

The small firm essay

[Business](#), [Entrepreneurship](#)



Before we can analyze what the small firm sector is and how it homogeneously exists with the economy, it is firstly imperative to clearly stipulate what the small firm sector consists of. It is of course a triviality to acknowledge that the small firm sector consists of small business, but what is a small business? To answer that we should first be aware of what indeed a business is or at least perhaps the underlying meaning of the commonly used synonym enterprise is? The majority of us and even perhaps the overwhelming majority would stipulate that these ideas could be deemed almost self-explanatory. However is this really the case? How many of us truly stop to think and ponder the meanings at the core of the daily vocabulary that we casually and flippantly use? If this is indeed the case and not an exaggeration then a similar approach would be almost generic to more concrete vocabulary, such as that used in any given branch of activity, such as the business sphere. Let us take a minute and reflect upon this, and as we do review several definitions for: Business, enterprise and firm. A Business 1 .

A business organization is a group or a unit of people working together with a common objective of profit maximization. Profit maximization is not the only objective. A business organization also tries to satisfy human needs and wants through the production of goods and services. [1] 2. A business is a legal entity that is set-up or designed to make goods, sell goods, or provide a service. Many businesses are for-profit organizations as opposed to a non-profit organization or hobby job.

[2] 3. An organization or enterprising entity engaged in commercial, industrial or professional activities. A business can be a for-profit entity, such <https://assignbuster.com/the-small-firm-essay/>

as a publicly-traded corporation, or a non-profit organization engaged in business activities, such as an agricultural cooperative.

3] An Enterprise 1 . Any undertaking or project, with the implication that it is of reasonable size and complexity. [4] 2. A project or activity that involves many people and that is often difficult. [5] A Firm 1 . A business organization, such as: a corporation, limited liability company or partnership. Firms are typically associated with business organizations that practice law, but the term can be used for a wide variety of business operation units.

[6] After assessing that above, we can clearly see that although the aforementioned terms can be used as synonyms they are indeed individual vocabulary entities unto themselves. What we can draw from the above definition is that a business, enterprise or firm has the following similar characteristics: 1 . An organization 2. A legal entity 3.

A unit consisting of individuals working towards a common goal 4. Produce goods or services For the remainder of this essay we shall forthwith use the term firm and only apply the terms business or enterprise if befitting a necessary context further discussed. Now that we are aware of the fundamental principles that underlie that idea of a firm, what are the characteristics that classify and indicate what size a firm is? What is a small, medium sized or large scale firm? Let us once more review some standard definitions after which we should be able to list their differences. Small and Midsized Business / Small-Medium Sized Enterprise (SEEM) 1 . A business that maintains revenues or a number of employees below a certain standard. Every country has its own definition of what is considered a small and

medium-sized enterprise. In the United States, there is no distinct way to identify SEEM; it typically it depends on the industry in which the company competes. In the European Union, a small-sized enterprise is a company with fewer than 50 employees, while a medium-sized enterprise is one with fewer than 250 employees.

[7] 2. Small and Medium Enterprise. The European Union (EU) defines a small enterprise (I.

E. , commercial organization, or business) as one with fewer than 50 employees and a medium enterprise as one with fewer than 250 employees.

There are no standard United States definitions for small or medium enterprises, although a small business generally is described as one with fewer than 100 employees. An enterprise with fewer than 10 employees is generally classified as a small office/home office (SOHO) or a micro-business.

A large business enterprise (LUBE) is larger than a medium enterprise. 8]

Large Business Enterprise 1 . A large commercial (I.

E. , for-profit) organization. There is no formal definition of the size of an LUBE, although it would be larger than a medium enterprise, which generally is defined as having less than 250 employees. [9] Using the above references which we have partially taken from various sources but also in a number of cases edited the original material so as to provide a clearer and more digestible format, it still remains unclear what the specific parameters are for the segmentation of firm by size.

