

Managing and successfully running smes business essay

[Business](#)



" A small business is that which is independently owned and operated and which is not leading in its field of operation and in compliance with specific industry criteria". This is the most suitable general definition of small business. There are also other general definitions of small business. " Small and medium enterprise or small and medium-sized enterprise (SMEs, small and medium-sized businesses, are companies whose personnel numbers fall below certain limits. A small business is a privately owned and operated business". A small business typically has a small number of employees. These are the general definitions of small and medium enterprise. In Pakistan there are many definitions of SMEs. They vary from institution to institution. According to the SME bank " a small business is that whose total assets is of Rs. 20 million and a medium enterprise is that whose total assets is of Rs. 100 million". According to the Punjab Small Industries Corporation " an enterprise is small when it has less than 10 employees". According to State bank of Pakistan " a manufacturing small company, ideally not being a public limited company, should have less than 250 employees". For the service/trade the limit of " no. of employees is less than 50". Both should also fulfill the following criteria: A trade / services concern with total assets at cost excluding land and buildings up to Rs 50 million. A manufacturing concern with total assets at cost excluding land and building up to Rs 100 million. Any concern (trade, services or manufacturing) with net sales not exceeding Rs 300 million as per latest financial statements. The abbreviation SME is commonly used in the European Union countries and also in international organizations, such as the World Bank, the United Nations and the World Trade Organization (WTO). The term Small and Medium Business

(SMB) is also established in a few other countries of the world. Small and Medium Enterprises (SMEs) are known as the solution of economic development, modernization and the development of employment, employment potential, creation of income and scientific progression in most advanced economies. SMEs' also play an important role for enhancing the entrepreneurship, employment and the income level of any country. There are many advantages of small businesses. Many small businesses are able to deliver a vast amount of expert level experience to any size client. Small businesses grow by changing with the needs of ideal customers. Small businesses can get new data from a market, or even a client or two, and dramatically change their business model to align with a new opportunity. This flexibility is the prime driver of innovation. Smart small businesses often create networks of strategic partners able to meet the needs of their clients with the best and brightest every time. A small business can assemble experiential depth in every aspect through smart partnering.

Categories of Small Businesses

Small businesses can be any business running on short level, operating with lesser number of employees, having less assets and capital and mainly not influencing its particular industry. So that means that the small businesses can either a shop or an oil company. Usually most people consider business small only when it is a shop or having and operating a very small piece of land, they do not include an oil company as a small business. This perception is wrong because it leads to the misunderstanding of definition of small business. In Pakistan small businesses usually operate in the following categories: Trading Foreign Exchange Dealers Currency dealers Business

servicesMarketing ServicesFarmsPaint HouseRaw and semi-processed honeyPharmaceutical companiesInsurance companiesMotorcycle clothingSurgical instrumentsLeather productsMobile accessoriesSolar accessories and storage batteriesCottage and household IndustryUPS and storage batteriesCement sellingReal estate businessesChemicalsManagement consultancyReadymade garmentsRestaurantsWeb designingPlastic bags manufacturingThere are many more small businesses' running in Pakistan. Even there are many steel companies which are operating at small level. All types of retailer' businesses come under the small and medium business. So in now a day's every type of ' business can be categorized as small business until it do not influence or dominate' its market.

Starting the Small Business

There are some of the major issues that must be' resolved before becoming involved in owning or operating a small business. There are four preliminary steps that should be taken before deciding to start or buy a business: development of sound business ideas, market research, financial planning and deciding whether to' have co-owners. There are some other factors one should keep in mind before opening a new business. The research of market is ' also very important to check that either market exists' to purchase the service or product one is going to launch. It should be pre-planned that from where one should finance its business and' how the financial plan can be made secure. One' should know that what consequences of bringing others into the business are. There are some other' issues related to the start small business. These include the location of your business, insurance, various ' <https://assignbuster.com/managing-and-successfully-running-smes-business-essay/>

