

Small Business Survival

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Abstract

The growth and sustainability of small businesses, defined as firms that employ less than 500 people, are essential to the socio-economic developments of a country. The United States economy, the best in the world, is based on capitalism thus encourages entrepreneurship and for that matter, small business growth. The number of small businesses in the U.S. is about 27 million and account for 50 percent of the gross domestic product. Current trends indicate a decline in small business ownership and growth as closure of retail shops and other small business ventures is becoming rather alarming. It is estimated that about 50% of all new businesses close within five years of existence. With the advent of technology giving rise to the retail giants Amazon, and the growth of the brick and mortar monsters Walmart, the reasons for small business closures may not be far-fetched. In this article, the author proposes that certain practice of big businesses may be adopted by small businesses, emphasizing on knowledge of management and accounting disciplines, a clear value proposition that customers may relate to,

community involvement, and diversification as considerations to mitigate the closure of small businesses.

Keywords: Small business, closure, survival, strategies, growth.

Introduction

With the advent of technology given rise to retail giant Amazon, and the brick and mortar retail monsters Wal-Mart in every corner of cities across the U.S., the number of small scale business closings is bound to increase. Customers patronize Walmart because it offers almost every product and a relevant amount of services needed at comparatively affordable prices. Amazon similarly offers a variety of products at competitive prices online with the promise of fast-shipment. The efficiency and growth of Walmart and Amazon and other reasons may have contributed to the decline of small business ownerships in the United States. Figures from a 2016 bureau of labor statistics report indicated that there is over 50% chance that new business will fail in five years and that 90% of newly established businesses will close. An estimated 7,795 retail stores in the U.S closed for good in 2017 (Fisher, Gallino, & Netessine, 2019). In a survey, Mansfield (2018) indicated that 40% of small businesses are profitable, 30% break-even, and 30% continually lose money.

The trend of small businesses closures is a cause for concern considering their importance to job creation and GDP growth. In 2016 small businesses created 47.4% of jobs in the U.S. (Dilger, 2018). This underscores the equality of importance of small and big businesses. Problems such as inefficient cash flow management, employee lack of motivation and teamwork, being in the wrong market, have all been cited as causes of small business closures (Desjardins,

2017). In this article the author identified certain factors practiced by big businesses that if employed by small businesses may mitigate the problem of closure.

Strategies to Mitigate Small Business Closures

Businesses big or small serve the same purpose of providing goods and services for the wellbeing of customers. As identified, the contribution of small businesses to economic growth and job creation in the United States are equal. The problem though is that large scaled businesses are managed differently, if managed at all, from small scale businesses. The difference in management and blueprints for growth and sustainability may account for the high rate of small business closures. The author focuses on factors such as business identity, culture of change, quality and diversity, community involvement, and effective management to enhance small business growth.

Establishing Identity

The identity of a business which in this case may be its value proposition or statement of intent to appeal to customers and build confidence and support is essential to profitability. In my observation of small scale businesses and retail shops I noticed the absence of value proposition which may also be translated as ethos or credo. Corporations and other large sized businesses can be easily identified based on their value proposition. Nike's value proposition to attract customer demand is "just do it", which encourages people to reach their full potential in sports and their daily workout regimen. As I observed over 50 stores I came across only one with a value proposition that read "AZ store: your friendly neighborhood store." I thought that was heart-warming, so I went in to purchase a few items. I was greeted with a loud "Hello sir, welcome to AZ store", by a bubbly and attractive middle aged woman. Indeed the service was friendly.

Establishing an identity that customers may easily relate is not reserved for only large sized businesses such as Nike or Johnson and Johnson as may be the norm. Small scale businesses may improve competitive advantage if these credos or ethos are confidently displayed, especially together with the sign bearing their name, for easy view by customers. A small business customer-identifying statement may be “AZY store; serving the needs of the local community”. “A store by locals for locals”. “Helping build our community, one purchase at a time.” “A variety of products for a multicultural society.”

Similar to large businesses, a small business should have a clear mission which according to Welch (2005) articulates ways to gain a competitive edge, maximize profit, and directs employees in the discharge of their duties, and a vision which clearly identifies and inspires the future of the business and that of employees. A clear organizational culture detailing values including behavioral expectations such as candor based on cordial and constructive criticism may be encouraged. Promoting a family-oriented relationship while recognizing individual accountability and responsibility in an atmosphere of teamwork may enhance performance. A small local restaurant’s mission may be “serving the best in taste and quality for a better health.” And a vision statement of “reaching every customer with or tasty and quality food”. These statements may inspire employees and improve commitment levels thus performance.

Community Involvement

In my study of corporate social responsibility (CSR) respondents from corporate businesses identified and elaborated on their community relations activities as a necessary tool to ingratiate themselves with customers to boost sales (Bonsu, 2018). Small businesses are not too small to engage in “CSR” activities which may include organizing party at children’s home to raise funds, volunteering to clean hospitals and lakes, and sponsoring students’ education. The

CSR framework may be targeted at corporations and other large sized businesses but the broader meaning of CSR, which is a business initiative to improve the wellbeing of employees, customers, and the environment or society in general (Nasrullah & Rahim, 2014) and according to Bonsu (2018) often implemented through volunteering and donations initiatives, is not beyond the realm of small sized businesses.

