

Small and medium enterprises and larger scale businesses commerce essay



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For this assignment I have done a lot of researches on the small and medium enterprise and larger scale businesses and sole trader. The first question on this assignment is distinguish between small and medium enterprise and large scale businesses . Small and medium enterprise and larger scale businesses are precise and varies by their own factors. The U. S government defines the sizes of businesses, such as the number of employees and number of revenues. Furthermore, these enterprises are sized by employee size, features of small scale industries and characteristics are successful small scale and medium scale business.

The next question is interview a sole trader, identify the difficulties that he/she is facing and give suggestion on how to overcome the difficulties. A sole-trader or sole-proprietorship is a business that is owned (and usually operated) by one person. It is the smallest form of business ownership and the easiest to start. For this question I learnt more about a sole-trader. A sole trader a simplest form of business structure. It is also easy and inexpensive to maintain.

SMALL AND MEDIUM ENTERPRISES ARE PLAYING A SIGNIFICANT ROLE IN OUR ECONOMY. DISTINGUISH BETWEEN SMALL AND MEDIUM ENTERPRISE AND LARGER SCALE BUSINESSES

2. 0 Small and Medium Enterprises and Larger scale Businesses

2. 1 Definition of Small and Medium Enterprises

The Small Business Administration (SBA) of US defines a small business as “ one which is independently owned and operated for profit and is not

dominant in its field” (Hughes, 2011). However in Malaysia, there is no common definition of small and medium enterprises (SMEs). Different agencies define SMEs based on their own criteria, usually benchmarking against annual sales turnover, and number of full-time employees or shareholders’ funds. In addition, present definitions focus mainly on SMEs in the manufacturing sector.

The following definitions are issued by National SME Development Council of Malaysia:

Primary Agriculture

A small and medium enterprise in primary agriculture is an enterprise with full-time employees not exceeding 50 or annual sales turnover not exceeding RM5. 0M.

Manufacturing (including agro-based)

A small and medium enterprise in manufacturing (including agro-based) is an enterprise with full employees not exceeding 150 or with annual sales turnover not exceeding RM25million.

Services (including ICT)

A small and medium enterprise in services is an enterprise with full-time employees of between 5 and 19 or with annual sales turnover of between RM200, 000 and less than RM1. 0million.

The above definitions are then divided into smaller entities, micro, small and medium. The following table summarizes the approved SME definitions based on number of full-time employees:

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SECTOR /

SIZE

PRIMARY AGRICULTURE

MANUFACTURING (including agro-based)

SERVICES SECTOR

(including ICT)

MICRO

Less than 5 employees

Less than 5 employees

Less than 5 employees

SMALL

5 – 19 employees

5 – 50 employees

5 – 19 employees

MEDIUM

20 – 50 employees

51 – 150 employees

20 – 50 employees

Source: National SME Development Council of Malaysia

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The table below summarises the approved SME definitions based on annual sales turnover:

SECTOR /

SIZE

PRIMARY AGRICULTURE

MANUFACTURING (including agro-based)

SERVICES SECTOR

(including ICT)

MICRO

Less than RM200, 000

Less than RM250, 000

Less than RM200, 000

SMALL

RM200, 000 – RM1. 0million

RM250, 000 – RM10. 0million

RM1. 0million – RM5. 0million

MEDIUM

RM1. 0million – RM5. 0million

RM10. 0million – RM25million

RM1. 0million – RM5. 0million

Source: National SME Development Council of Malaysia

Bank Negara Malaysia had conducted a number of case studies on successful SMEs in Malaysia to identify the key success factors of these SMEs. SMEs involved in the case study had been in operation for more than 10 years, and had been selected based on their financial performance and track record. The case studies demonstrated that although SMEs were from different industries, all the enterprises shared common critical success factors, namely:

Sound management capability and integrity;

sound business culture and entrepreneurial spirit;

Prudent financial management;

High quality products and services;

Good programme for human resource development;

Strong support from financial institutions in terms of lending and advisory services; and

Strong marketing strategies, including good network with suppliers

2. 2 Definition of Large scale Businesses

Large scale can always be defined as a measurement (Hughes, 2011). Scale means a form of measurement and when it is referred to as large it means

that you have a more than average amount on the measurement scale. Thus any industry that is large scale will mean that products are produced at a high volume. This in turn provides a higher capital.

Large scale industry requires a huge amount of capital to be invested in the industry first. It will provide many jobs for employees in order to offer a high output. This type of industry is found in places such as the USA, Germany, Japan, Russia, and Australia.