licenses and permits, tax identification numbers and tax registration, protection of any patents, trademarks' and copyrights that will be owned or licensed by the business, whether to operate your' business as a franchised operation, and employer-employee problems. These are the all issues that one should keep in mind before starting the new business because these lead the business ' towards the success. There are factors which accelerate the formation of the ' small businesses. The first factor is evolving customer's preferences (market niches). The small businesses are well suited to exploit these opportunities. There are many factors, which influence' the formation of a new business venture and its subsequent success or failure. These include the internal factors: personalities of entrepreneurs, their motivation, efforts, taking risk, tolerance' for pursuing such a venture and external factors: economic & infrastructure conditions, inflation, market information, supply and demand for products and services, banks system, trade regulation, skilled personnel. There are some factors which influence one to start a small business in Pakistan. These include Motivation social Networking, family support, personal characteristics and' cultural Influence. The best time to grow for the small and medium enterprises is recession. Because in' recession the income of the people decreases the big businesses go down in the recession so ' there are the opportunities of growth for the small businesses for more success. Even you can ' start a small business during a recession. Some small businesses thrive during a' difficult economy. These businesses are called counter-cyclical businesses. Starting any small business during' a recession is a baptism by fire, but if you can survive, you will thrive as ' the economy recovers. These

business ideas are viable during a recession. As the economy recovers, they will still be sustainable businesses that will prosper. There are many factors that go into choosing the best entity, including: Management structure and investor roles Anticipated size Revenue streams and tax liability Amount of personal liability Business exit strategy

Ways to Sustain Small Business

There are some factors which are very important for the sustainability of the small business. These factors include the following: Creating loyal customers can sustain your business Finding and catering customers with special preferences Invest money in marketing to gain more customers Get avoided from more tax to avoid bankruptcy Good location of business must be there Information about the market and the customers is necessary Good management is compulsory Proper management of human resource Proper IMS (Information Management System) Positive contribution towards society Proper growth of the business Commitment from higher level of leadership There are some other factors which are very important to sustain the business such as finance related factors, political factors, economic factors, environmental factors and social factors. Usually the small businesses are family oriented businesses. The financial requirements are fulfilled from family and friends. Due to shortage of the finance the small leads towards failure. The political factors are also having a great impact on the sustainability of any business. The social factors are the major cause of failure of the businesses. Cultural and social norms play an important role in sustaining any businesses. The environmental conditions also affect the business's going concern. In order to survive, most small businesses must

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adopt a narrow market focus. The growth and sustainability' also depends on the region and location of the business.

Problems Faced by SMEs

Due to the low financial investments available to the entrepreneurs of' the SMEs, there are a large number of problems and barriers for the proper functioning of ' such industries. Some of the major problems are: 1. The revenues generated tend to' have a very small monetary value due to which the individual profits generated is so less ' that most of it is spent on the daily expenditures. Extra capital is not available for ' expansion purposes. 2. Economies of scale are not available so' production cost is higher. Goods produced in small-scale industries cannot compete in ' open market if the same goods are manufactured on a large scale. 3. There is a lack of standardization and quality control. ' In some cases they do not meet the standards of foreign markets'. A lack of coordination between different industries also creates differences in prices. 4. Due to the low literacy rate ' of the investors, the production methods and technology used is outdated. 5. The wholesaler, who takes most of the profits, exploits the' owners of the small-scale industry. In some cases goods are sold to wholesalers' at cost price, which discourages the owners and they reduce the quality and quantity the produced. 6. In rural areas, where the electricity is' not provided, small-scale industries are difficult to set up. Even sometimes the great fluctuations' in voltage and power break-downs cause damage to the electric motors. The commercial rates of electricity have also increased significantly which hinders' the growth. 7. The craftsman ' and artisans learn their skills and production methods from their elders. The provision of

technical advice and further' training is limited. 8. Due to the lack of trade barriers and the promotion ' of free trade, the markets are flooded with internationally produced goods which over shadow ' the domestically produced output. Small and Medium Enterprises (SMEs) are often ' confronted with problems that is uncommon to the larger companies and multi-national corporations. These problems include the following:

Lack of IT Support

IT personnel are in high demand and are' often attracted to bigger companies and MNCs. It is very difficult for SMEs to attract good IT personnel. It is even more' difficult to retain them. Moreover, good IT personnel are expensive and may not be affordable' by most SMEs.

Lack of IT Literacy

Many of the employees in SMEs started from the ground up ' after working with the company for many years. Some of them are often holding supervisory and managerial positions. These employees may not be IT literate and often' have high resistance to the changes in the working process that they are comfortable with ' after many years.

