Business management: small and large business differences

Small Large Management

The purpose of this report is to review and provide a critical analysis (agree/disagree) if small businesses require different management style(s) compared to large businesses. In the contemporary business environment it is true that small business require different management styles compared to large ones.

Therefore the report will start by outlining the differences between a small and large business and their characteristics. Moreover the report will look into different management styles and try to demonstrate their contributions to the small businesses compared to large ones, on top of that underpinning the strategic relationship which these style(s) have to the small businesses.

2. 0 Introduction

Before undertaking the discussion it’s important to know the meaning of a small and large business. What exactly is a small business and when does it become medium-sized or large, are the key questions whose answers will be portrayed in this report. The small business administration defined a small business as a firm with 500 or fewer employees with annual revenue under £2500000 (www. delawarecountybrc. com `).

However the legal definition of “ small” varies from country and industry, a small business is the one with small number of employees generally under 100 employees in the United States while under 50 employees in the European Union (strorey, 2005). Some definitions focus on numerical parameters in order to differentiate between smaller and larger business types. The European commission (EC) initiated an important set of definitions of small and medium sized enterprises based on the headcount, turnover and balance sheet value.

The committee of inquiry on small firms, set up in the UK (1971) proposed that a small firm has three essential characteristics.

- A small firm is managed by its owner(s) in a personalized way.
- It has a relatively small share of market in economic terms.
- It is independent, in the sense that it does not form part of a larger enterprise and its ownership is relatively free from outside control in its principal decisions (Longenecker et al, 2000).

3. 0 Methodology

A background reading and research was done in writing this report by consulting lecturer notes of this module and creating points. A list of recommended text books (from the library) were consulted for application of academic theories and models. The report outline being updated when suitable new points were found, internet sources were used to gather examples and further arguments for consideration.

4. 0 Findings

Small businesses do not conform to any neat parameters, much depends on the industry in which they operate and the personalities and aspirations of those that run them. The objective of this section is to understand the deference between the management role in a small firm and in a larger corporation. Griffins (2000) explain the meaning of management as a set of functions directed at efficient and effective utilization of resources in the pursuit of organizational goals. Efficient in the sense that the resources are used wisely in a cost effective manner, and effective in making the right decisions and successfully implementing them.

The management challenge is to maintain control over the process of an organization while at the same time leading, inspiring, directing and making decisions on all sorts of matters. Hannagan (1998) points out that the challenges of modern mangers is to deal with this tension between operating the present systems, structures and processes and the need to change in order to survive. The larger an organization the more specialized management can become, and at the highest level an organization need convergence of skills (Hannagan, 1998).

Managing in a small business is not like managing part of a large organization, however, (Stokes & Wilson, 2006) argue that it is difficult to say precisely what the difference are other than having fewer resources to things.

According to (Stokes & Wilson, 2006), Small business management is different in several respects to management in larger organizations because of social structures, relationships and because of the level of resources available. While these differences are derived from the numbers of employees and the size of turnover, it is their management implications that are the primary concern of this report. For example a manager who has special department in a small business is facing situation typical of small challenge than large business manager.

Coyle (2003) explains that businesses with les than 10 employees rarely need a middle management structure, but over that size there is often pressure on the owner-manager to delegate more of the decision making.

Waynarczyk (2001) identifies three key aspects in which small and large firms differ: uncertainty, innovation and evolution.

- Uncertainty- is a persistent feature of small firms which tend to have small customer bases and limited resources
- Innovation of either very new products, or marginal differences to well established ones, is a key factor in the success or failure of new business start-ups.
- Evolution refers to the state of constant structural and market changes which small firms are likely to experience as they struggle to survive and develop.

It could be argued that uncertainty, innovation and evolution are also crucial part of the business environment of large corporates in today’s fast changing world.

Siropolis (1998) also emphasize that management in small firms differ from that of large firms due a number aspects. These include;

- Centrality of the owner-manager
- The formality of structure
- The level of resource constraints
- Vulnerability to external context and change

- Limited product range and market focus.

The vulnerability of small business to their external context has a relation to their inability to deal adequately with change. The introduction of new regulations can have a disproportionate effect on the fortunes of small business, whose limited resources cannot easily be redeployed to deal with the new procedures.

(Hall, 1995) points out that small business environment exerts some pressure that can be different to the influences on larger organizations. Problems of the availability, cost of finance, and the burden of government regulations and paper work are examples of the preoccupation that concern the manager of a small enterprise but possibly do not concern many corporate managers in large organization (Scarborough & Zimmerer, 2000).