All of these countries are big money makers and have large operations producing a variety of products. This is different from a small scale industry that does not require as much capital or as many workers.

Given these definitions, a large scale industry can be just about anything from construction to the auto trade. Wal-Mart for example is a company in a large scale industry as they offer plenty of jobs and products to the consumers of the world. Size will matter when it comes to industry. Small companies employ about 60% of the work force in the USA due to the 30 million existing companies.

Unfortunately, these companies have a lower survival rate meaning that they usually run for five to ten years and then end.

2.3 Differences between a small and medium enterprise and large entities

There are many differences between a small and medium enterprise and large entities, namely: speed of decision-making, attitude towards risk,

allocation of resources, understanding of business models and management of business models, and differing definitions of innovation.

Decision-Making Process

Large enterprises, in view of the different bureaucratic levels, will often require longer time to make decisions. This can be very frustrating especially when a decision needs to be made immediately. Delay in decision-making may hinder the progress of the company. In this way, SMEs are better-off as more often than not, decisions can be made at the point of urgency. This helps the SMEs to grow more rapidly compared to a large-scaled enterprise.

Attitude Towards Risk

Large-scale enterprises can afford to take a bigger risk in running the operations of their businesses. This is mainly due to the fact that their capital is larger and there is a buffer to absorb any uncertainties. Large size firms, such as Sime Darby and Petronas can afford to invest in foreign countries and earn much more profits compared to other SMEs. However, SMEs need to be wary of the negative consequences should their investments not bring back the desired returns which may affect their operations in totality.

Allocation of Resources

In small businesses, every ringgit counts. Resources can be scarce and are allotted based almost solely on whether they will boost the bottom line. This bottom line focus may not be so distinct in a larger corporation. With more abundant resources - at least in comparison to smaller companies - people in large enterprises may be relatively free spenders.

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Understanding of Business Models

A large enterprise understands the business models in a wider perspective as compared to SMEs. Large enterprises have the resources to conduct in-house trainings or sent their employees (especially management executives) to overseas countries to attend training programme. Such programmes would provide a bigger horizon to its employees who are then able to strategize their activities towards achieving the company's goals and missions. This normally lacks in SMEs.

Innovation

Competition in the business environment is getting more "violent" with more and more business entering the market due to a more relaxed rules and regulations in setting up business entities. In order for a company to remain competitive and relevant in the industry, huge investments need to be made on the product or services. Consumers have the choice of choosing the goods in the market. Large enterprises have the capacity to invest in such innovations compared to SMEs. For example, recently Malaysian Airlines Systems (MAS) purchased new planes (A380 series) to remain relevant in the airline industries. SMEs will have limitations due to their limited financial resources.

2.4 Conclusions

Even though SMEs and large-scale enterprises have differing characteristics, both play a pivotal role in Malaysia's gross domestic product (GDP). Both institutions provide employment opportunities, contribute in the form of taxes, corporate social responsibility activities and many more. No business

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had emerged in large entity automatically. Every business needs to start up from a small and medium entity before moving to a larger enterprise.

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[www. sme. gov. my](http://www.sme.gov.my) assessed on 19/7/2012

APPENDIX 1

Members of the National SME Development Council of Malaysia

I. The Prime Minister (Chairman)

II. Minister of International Trade and Industry

III. Minister of Domestic Trade and Consumer Affairs

IV. Minister of Entrepreneur and Cooperative Development

V. Minister of Agriculture and Agro-Based Industries

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VI. Minister of Human Resource

VII. Minister of Finance II

VIII. Minister of Energy, Water and Communications

IX. Minister of Plantation Industries and Commodities

X. Minister of Science, Technology and Innovations

XI. Minister of Tourism

XII. Minister of Rural and Regional Development

XIII. Minister of Education

XIV. Minister of Higher Education

XV. Minister of Housing and Local Government

XVI. Minister in The Prime Minister's Department

XVII. Governor of Bank Negara Malaysia

APPENDIX 2

CLASSIFICATION OF ECONOMIC ACTIVITIES ACROSS SECTORS

I. Primary Agriculture:

â' Agriculture, Hunting and Related Service Activities

â' Forestry, Logging and Related Service Activities

â´ Fishing, Operation of Fish Hatcheries and Fish Farms; Service Activities
Incidental to Fishing

ii. Manufacturing (including Agro-Based):

â´ Manufacture of food products and beverages

â´ Manufacture of tobacco products

â´ Manufacture of textiles

â´ Manufacture of wearing apparel; Dressing and dyeing of fur

â´ Tanning and dressing of leather; Manufacture of luggage, handbags,
saddlery, harness and

footwear

â´ Manufacture of wood and products of wood and cork, except furniture;

Manufacture of articles of

straw and plaiting materials

â´ Manufacture of paper and paper products

â´ Publishing, printing and reproduction of recorded media

â´ Manufacture of coke, refined petroleum products and nuclear fuel

â´ Manufacture of chemicals and chemical products

â´ Manufacture of rubber and plastic products

â^' Manufacture of other non-metallic mineral products

â^' Manufacture of basic metals

â^' Manufacture of fabricated metal products, except machinery and equipment

â^' Manufacture of machinery and equipment n. e. c.