Lack of Formal Procedure and Discipline

Most SMEs do not have formal procedure' or often these are not documented. Furthermore, there is tendency for these procedures to ' change frequently. This makes it difficult for third party and newcomer to understand the existing business practices and ' match them with the IT process.

Uneven IT Awareness and Management Skill

As company grows, new managers are ' often introduced into the company. There will also be old managers who are promoted from the ' rank and file. Some of these managers may not been trained in the leadership and' management skill. These uneven skill among the managers often caused conflicts during the ' implementation.

Lack of Financial Resources

As a SME/SMI, financial resources are' often limited. This often forces company to select a solution, which appear to be cheap initially. However, the hidden costs will start to emerge during implementation. This sometime causes the project to' be abandoned or sometime sent the company into further' financial crisis.

Lack of Human Resources

Implementations of some bigger scale, IT project especially those' that involve business process across different departments or require large amount of initial data entries require human resource during the implementation. Some SME's are often in the stage of frequent fire fighting and shortage of manpower. This makes' it very difficult for them to allocate time to carry out implementation. Furthermore, there is ' always a conflict between getting the daily routing work going and to do the ' Extra' IT implementation.

Lack of Experience of Using Consultants

A good consultant often save time and effort, and help to prevent pitfalls' during the IT projects. However, most SME's are lacked of experience in

working with consultants. The lack of knowledge in the field of IT makes ' them difficult in identifying good consultant for the projects. They often feel that the consultant costs are' too high and they can handle it with their own staff.

How to run a Small Business Successfully

Being a small business owner comes with challenges unique ' to the size and function of the business. The small business owner has to handle all the challenges of selling, delivering, financing, managing and growing the business with little or ' no staff, while trying to make it a success. The most important of all is to retain the interest of all stakeholders like customers, vendors and team to build momentum in' a short span of time. A few tips on how to run a small business can make these challenges ' easier to handle. However, running a small business can be hugely rewarding both personally and financially. It can be easy to start a small business, as there are opportunities to ' fit almost every budget and skill. It is often harder, however, to run a small business ' successfully. Running a successful small business often starts with the planning stage when you are' deciding what you will sell and where you will locate your company. It doesn't stop there; however, as everything from your choice of employees to your accounting practices may' influence your potential for success. Your success in business may be directly related to ' how well you choose. Select a business in which you can use your skills and talents. For example, if you have artistic talents, a gift basket or floral arranging business may be' a good choice. It's also important to consider the demand for the type of business you want to start. If you want to' start a convenience store and there are several in your area,

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you ' may have trouble getting customers. A business plan may help you launch your business and keep track of your goals and objectives as' you work to expand it. It may also prove important if you need to apply for a business loan, as' a lender may request a copy of it. Secure any business licenses and permits that' are required in your jurisdiction. The licensing you will need may depend on the jurisdiction' in which you will set up shop. In many jurisdictions, you will need a business license, even if you are running a business out of your own home. If your ' business will depend on foot traffic, you will typically want a storefront or other commercial space in a busy area that is accessible by major roadways and public transportation. If you will sell your services primarily by phone, over the Internet or through the mail, your location may be ' less of a concern. In such a case, you may run your business out of your home' or lease or buy the commercial space that best fits your business budget. When you are planning your startup' budget, make sure that you have enough money to cover not only your startup expenses, but ' also operational expenses for a several months in case you do not make a profit right away. Keep some money on hand for emergencies and large orders as well. With a small business, you will likely have the opportunity to hire your own employees and get to know them. Since your employees may influence your success in business as well as the comfort level in your business environment, it ' makes sense to hire workers who are skilled and have a solid work ethic. Pleasant' personalities are also desirable in employees. Small businesses often have ' to pay quarterly taxes and may be subject to tax requirements that individuals do not face. Keep records of all of' your income and expenses, and file taxes according to the

deadlines of your local, state and ' federal tax agencies. Choose products and services that have a high profit margin. The more you make off ' of each sale, the fewer sales you'll have to make to meet your financial goals. You will ' not experience success if no one knows your business exists. Fliers, brochures, business cards ' and newspaper ads are good ways to advertise on a budget. You may also find affordable options ' in radio and cable television advertising. In addition, you may ask loyal customers to ' tell others about your business. Take advantage of opportunities to expand your small business. This may mean looking for new products to add ' to your list or extra services to offer your clients. In some cases, it may even ' mean expanding your business to include additional physical locations. There are certain steps' to run a business:

Step1 Make Your Bank Work for You

Run your small business with financial efficiency' by exploring all the options that banks offer small business owners and choosing the right bank for your business' financial plan. Many financial institutions offer accounts with ' low fees, loans with discounted rates or free direct deposit programs for ' small business account holders. Banking with the institution that gives you the best deals will ' help you stretch every rupee.