Differences in the environment are probably as great between sectors defined by products or markets as they are between those delineated by size of company. Such differences in the business environment justify the need of different management styles between small and large business firms.

Moreover the financial management of a small business is different from that of a large firm. In a study conducted by walker and Petty the financial difference between small and large firms were evaluated and saw that there are clearly some differences between them. The disparities in dividend politics, dividends as a percent of earning are approximately 3% and 40% for small and large business (Hall, 1995).

The second difference is the liquidity; large firms have more liquidity which is reflected by the current ratio, the quick and current ratio increase as the firm size becomes larger. This difference exists because, small firms retain smaller amount of accounts receivable and inventory, second small firms rely heavily on current liabilities, thus small firms maintain less liquidity. The apparent difference in liquidity between large and small firms lends further support that small business require a different management style to large ones.

If the managers of small businesses are willing to assume greater risk, their attitude may well be reflected in the small firm's liquidity (Zimmerer and Scarborough, 2005)

According to (Stokes & Wilson, 2006), the internal structure of a small business creates the need for a different management approach. In a larger company, the chief executive is the head of the team of specialists in production, finance, marketing, personnel and other functions. There is a clear distinction between those planning the future of the business in the longer term and those implementing the strategy on day to day basis. On the other hand small business owner-managers have to do it all; they are generalists who will have to turn their hand to all functions from sales to production. They are the planners and implementors, responsible for deciding strategy and making it happen.

4. 1 Types of management control

The way in which an owner-manager exercise control over their workforce will depend not just on the personality of a manager, but also the deposition of power in the employer-employee relationship. Saini & Dhameja (1998) points that some circumstance gives the owner –manager, as employer, relatively high levels of control over employees; in other situations employees may be able to call more of tune. To illustrate this relationship Goss identified four types of management control- fraternalism, paternalism, benevolent autocracy and sweating in small firms.

Extent of employee potential economic independence

- Fraternalism

This describes a situation where the owner-manager is heavily dependent on the skills of the employees(s) to get the job done. This management is style is also common in professional and high technology small business.

- Paternalism

This occurs where alternatives for employees are more limited, and the employer is less dependent on specific workers. E. g. farming

- Benevolent autocracy

This is the most common situation in a small firm; the manager-owner is less dependent on the employee and able to exercise their influence from the position of power as an employer.

- Sweating

This occurs in circumstance by which the employer exercises all the power and the employee none.

These four examples of types of management control are not meant to be exhaustive; there are many variations on the theme. In some small firms two different modes of relationship can exist side by side. What emerge from looking at these types is that there is a highly varied pattern of management of people in small firms.

5. 0 Business growth models

Small businesses vary widely in size and capacity for growth. They are characterized by independence of action, differing organizational structures and varies management styles. As growth occurs managerial capacity constraint (Jensen and meckling, 1976) imply that existing behaviors are further reduced in frequency as new behaviors are adopted to manage the growing firm.

As small businesses undergo these changes, a differentiating factor between successful and unsuccessful firms is that successful firms act in " anticipation of bigness" (Hambrick and Crozier 1985). Hence growth stage theories provide a measure of predictability regarding what to expect in anticipation of getting bigger.

As newly formed business becomes established and grows its organization structures and pattern of management change. Longenecker et al (2000) points out that management in any organization must adapt to the growth and change, however they explain that changes involved in the early growth stages of a new business are much more extensive than those that occur with the growth of a relatively mature business.

A number of experts have proposed models related to the growth stages of a business firms. These models typically describe four or five stages of growth and identify various management issues related to each stage. Some of these models are;

5. 1 Churchill and Lewis growth model

Churchill and Lewis suggest 5 growth stages of small business which each have its own management style. These stages are;

- Existence-this is the initial stage, where a business has an aim of staying alive, at this stage a business needs to find and maintain customers.
- Survival- at this stage a business, establish customer and produce position, viability, maintenance of cash flow.
- Success- this is stage where a business makes a choice between growth and consolidation.
- Take off-this is the growth.
- Maturity- a mature stage.

This model provides the linkage of growth stages to management style, organizational structure, systems and overall strategy. See fig below

Stage	Management style	Extent of formal	Major strategy

		system	
Existence	Direct supervision	Minimal to non existent	Existence
Survival	Supervised supervision	Minimal	Survival
Success (growth)	Delegation/ coordination	Basic, developing	Maintaining profitable status quo; get resources for growth
Take-off	Divisional	Mature	Growth
Mature	Decentralization	Extensive	Return on investment

Source: lecture notes, 2007

Moreover Scott and Bruce (1987) also presented changes in a firm which are associated with growth. These changes are presented in a form of stage models. They infer that the small firm moves from inception (stage 1) through to maturity (stage 5).