There is no concrete world format or specifications under which it would be possible to strategically label a firm either small, medium or large. There are on the other hand stringent guidelines set by region or country for which firms may qualify for government support or are considered to fit a given tax bracket and thus adhere to specific tax policies set for this set. Small firms could be privately owned corporations, partnerships or sole proprietorships but as previously mentioned the key here is not the type of legal entity but rather the number of employed workers. For example the Australian Fair Work Act 2009 defines a small business as a firm which 15 staff and up. Anything less than 15 would be labeled a micro-business. However the European Union puts a cap of 50 workers for businesses wing to be considered as small, and a firm whose work force constitutes 50 – 250 should be classed as medium-sized. In the US any firms with less than 500 employees can qualify for Small Business Administration programs. At first glance it may seem quite sensible to classify business size by the number of employees that are employed, but if one is to take a minute, they shall soon realize that there are numerous companies (architecture firms, law firms, software firm etc) with a workforce of less than 50, but whose annual turnover supersede that of large scale enterprises if the main criteria is merely the number of employed.

We shall be taking a further look at the significance of the size of a firm a little later, but it is of importance here to note that firm's may fall under the small business category when classified according to other methods based upon: assets, net profits or sales. Bringing this intro to a close let us give some examples of possible small business, enterprises or firms: accountants,

bakeries or delicatessens, convenience stores, guesthouses, hairdressers, photographers, restaurants, small-scale manufacturing, and online businesses, such as those that specialize in web design and computer programming. . What is a Small Business and Where Did it Originate? 1.

So what is a small business or small firm? It is a limited group of individuals, not exceeding 50 in most countries, working collectively to produce a good or service for economic profit. However if we begin to question where the history of small business lies we will soon realize that business in general must have organically originated from 2 or more people combining their efforts and growing into a mechanism that produces a good, which is then realized on the open market. In past times small business would have simply been in the form of tradesmen that grew their own produce and then utilized the market place either in barter for goods needed and desired, or for financial reward that in turn may be exchanged for future goods or services hired. In modern times (AC), small business history harps back to the feudal period, though it is also present at the fall of the Roman Empire.

The adjective feudal was first coined in the 17th century and was used to imply a set of legal and medieval customs that traditionally developed between the 9th and 15th centuries AD flourishing in medieval Europe. The noun Feudalism on the other hand, only came to existence in the 20th century and was predominantly applied in the context of politics and propaganda. It was indeed Francis Louis Sandhog's work titled ' Feudalism', published initially in French and then in English by 1947, which then became the standard scholarly definition of feudalism. However where Feudalism is

really of interest to us in the contextual space of this essay is in its epidemiology. There are various theories put forward from whence 'Feudalism' was linguistically formed but the most referenced is that presented by Marc Bloch. Bloch derived feudal' or feudal' from the French term Feud.

'Feud', where Feud' means cattle and 'Feud' is a synonym for 'good' that indicates 'a movable object of value'. Feudalism if defined in a broader sense was system whereby society structure founded its form from the relationships derived from the holding of land in exchange for service of labor. It is precisely here that the original concept of the small firm lies. The prosperous and perhaps farsighted lords (fiefs) soon realized that it was far more profitable and certainly less time-consuming to simply hire out the plots of land which they owned along with licenses to use their tools of production. This approach meant that the fiefs would stimulate vassals to utilize their rented land to its full financial potential, who would in turn pay rent in form of profits that the vassals received by selling their produce in autumn. The rent paid by the vassals was high but it gave them an opportunity to be financially free.

This became the inception of small firms (usually family orientated or 'fashion') not only in Russia but also for Europe as a whole. 2. 1 The History of Small Business in Russia (Distinguished by several stages of Development) As mentioned in both the introduction and in the previous section free enterprise and private business as a whole naturally manifests itself when an empire crumbles and does not have the capacity to control the land that it

once conquered. In the latest phase of history it originated post the feudal period although it can be argued that the notion of free entries finally was born in Great Britain post its imperial empire and in Russia post the Soviet Union. Let us therefore take a look at the most distinguishing phases of small firm development in the former USSR, and in Russia today.

Phase one dates back to 1985. Phase 1: (1985 - 1987 g. The Experimental Stage With the fall of the Soviet Union imminent with both the signing of the SALT II arms limitation treaty between the USA and The Soviet Union and the election of a liberal and next generation leader in the guise of Mikhail Gorbachev, who became the General Secretary of the Communist party, those involved in scientific and technical retentive endeavors once mainly utilized in arms race had to find new integration of their skills once heavily integrated into the once powerful Soviet planned economy. Private enterprise began to flourish and small firms were born. Initially under the guidance of the west who would further play a large role in both the creation of the The Russian Federation's constitution and teaching the east the rules of business. With the hierarchy of power swiftly crumbling there was little control over large industry let alone over small companies, that were forming rapidly developing the import trade. The first firms were experimental in nature and nobody had the previous experience of how to play and as of yet untapped but massive market. The foundation of entrepreneurial was born on the basis of private ownership, mainly through import or in the case of state institution via appropriation.