Step2 Create a Business Plan

One of the keys to running' a small business is to have a business plan that outlines your goals and projected growth. Outline' your finances so you know what sales numbers you need to meet in order to break even along' with specific goals you have for the growth or improvement of the business.

Step3 Network as Much as Possible

Gain the support of other local small businesses by networking' with other small business owners. Join small business associations and participate in community events to raise awareness of your business. Participate ' in community functions so potential clients will be aware of services' you offer.

Step4 Manage Your Inventory Efficiently

Inventory management can make or break a small retail business, so manage' it carefully to ensure that you're maximizing every rupee spent. Invest in small inventory quantities at first and continuously monitor inventory numbers ' so you know what's selling and what isn't. Rotate inventory frequently to remove slow ' sellers and replace them with new items.

Step5 Stay Organized

Organization of your time, employees, finances' and inventory is one of the keys to successfully run a small business. Develop a spreadsheet that helps you keep track of all the important details so you don't have to' keep them straight in your head, and make time -- at least once a week - to review everything.

Step6 Know Your Business

Stay on top of what's new or trendy in your business so your small business can stay competitive within--the industry. Subscribe to periodicals or online newsletters to stay informed about current events in your small business' industry.

Step7 Get Your License

Remember to register and acquire your small business--license in the particular industry of your business. This step is important to ensuring that you're running your business legally and according to industry regulations. Be sure to register for--permits related to particular services you offer, like home repair or tax preparation, which could require registration and certification.

Step8 Certify Employees

Employ individuals with certification in your business' field, like certified public accounting or electrical repair technician. Having--certifications for all employees will ensure that your employees are skilled at the highest--level and will increase your client's confidence in your business.

Traits of Successful Small Business Owners

These are the factors which are to be--considered to run a small business successfully. A business can be run successfully only--when the owner of the small business has the following traits in him or her:

Being Self Fulfilled

Good small business owners put a high--price on the fulfillment their companies provide them, relish being their own boss, and enjoy being in control of their personal income. They value doing something for a living that they love to do, being able to decide how much money they make and being able to have the satisfaction-of creating something of value.

Future Focused

Small business owners who thrive are good at both short- and long-term planning. They're as likely to have a well thought-out plan for the day-to-day running of the business as a road map for how to run-the business for years.

Curious

Good entrepreneurs are-always reading and asking questions. They want to learn everything from why a particular business failed to--how to find, motivate, and keep good employees.

Technology Oriented

Perhaps not surprisingly, the best small business owners invest time and money on their company's website and are likely to rely a great deal on technology -to help make their business more effective and efficient.

Action Oriented

Successful founders are proactive--and always differentiating themselves from their competitors. They were less worried than other--small business owners about the state of the economy and more likely to look at adversity as--a kick in the rear to help them move forward. If- these traits are in the owner of the small business--the business will surely be a successful business.

Causes of Failure

According to the Small Business Association (SBA), one reason why many small businesses fail is because they--fail to plan and execute actions appropriately. Create a business plan (even if it's a short--one just for your

own viewing). Research and analyze the target market for your products or services, then write a marketing plan based on your research. Inability to manage cash flow effectively is one of the main reasons entrepreneurs fail, or experience great difficulties in their--first year of operation. This situation frequently arises because of external factors beyond--the control of the business owner, e. g. inability to secure credit with suppliers--while having to provide extensive credit for customers. Many small business owners make the--mistake of trying to do everything themselves. Sometimes hiring a part-time or full-time employee or an independent contractor to help on certain projects can be just the help--you need to propel your small business to the next level. Overspending is another top reason why many- small businesses fail. Don't spend all of your capital investment in one area, such as an advertising campaign. That is a recipe for disaster if the campaign doesn't work. Instead, wait until your plan is fully developed and invest small amounts of money in a variety of initiatives that can get your business off the ground. Then you can funnel more money into the areas where you see an opportunity for growth. Out-of-control growth. This one might be the saddest of all reasons for failure — a successful business that is ruined by over-expansion. This would include moving into markets that are not as profitable, experiencing growing pains that damage the business, or borrowing too much money in an attempt to keep growth at a particular rate. Sometimes less is more. Poor accounting is another reason of the failure. You cannot be in control of a business if you don't know what is going on. With bad numbers, or no numbers, a company is flying blind, and it happens all of the time. There is a misconception that an outside accounting firm hired

