about. As it is stated in the module book “ Small business is also important for the obvious reason that almost all large organizations start off as small ones.” But it is very important to realize that small business is not the smaller reflection of large business corporations.

As for the learning outcomes the nature and significance of small business and ways in which they differ from larger organizations as well as managerial challenges faced by small business are clear. It is not problematic to percept typical patterns of management problems. But sometimes it occurs to be a bit difficult to use all theoretical knowledge during the practical studies. In the paper there was a trial to prove the ability to critically evaluate concepts, theories and patterns from academic writings on small business which have been learnt during the course. Appendix 2. UK EC information.

Small electrical-engineering manufacturing company situated in the U. K. The year of establishing – 1948. First owners – two brothers.

Later one brother left the business. The remaining brother Fred continued to run the company. On Fred's retirement his four daughters got equal shares. None of them wanted to enter the business as knew almost nothing. In the long run two of the husbands – Robert and Stuart – entered the business to improve its successive existence.