The 2nd phase (1987 - 1988) The "co-operative movement" Stage The sphere of small business expands and the number of people involved increases between 1987 and 1988. This development took place naturally as the once heavily controlled market place opened to those who had the skills and the insight open up small firms, that in turn took their place in the market slowly saturating the domestic market for consumer goods. The 3rd Phase (1989 - 1990) Legalization of Private Enterprise (The Adoption of legislation aimed at Strengthening Small Businesses.

Small-Scale Appropriation creates the necessary basis for an effective transition to a market economy, economic efficiency of the Russian economy begins to develop. It was at this time however that a law was passed allowing any sector of the USSR to attain republic status, which would secede the centralized form of control which came from Moscow. The law tabulated that if more than two-thirds of a State's residents voted for a referendum, then republic status would be granted.

Many held their first free elections in the Soviet era for their own national legislatures in 1990. Many of these legislatures proceeded to produce legislation contradicting the Union laws in what was known as the "War of Laws". During such monumental change it was inevitable that business would sprawl, but with no rules and regulations in place there was heavy influence from those that once controlled the underground economy (The Russian Mafia).

It as a free for all who were to risk and play Russian roulette. The 4th Phase (1991 - 1992) Phase 4 was characterized by the centralization and the

emergence of medium and large business. Fundamental changes occurred in state enterprises such as the in the oil sector, allowing entrepreneurship take control of many huge industries through their appropriation in exchange for loans granted in the form of government bonds. The 5th Phase (1993 - 1994) The section was mainly associated with: 1 . The continuance of large-scale appropriation 2. The further development of all types of businesses 3.

The emergence of many owners and intensive participation of small businesses in the sectors for: service, trade, catering , light industry, consumer durables and goods production The 6th Phase (1995) The development of entrepreneurship activity changes the ratio of forces in favor for innovation. Business become more diverse and detects those forces that stimulate the market and these ensure the normal functioning of the market economy, the coexistence of different subjects , each of which laid their spheres of activity to action. 3. Firm Size The modern economy tends to divide every economic agent into several groups in order to draw correlations for the analysis new legal implementation such as tax laws and finally to draw conclusions about the current state of the privatized or quasi privatized industries. Conclusion can also be drawn up for state owned companies however these are always under constant guidance of government politics. As previously mentioned the division of enterprises can be undertaken through their size, depending on either: 1 . The number of employees, 2.

The cost of fixed and current assets, 3. Production volume, 4. Other indicators, such as those used to determining the size of the firm on the that

s the basis of wage formation. However, an obvious conclusion may be drawn: it is necessary to increase the practice of dividing enterprises into large, medium and small, via the creation of a consistent framework or so called special system for differentiating organization size, with special attention paid to a combination of a particular company's financial, managerial and logistically status.

Obviously the capabilities of an enterprise and style under which it is governed depends largely on both its size, which may or may not indicate the segment share of the market in which it is involved, and on its legal status. In turn these factors also give indication of what impact a particular company has on a given economy. Even for a given territory large and small production are not interchangeable, but at the same time cannot exist without some interaction taking place between them.

Any organism in a given ecosystem influences both the ecosystems' environment and the food chain. The economy is an amalgamation of many separate ecosystems that we call markets. The absence of both small and large business would destabilize the economy and cause many detrimental knock on effect such as a rise in unemployment, which would lower the economy's production efficiency and GAP. This would obviously in turn induce cumulative causation and a depression until the national income is in balance with expenditure and withdrawals equal injections. Large, medium and small businesses complement each other, creating a whole organism economy. Indeed, there are small firms that support the life of medium firms, being subcontractors or suppliers for the former. Large firms control this

chain almost as a predator does in the wild, and have medium size firms on their pay role in the form of subcontractors. This is a chain that cannot be broken without dire consequences.