primarily to do the taxes will keep watch over the business. In reality, that is the job of the chief financial officer, one of the many hats an entrepreneur has to wear until a real one is hired. So that the accounting check can be performed efficiently. Operational inefficiency is another cause. Paying too much for rent, labor, and materials. Now more than ever, the lean companies are at an advantage. Not having the tenacity or stomach to negotiate terms that are reflective of today's economy may leave a company uncompetitive. Dysfunctional management is also a factor of failure. Lack of focus, vision, planning, standards and everything else that goes into good management. Throw fighting partners or unhappy relatives into the mix and you have a disaster. A declining market can also be the cause of a small business failure. Book stores, music stores, printing businesses and many others are dealing with changes in technology, consumer demand, and competition from huge companies with more buying power and advertising rupees. Some other factors can be lack of government support, changing regulations, lack of security for investment, unfair agreement and contracts which imposed by large companies particularly government industry and organization, low information, difficulties with hiring skilled personals, higher loan interests and more important the financial problems.

Managing the Small Business

After you've started your small business, the surest path to success is managing and growing it effectively. Some small business owners don't think that there is such a thing as 'small business management'. They believe that if you have 10 or fewer employees than you can manage your business by doing as much as possible yourself, then telling your employees what to

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do and making sure you catch them before they make a mistake or mess something up. In fact, Small Business Management is where you've organized and systemized your small business to virtually run itself. This applies to the 1-person business as well. The best small business management model is the business franchise (like McDonalds or H&R Block). Many small businesses eventually fail but the vast majority of franchises succeed. A franchise has a ' management system, a franchise manual that shows exactly how to run the business step-by-step. Anyone, for the most part, can run a franchise because they've systemized and organized the business to virtually run itself with little or no training. Because small business management is the surest path to small business success and freedom, so you'll never be able to relax or take a ' real vacation' unless you have made your business capable of, at least in the short term, running without you. Take the time now to organize and systemize your business so you won't have to in the future when the process is more complex. The success of a small business relies on how the entrepreneurs manage and operate the business. There are a lot of people starting a small business every day, but because of the lack of knowledge, they end up with an empty pocket. It is critical that one must consider how the business should operate. As a business owner, you should have clear understanding on your business plan and this should include your operational decisions in order to meet your business goals and objectives. When we say business operation, we are referring to a detailed analysis of how you are going to provide your products and services in the marketplace. It is important that you can identify the strength of your business so that you can work it out in the production stage

and be on a competitive edge. In your business plan strategy, you should clearly state your operational approach. The operation stage relies on the people. You should create a business structure so that you can easily identify the people who are qualified to do the job. Always look at the qualifications of your people because the success of your business operation is in their hands. A successful business operation also relies on how well you manage your business. You can't operate well if there's a lack of management. There are many challenges involved in managing a business because this will include the totality of the business, meaning one must have to check on every aspect of your business. One of the greatest challenges in managing a business is the financial aspect. Oftentimes, this is the culprit which causes small businesses to fail. Inadequate funding can make business operation stop. You must have a good management skill to save the business with low capital. Business management also includes marketing. This is one area of business which you should work out because no matter how excellent your products and services are, you cannot achieve sales if there is no marketing strategy being implemented. It is the responsibility of the one who manages the business to create a good marketing strategy as well as deploy people who are capable of doing these marketing strategies. The best way to manage and operate a business is by empowering your people to become leaders. To ensure smooth business management and operations, listen to your employees and tend to their needs. A good manager should know how to reach out to the employees. You must always remember that you cannot operate your business well if there are unresolved conflicts within your employees. Help your people to improve on their personal careers. You are