- Inception-this is the stage of generating profit gaining customers limited, gaining customers.
- Survival- at this stage a business experience over trading, uncontrolled growth.
- Growth- at this there is adequate resourcing, organizational structure develop, system and control.
- Expansion- there is financing growth, focusing externally on environment and

At each of these stages the top management, the management style, and organization of structure change. The table below summarizes this application of this model.

Growth stage	Top management	Management style	Organizational structure
Inception	Direct supervision	Entrepreneurial/ individuali	Unstructured

		stic	
Survival	Supervised/ supervision	Entrepreneurial/ administration	Simple
Growth	Delegation/ condition	Entrepreneurial/coordination	Functional centralized
Expansion	Decentralization	Professional administrative	Functional decentralized
Maturity	decentralization	Watchdog	Decentralized/ functional product

Source: (Storey, 2002. pg 121)

In addition Greiner model (1972) sees also the relationship between management style and growth stage. He categorized the growth of a small business in five different phase stages, from phase 1 to phase 5 as explained below.

Phase 1- involves growth through creativity and followed by crisis of leadership

Phase 2-involves growth through direction followed by crisis of autonomy.

Phase 3- involves growth through delegation and followed by crisis and o control

Phase4-involves growth through coordination followed by crisis of red tape

Phase 5- involves growth through collaboration and followed by crisis.

6. 0 Is Mall Business Management Fundamentally Different To A Large Enterprise?

Burns (2003) agree stating that “ of course there are other characteristics of small business that may be added to the list: perhaps the most obvious is the severe limitation of resources faced by small firms both in terms of management and power as well as money. This statement highlights the qualitative and quantitative elements of small business that makes them fundamentally different to large business and not small scale.

He points out that small business have many characteristics that set them apart from larger ventures.

- Personalized management-it is expected that the owner of a small company should always be involved material decision and take an active role on all aspects of the management. Since one person has much overwhelming control over decision.

Managers deal with their staff in different ways, some are strict with their staff and like to be in complete control, whilst others are more relaxed and allow workers to the freedom to run their own working lives. Whatever approach is used it will be vital to the success of the business (Boddy, 2005). The organization is good as the person running it, hence he outline that there are three main categories of management styles which are; autocratic, paternalistic and democratic.

Autocratic style of management (o authorial) managers likes to make all the important decision and closely supervise and control workers. Managers do not trust workers and simply gives orders (one way communication). Longenecker (reference) points that total management of an autocratic style and the use of informal control system often arise from the very real pressure of time in small business environment.

Paternalistic management gives more attention to the social needs and views of their workers. Managers are interested in how happy the workers are in many ways, they consult employees over issues and give feedback or opinions. The manager will however make the actual decision.

Democratic style of management will put trust in employees and encourage them to make decisions. They will delegate to them the authority to do this and listen to their advice.

- Small market share-they can not dictate price or influence heavily on the numbers of goods sold. Their buying power is reduced since they do not buy in large quantities they must buy at a more expensive price. Small businesses must therefore sell at a more expensive price and become less competitive.
- Customer loyalty-small businesses especially those occupying the niche market often become reliant on small but loyal customer base. Should they only lose one or two of these customers the business may fail.
- Finance –small business often find it difficult to raise finance to grow, and are very dependant on customer prompt payment in order to survive.

Small businesses are often family owned enterprises, Kets de Vries (1993) outline the following advantages and disadvantages of family owned enterprises. Advantages

- Long term perspective
- Dependable culture that encourages long lasting relationship with all business partners
- Strong identification/commitment and stability
- Knowing the business
- Family culture as a source of pride.

Disadvantages

- Static thinking

- Managerial difficulties when family objective are in conflict.
- Less acceptable capital market
- Nepotism
- Succession problems

7. 0 Conclusion

Managing a small business is different to managing in a large company. Entrepreneurs need total management to jungle their many responsibility in running a small firm. Premises are key resources that require decisions on locations, physical and environmental features and types of lease or purchase. other operations resources to be managed include materials and equipment.

People are the key resources in most enterprises, many entrepreneurs feel inadequate to deal with the legal issues and conformity to employment laws that are required today. Hence four management control have been identified in small business firms. Although small firms are frequently managed by solo owners some high growth firms are manged by an entrepreneur team.

8. 0 References

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