â^' Manufacture of office, accounting and computing machinery

â^' Manufacture of electrical machinery and apparatus n. e. c.

â^' Manufacture of radio, television and communication equipment and apparatus

â^' Manufacture of medical, precision and optical instruments, watches and clocks

â^' Manufacture of motor vehicles, trailers and semi-trailers

â^' Manufacture of other transport equipment

â^' Manufacture of furniture; Manufacturing n. e. c.

â^' Recycling

iii. Manufacturing Related Services (based on 5-digit MSIC 2000 codes):

â^' 73101 Research & experimental development services on physical sciences

â^' 73102 Research & experimental development services on chemistry and biology

â^' 73103 Research & experimental development services on engineering and technology

â^' 73104 Research & experimental development services on agricultural sciences

â^' 73105 Research & experimental development services on medical sciences and pharmacy

â^' 73109 Research & experimental development services on other natural sciences

â^' 60212 Factory bus services

â^' 60230 Freight transport by road

â^' 60300 Transport via pipelines

â^' 61102 Freight transportation by sea-going & coastal water vessels

â^' 61202 Inland water freight transport services

â^' 62109 Other scheduled air transport (e. g. helicopter services) n. e. c.

â^' 62209 Other non-scheduled air transport n. e. c.

â^' 63011 Stevedoring services

â^' 63020 Storage and warehousing services

â´ 63091 Activities of freight forwarding / forwarding agencies

â´ 63099 Activities of other transport agencies n. e. c.

â´ 74950 Packaging services on a fee or contract basis

â´ 74300 Advertising

â´ 74130 Market research and public opinion polling

â´ 74142 General management consultancy services

â´ 74143 Public relations consultancy services

â´ 74149 Other business consultancy and management consultancy services n. e. c.

â´ 92201 Printed news supply services

â´ 92209 Other news agency services

â´ 22190 Other publishing

â´ 71230 Rental of office machinery and equipment (including computers)

â´ 71302 Rental of furniture

â´ 90003 Industrial waste collection and disposal services

â´ 37101 Recycling of tin

â´ 37109 Recycling of other metal waste and scrap

â^' 37201 Recycling of textile fiber

â^' 37202 Recycling of rubber

â^' 37209 Recycling of non-metal waste and scrap

â^' 74212 Engineering consultancy services

â^' 27310 Casting of iron & steel

â^' 27320 Casting of non-ferrous metal

â^' 28910 Forging, pressing, stamping and roll-forming metal; powder metallurgy

â^' 28920 Treatment and coating of metals, general mechanical engineering on a fee or

contract basis

â^' 28999 Manufacture of other fabricated metal products n. e. c.

â^' 29220 Manufacture of machine tools

â^' 74220 Technical testing and analysis

iv. Services:

â^' Electricity, Gas and Water Supply

â^' Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles and Personal and

Household Goods

â´ Hotels and Restaurants

â´ Transport, Storage and Communications

â´ Financial Intermediation

â´ Real Estate, Renting and Business Activities

â´ Education

â´ Health and Social Work

â´ Other Community, Social and Personal Service Activities

v. Mining and Quarrying:

â´ Mining of Coal and Lignite; Extraction of Peat

â´ Extraction of Crude Oil and Natural Gas; Service Activities Incidental to
Crude Oil and Natural

Gas Extraction Excluding Surveying

â´ Mining of Uranium and Thorium Ores

â´ Mining of Metal Ores

â´ Other Mining & Quarrying

vi. Construction:

â' Construction

Interview a sole trader, identify the difficulties that he/she is facing and give suggestion on how to overcome the difficulties.

3. 0 Sole-Trader

A sole-trader or sole-proprietorship is a business that is owned (and usually operated) by one person (Hughes, 2011). It is the smallest form of business ownership and the easiest to start. Looking back at the history of business, some of the giant players in today's market, for example Walmart and Procter & Gamble, started their operations as a small entity, i. e. sole-traders.

This type of business organization is most commonly established in the construction, retailing, hairdressing, car-servicing and catering trades (Stimpson, 2008).