not only helping them to become better, but you are also helping your business to become better. In closing, operating and managing a business is not an easy task. But if you know what you are doing and you implement some techniques, you can operate and manage your business more smoothly. Help your business reach its full potential, manage it well and implement good operational approach. Establish a good relationship with your people, and together as a team, you can sail your way towards business success. The three way management scheme works well in a large corporation. But it can cause difficulties in a small corporation having only a few shareholders. In a corporation with one shareholder, or example, it is difficult to go through the mechanics of having that shareholder elect himself or herself as a director and then in a subsequent meeting elect him or herself to various offices. Voting is based on number of shares, not number of shareholders. Consider a situation where one of three shareholders in a corporation owns 67 per cent of the stock and the other two own the remaining stock. Because directors are elected by a majority of the stock, the 67% shareholder can nominate and elect all the directors, and the directors in turn will elect all of the officers. Because the holders of two-thirds of the shares under corporate statutes can approve any action that shareholders are entitled to vote on, the 67 per cent shareholder can vote to merge with another corporation or to liquidate the corporation, regardless of the wishes of the two minority shareholders. It is possible to give the minority shareholders in the above example some protection through various special provisions that have been incorporated into state corporate statutes in recent years. One way is to have cumulative voting, where if three

directors are to be chosen, shareholders can use their votes for one director, rather than vote for each candidate. Another way to enhance the rights of the minority shareholders would be to create two classes of shares and allow each class to elect an equal number of directors. Since the directors elect the officers, a slate of officers acceptable to the minority shareholders would have to be proposed in order to elect any officers. Each class voting separately would also have to approve any fundamental change in the corporation, such as a merger or liquidation. Thus, the minority shareholders would, in effect, have equal management rights in the corporation even though they own only one-third of the stock.

Human Resource Management for Small Business

Running a successful organization requires finding, retaining and motivating the right employees. Current changes in the economic structure, such as the increased role of knowledge, the ageing of the workforce and a decreasing inflow of entrants into the workforce, further increase the importance of the management of the (internally and externally) available human resources. This holds for all organizations, irrespective of their size. Small businesses generally employ less than a hundred people. This number is not insignificant and professional human resource management activities will help in streamlining the HR function of the business. Human resource management includes the physical and mental labor contributed by the workforce for the production of goods and services in the business. Research reveals that finance and accounting and marketing functions take precedence over human resources in small businesses. A significantly lesser number of small businesses have full time personnel managers to oversee all

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the human resource functions of the business. HRM covers all these topics and everything else related to recruitment and management of all employees within an organization. As a separate department, it's able to function better and can also hold a neutral position if problems arise between employees and employers. It's essential that every business has an HR department or at least one person looking out for the needs of the employees. A small business should keep in mind some things for managing its human resource. Verifying the staffing requirements of the business- small businesses often have a very small number of employees. To outsource from contractors or hire full time employees-Many small businesses prefer to get smaller jobs done through contractors who have contract labor. Training the employees for the business-every business has specific requirements and new employees need to undergo a period of training to get to understand their job fully. Rewarding the best employees- One effective method to fight high attrition rates and making employees stay, is to devise good rewarding strategies for the best employees. The rewards program provides employees the impetus to work harder and better, and all of them will aspire towards excellence in their jobs. The innovation literature mentions many organization level influences that are likely to play a role in the innovation process within firms. Elements such as structure, strategy, size, resources, culture and leadership also effective HPWS may also form an important organizational level influence on innovativeness. To enhance innovation, HRM practices need to ensure that creativity can thrive and new knowledge and skills can be created in the firms. Firms also need to maintain an environment that supports the implementation of these new

ideas in the workplace. Innovation will be promoted and sustained where HRM practices are in place to manage the creation, transfer and implementation of knowledge. Most of the practices in high performance work systems are likely to stimulate innovation. Innovation and creativity domain relevant knowledge is an important aspect of creativity. Thus, organizations need to ensure that such knowledge is present. This is done through strict selection of new employees, focusing on breadth and depth of expertise. There are ten primary factors that distinguish the human resources function of large companies from that of small and mid-sized companies: Degree of specialization, Number of geographic locations, Unionization, Variety of jobs, Hierarchy of reporting relationships, Grievances and disciplinary problems, Equal employment opportunity and affirmative action, HR policies and procedures manual.