Once more it is of importance to stipulate that depending on which country a business is registered in will depend what size classification the business is given. Below are government data for the classifications of business in various regions (previously mentioned in the introduction) The United States of America's Small Business Administration establishes that a small business in the manufacturing sector is one that employs up to 250 people and has less than \$7 million in annual receipts. The European Union generally defines a small business as one with no more than 50 employees.

As previously noted in addition to the number of employees there are other factors taken into consideration such as: annual sales (turnover), value of assets and net profit (balance sheet). These factors may be reviewed individually or collectively. Small businesses are usually not dominant in their field of operation but can play an important role in the economy of a specific region. 4. Legal Status of Small Firm What is the legal status of small firm? Legal entity? Privately owned corporations A company whose ownership is private. As a result, it does not need to meet the strict Securities and Exchange Commission filing requirements of public companies. .

Partnerships A business organization in which two or more individuals manage and operate the business. Both owners are equally and personally liable for the debts from the business. 3. Sole proprietorships A sole

proprietorship, also known as the sole trader or simply a proprietorship, is a type of business entity that is owned and run by one individual and in which there is no legal distinction between the owner and the business. [10] Small business in Russia as an independent socio-economic phenomenon has existed for over 15 years. The legislative and regulatory acts aimed at state support of small businesses have been molded to create favorable conditions for their functioning, primarily associated with providing tax benefits. It would take a lot of time to enumerate all possible regulatory acts and for the purpose of this essay is not necessary.

These acts are spread across the: anticipation code, civil code, labor code and the tax code. Only in such a conjunction can regulation really take place, therefore limiting the number of loop holes present for the abuse of large firms' legal staff, which are all too aware of the financial benefits and personal rewards in finding an opportunity, which officially forms the bases for downscaling the size of the firm and thus entering it into a lower tax bracket. This brings us to the opportunity for discussing the most popular type of ownership in Russia which fully utilizes globalization to its full potential (THE BRAND): The Franchised business Franchising provides small business owners the full specter of benefits associated with the economies of scale.

A small business owner becomes what is known as a franchiser. The franchiser can realize an already well established brand named such as Burger King or Struck for example. The franchiser is given the opportunity to keep their own investment affordable at the same time as the purchasing power of the brand. However, some franchisees conclude that they suffer the “ worst of

both worlds" feeling they are too restricted by corporate mandates and lack true independence. The Retailers' Cooperative Another small firm type is the retailers' cooperative. The cooperative employs economies of scales under the strict guidance of its retailers.

The positive of a retailer's cooperative lies in their ability to receive discounts from manufacturers and spread their marketing expenses. It is common for locally owned grocery stores, hardware stores and pharmacies to participate in retailers' cooperatives. .

The Qualitative Features of Entrepreneurship in Small Enterprise 1. Unity of ownership and direct management. 2.

Visibility enterprise. Its limited scope of interest and the personal nature of the relationships held between the owner and the workers allow a small firm to achieve a continued level of high motivation and a greater degree of job satisfaction. 3. Small markets and marketing resources.

These do not allow small firms to have any significant impact on prices and a given industry level of sales. 4. Close relations between employers and clients. This comes directly as a result of small business providing a service that is designed for a relatively narrow range of consumers. However the customers remain loyal over a prolonged period of time.

Their faith is placed strongly in the firm. 5. The leader is integral and artistic. The owner who usually doubles up as the manager is fully responsible for managing the process and for planning.

He has the creative freedom to both develop the business without any pressure from shareholders as well as deciding where the business may go both in the short and the long term. . Family: it is inherited by relatives host than dictated by direct involvement in all activities of the latter company. 7.

The nature of funds. The “giants” draw the necessary resources mainly through the stock exchanges, but the small businesses are left relying on: relatively small bank loans, their own funds and the “informal” capital market (money friends, relatives, etc.). Being small implies you have relatively small debts, this may seem positive but in the long run a small firm relies far more on the bank than the bank does on the return of its loans.

The ann. can simply take over the business, thereby returning the capital it lent. In a sense banks are slaves to big corporations but they do have the advantage of large firms paying a hefty percent to stop the banks from dissolving their business and regaining the principle sum. Amongst the various functions of small business the most important in regards their economic role is: 1. As a local employer, 2.

A Local manufacturer of products and services. 3. A catalyst of scientific and technical progress, 4.

A regional taxpayer 5. An agent in market relations. No less important is the social aspect of small firms.