3. 1 About a Sole Trader

In order to fulfill the requirements of this assignment, I had interviewed Mr Raman, the proprietor of Raman Supermarket in Cheras, Kuala Lumpur.

Mr Raman, 48, had started to venture into business in 2000. Initially, he was operating a sundry shop in front of his house at Jalan Loke Yew. However, as business grew, he decided to rent the current shoplots and expanded his business into a supermarket. He sells variety of groceries, which includes fish, vegetables, and other daily consumption goods. He is being assisted by his wife and two Indonesian workers to run the daily chores. His business operation is from 6. 30 am to 11. 00 pm.

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3. 2 Problems faced By a Sole-Trader

The disadvantages of a sole-trader stem from the fact that these businesses are owned and often managed by one person (Hughes, 2011). Mr Raman had faced similar problems in running his business.

Limited capital is the main issue faced by Mr Raman. Banks, suppliers, and other lenders are not willing to finance their business, mainly due to its business entity and low confidence on their repayment capabilities. Working capital is important for daily business operations. Non-granting of credit facilities by suppliers hampers the idea of Mr Raman in running his business in a larger scale. Tight cash flow leads to lower stocks and order-taking. Company is not able to earn a good discount rate from the suppliers.

Continuity of the supermarket business or succession plan is another problem faced by Mr Raman. His three children are not interested in continuing his supermarket business. He is worried that the business will cease to exist should he give-up his business when he is old enough to retire.

Unlimited liability is perhaps the biggest problems faced by Mr Raman. Due to the nature of the liability, Mr Raman faces the consequences of losing even his private properties should he fails in rejuvenating the business entity. This may lead to him being declared a bankrupt should his properties are insufficient to settle the debts. He can be sued either by the bankers or his suppliers. This is one of the worst disadvantages faced by sole-traders , such as Mr Raman.

Mr Raman also faces difficulties in getting workers for his daily operations.

Locals are not willing to accept a low salary as compared to foreigners.
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However, foreigners have other social and cultural problems. Due to staff shortage, customer service is being compromised. Once he had a bad experience when one of his foreign workers ran off with RM800-00, being the day's business proceeds. Currently, he is being assisted by his wife on a part-time basis. This makes it difficult for him to take leave or go for a long vacation as this will jeopardise his business proceeds and may also lead to losing his loyal customers. Mr Raman confessed that the last time his family went for a vacation was five years ago.

Competition from bigger retailers is another major problem being faced by Mr Raman. The superstores are able to sell at a lower price due to their bulk purchase and higher discounts offered by the suppliers. Usage of credit / debit cards, which is not viable in Mr Raman's case, is another factor that leads the consumers to larger superstores, for example Jusco, MidValley and Giant, to name a few. Mr Raman is not able to offer similar service due to its limited and tight cash flow.

3.3 Suggestions on how to overcome the difficulties

In order to solve Mr Raman's problems, I would therefore propose to him to convert his sole-tradership into a partnership. The US Uniform Partnership Act defines a partnership as " a voluntary association of two or more persons to act as co-owners of the business for profit (Hughes, 2011). Regardless of the number of people involved, a partnership often represents a pooling of special managerial skills and talents.

In order to mitigate the disadvantage of limited capital, Mr Raman can request his family members or friends to become his partner. This additional

capital will assist Mr Raman to scale up his business activities for a better profit. Banks and suppliers will be willing to provide additional financing as they will be more comfortable and confident of Mr Raman's repayment capability.

Each partner is responsible for the well-being of the business entity. The pride of managing the supermarket and solving the daily operational problems will enhance the partner's motivation to work harder to reap more business proceeds. Customers can be better served and eventually through word of mouth on the excellent services rendered at Raman's Supermarket will help to boost his business.

Currently, Mr Raman is the only one actively running the daily operations of his supermarket. Partners often have complementary skills - Mr Raman could manipulate his partners' specialization to further enhance its services. Furthermore, should there be any problems or issues, the partners can discuss and arrive at a better decision - synergy effect.

The sharing of profits would also motivate the partners to work harder. Higher business turnover leads to higher profit-sharing among the partners. However, Mr Raman should document the methods of profit-sharing at the initial stage of the partnership deeds or agreements.

At the same time, the liabilities are also shared by each of the partners and not by the sole-trader alone. Losses are borne by each of the partners based on their shares.

The legal requirements of setting up a partnership are minimal as compared to corporate entities. As long as the business is registered legally, it is good to go. However, Mr Raman should create his own Partnership Deeds in order to avoid any problems in the future.