Management System

Management systems generally include detailed information on topics such as Organizing an enterprise, Setting and implementing corporate policies, Establishing accounting, monitoring, and quality control procedures, Choosing and training employees, Choosing suppliers and getting best value from them, and Marketing and distribution.

Factors Affecting the Success of Small Business

Marketing Action

The most significant impact factor of SME is marketing. The marketing includes product/service marketing, marketing research and information, demand forecasting and analyzing, pricing policy and strategy, trained sales

staff and promoters, and finally market segmentation. All these heads have different levels of impact on the performance of SMEs. Understanding the impact factor of different activities would enable SMEs support agencies and practitioners to find practical solution.

Investment Analysis

The second impact factor is the analysis of investment. Lack of financial record keeping and documentations, insufficient provision for contingencies, high investment in fixed assets particularly in the beginning, inability or failure to analyze financial statements, misperception of turnover as profit, and underutilization of company assets badly affect the performance and development of SMEs. SMEs do not usually use external advisors when making decisions on the amount of capital they need. Lack of investment analysis may result in the use of right sources of capital for wrong purposes. Firms in their inception must not tie their initial capital in fixed assets because the return from fixed assets cannot be realized in the near future.

Working Capital Management

The process of planning and controlling current assets and current liabilities for smooth organizational operations is so called working capital management. Problems in the management of credits and overdrafts, poor cash flow analysis, poor management inventory, cash, account payables and receivables and unplanned withdrawal of cash may have a devastating impact on the performance of SMEs. Failure in collecting account receivables may have serious impact of liquidity and settling short-term credits and overdrafts. Mismatching sources and uses of funds is also a major problem.

The liquidity problem of start-ups is associated with day-today decisions. Small firms often fail to distinguish between long and short terms financing needs and to find appropriate sources. It is not uncommon to see startups using short term financing for long term assets.

Customer Relationship

Today quality has become the basis of global competition. Competitiveness and survival are possible if only SMEs can provide quality product/services and achieve customer satisfaction, which leads to customer loyalty-a prime determinants of profitability. It is easier to retain existing customers than attracting new ones. Customer relationship include keeping customers record, making follow-up on customers behaviors, improving knowledge of their characteristics, understanding the market complexity and having adequately trained staff. The researchers placed more emphasis on keeping customer records and follow-up on customers' behavior. It seems, for the data, that SMEs have clear understanding of the important role played by establishing customer relationship. But, the tradeoff between perceived cost of establishing the relationship and the possible economic benefits of the relationship seems unclear.

Managerial Action

Many researchers and practitioners claim that the major cause of small business failure is poor management. Whether the causes are labeled as financing, competition, marketing, inventory, etc., they could be safely avoided if good management was in place. Although it has become difficult to explain what constitutes ' poor management', small business

owners/managers need to develop basic managerial skills and knowledge. If they are to succeed, managers need to have adequate skills in the area of planning, organizing, directing and controlling organizational resources. The researchers have clearly recognized the importance of managerial adequacy and competency as critical success factors. The main contributor to the critical role of the managerial factor is use of external advisors; focus on strategy formulation and implementation rather than short-term profits and developing strong interest--for non-financial benefits such as need for achievement and recognition.

Socio-Economic Issue

Socio economic issues include social, cultural, and demographic changes in external environment that affect the performance of SMEs. Economic--issues include impact of inflation, recession, changes in interest and exchange rates, market size, spending power of customers, availability of business premises in the community,--intensity of competition in the market.

Managers and researchers perceived them to be critical success factors for SMEs. However, compared to other factors like marketing and managerial--actions, they rated it sixth. The most influential items that have significantly contributed to socio economic factor are intensity of competition, small market size, availability are--affordability of business premises, impact of inflation, interest and exchange rates and low spending power of customers are related to have significant impact on SMEs.

Human Resource Development

The researchers indicated that human resources development is a critical success factor affecting the performance of SMEs. But, its perceived impact on--SMEs is relatively low. Out of the eight human resources development related items, lack of experienced employees in the market, lack of skilled manpower in the market, lack of low cost training facilities and inaccessibility and unavailability of training facilities in the community are considered to be more important than other Human Resource development issues such as-- employee turnover dependence of family labor. The important finding at this point is that according to SMEs perception of the market, the major problem is not shortage of manpower. There are two major problems- (1) lack of skilled and well experiences personnel in the labor market, and (2) accessibility to or lack of low cost training facility in the community.

Techno-Regulatory Changes

SMEs are facing challenges brought about by changes in--technology and political-legal environment. Technology changes the way SMEs are doing business. SMEs must be able to keep abreast of the changes in technology. New technology is usually expected to reduce cost of product or service. Failure not to employ the latest technology--means producing at higher unit cost than do others who use new technology. Political instability, market policy, taxation policy, price control, regulation and de-regulation of some industries may affect small business success. The researchers perceived the changes in technology to be more critical to SMEs than the other items [company registration, labor legislation and trade unions]. This implies that

the legal and political environment is considered as exerting less pressure--on SMEs than rapid and costly technological changes.

Organizational Development

The way SMEs are recognized or structured has an important implication for the flow of information and effectiveness of communication in the organization. Organizational structures affect unity of command, and unity of chain as well as--the flow of authority and responsibility in the organization. They clarify issues like who reports to whom and the job description and content of each organizational member. The researchers--considered organizational development as a critical success factor with a lower perceived impact on SMEs than do other factors. Centralized decision making, lack of clear division of--activities, low level of formalization and high span of control are considered to be more influential than other activities like level of standardization, organizational structure and--Communication problems.

Managerial Background

Managerial background basic requirements are--to be professional manager. These are general educational background, training in basic business management skills and practical industry experience. The researchers considered it as small business is the least critical factor. The researchers perceived the items related to managerial--education, training and experience as having only little impact on the performance of SMEs. But, many--studies found managerial background as having greater impact on SMEs than do any other factors. This could be attributed to the concentration

of the sample firms in non-manufacturing sectors where managerial background has relatively less impact on organizational performance than on manufacturing firms. In these cases, managerial leadership flows from the headquarters. The next least affecting factor is organizational design and development. This factor comprises such items as lack of clear division of labor, lack of open communication, lack-of proper organizational structure, low level of standardization of product/service and formalization of working procedures. This is of course lack of adequate evidence to witness that these organizational designs related items critically affect the development of SMEs in developing economics.

Success of Small and Medium Businesses

The success of a small business is dependent on many things, such as education of the owner, characteristics of Entrepreneurs, environment for Business, education of the employees and managers of the firm and growth strategies of the firm. The success or failure of businesses is often dependent on overcoming a series of potential barriers, e. g. securing sufficient financial backing, adequate and appropriate guidance, etc. The proper use of technology allows small businesses to put up big shop follow-up, service, measurement, accounting and prospecting without the overhead normally associated with-departmental infrastructure. The selection of the nature of the business is also the important factor of the firm. The successful business owners are always well organized and structured. The owners--of successful firms always have the potential to evaluate the future risk and opportunities. If you want to succeed in your business then you should adopt the aggressive policy. Being aggressive when starting a business involves

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committing much energy, time, resources and expertise to your growing business for as long as possible. Many entrepreneurs--tend to be slack in the process, especially when they are not seeing expected returns in the early stages of the business. This should not be, as different businesses have different challenges. The owner should take the advantage of available resources. A lot--of things can be learnt while surfing the web. Workers should look for ways to market their products among co-employees, provided this is acceptable to your company. Many small business owners treat their personal and business money as interchangeable. This is--a costly error that can severely impact your ability to sell your business in the future and threaten any liability shields you have created. From the first day you open your business, treat the business as a separate -venture that is independent from your personal finances. Open a business bank account, get a business credit card, and avoid paying for any personal expenses--from a business account. Vendors and creditors frequently extend trade- lines and terms only to entities with a specific business credit history. Owners who co-mingle their personal and business finances make it impossible for their business to establish a--separate credit history. Although the process of differentiating your personal and business--accounts can be time-consuming, once you develop a good habit of paying for business expenses only with business accounts you will save substantial time on record-keeping. With one person in charge of all the functions, it was impossible for the owner to detect the slow drain on his business' finances. If he has simple segregated duties by, for example, hiring a part-time bookkeeper to-handle records and using different people to take care of deposits and -expenses, it would have been

very difficult for any one person to steal money from his business. Even the smallest businesses have multiple employees who could be-trusted with specific tasks. Even the largest businesses have few employees who could be trusted with all tasks.