CSR in essence allows businesses to ingratiate with the community to enhance their reputation and build a strong and loyal customer base for improved profit. CSR may be the best form of advertising and by getting involved in community affairs businesses may be able to learn a lot from customers and produce goods and services targeted at their specific needs. As stated by Collier and Esteban (2007) CSR may boost employee commitment and as a result, improve organizational performance.

Effective Management

The problem of small business closures may be due to a lack of effective management and leadership. Effective management entails helping employees maximize their full potential, hiring the right people to perform specific tasks, and providing the necessary information and tools that may be required to get the task accomplished. Efficient managers are able to improve employee commitment through various strategies including transactional, education, and training. Managers organize or co-ordinate the various departments of an organization to function as a team through the exchange of information and knowledge to improve performance, and fulfill the mission of the company. Establishing an organizational culture of high ethics, hard work, autonomy, candor, responsibility may improve performance thus market capitalization. Allocating funds appropriately may increase cash flow needed for the daily function of the business.

Small business owners may lack the knowledge and expertise to effectively manage.

According to a 2019 survey by Guidant Financial, 33% of small business owners' highest educational level was high school, 29% have a bachelor's degree, 18% have an associate, 16% have a master's and 4% have a doctorate. These statistics may indicate that small business owners lack the necessary educational background to successfully know the theory and practice of business courses including Management, Accounting, and Economics. A business owner with primary knowledge of organizational management, including risk management, strategic management, communication, organizational structure, leadership styles etc. may be better equipped to improve employee performance to spur business growth. Corporations have experts in these departments thus it may be strategic for small businesses to do the same.

As Mansfield (2018) revealed in survey, 82% of small businesses fail because of cash flow problems. The problem of cash flow may be due to lack of management and accounting skills. Hiring experts in these areas may mitigate the rate of small business closures. Owners and leadership of small businesses may be cash-strapped, however hiring the services of experts and training and developing employees may be a strategic investment for business sustainability. Leadership of small businesses may have to take business courses in at least fundamental accounting and management to improve their skills.

The importance of human resources to business growth cannot be underestimated. Hiring the right personnel is strategic towards organizational profitability and growth. Unfortunately however, many small businesses hire entry level employees and do not provide the proper training and support required for business growth, due to lack of funds. Cash-strapped small businesses may be better off hiring two highly educated or experienced people, rather than five entry level employees who may lack the necessary skills and experience to grow a business. As

the author indicated earlier, the hiring of entry level employees may be supported by proper training, and other incentives to help individuals grow into their position. In my experience as a small sized business owner with five employees, I provided free transportation and lunch to ensure employee promptness and happiness.

Diversified Hiring

Hiring the best employees may be the most important management attributes. Human resource is the most important resources of every organizations (Welch, 2005). Assembling a highly skilled and experienced workforce may not be a guarantee of efficient performance and growth however, assigning the right people to specific tasks that they may excel in, providing the necessary incentives, support, training, and information to help optimize their performance may be a recipe for success in organizations. It is important to also identify that creating a highly performing team out of individuals with different idiosyncrasies thus finding a way to mesh employees with different skills, culture, and social disposition is vital to performance and underscores managements' special attributes.

Small scale business owners may be prone to hiring individuals from their neighborhoods who may be energetic, articulate, and sociable thus have impressive interviewee skills. Cain (2012) however advocated an all-inclusive workplace of both introverts and extroverts, instead of the favor of a gregarious disposition over the reserved and reflective natured person. Zoogah and Abbey (2010) observed that organizational leaders are more likely to hire individuals with cross-cultural experience because of their nature of self-complexity, self-motivated, knowledge of roles, and good relationship building skills.

In the 21st century American society of persons from diverse cultural and national backgrounds, it may not be difficult for local small businesses to employ a Mexican, Chinese,

African, together with Americans. Although this may be beyond the realm of small businesses, Austin and Pisano (2019) identified corporations that employ individuals with neurodiversity such as autism because they may be highly skilled mathematically and technologically. Austin and Pisano (2019) argued that businesses may gain competitive advantage by being able to accommodate such persons of unusual but high skills as they may spur innovation.

Quality, Diversity, and Price of Product or Service

A retail store for instance, may have to diversify its products and seek to increase the number of customers through price reduction and store credit sales. Customers patronize Walmart because of the variety of products at moderate prices available. An opportunity to buy a variety of items in one store, reduces the amount of time and cost of transportation to shop at multiple stores. Small sized stores may improve customer demand if the business model of selling variety of products is inculcated. On the other hand a retail store may also specialize in one product such as the selling men's suits by various designers. Customers with different design tastes, and sizes may become more comfortable shopping in such as a store.

Small sized restaurants cannot compromise on quality of food, service, and cleanliness. Welch (2005) assessed that the reason for the high level of customers at a local Pizza restaurant, in spite of an average customer service, was because of the recipe thus quality of food served. There's an axiom that "quality sells itself". The ultimate product or service that every customer wants is quality. There's no compromise on quality. Quality of goods and services will always remain number one ahead of customer service. A Mercedes Benz may be expensive, but customers purchase it because they can have the peace of mind and avoid the cost of frequent repairs. A newly established local Brewery with 25 employees seeking entry onto the market may appeal to the community, however if the taste of their beer is below standard, customer

demand may eventually dwindle. In case the taste and price is comparable to other beers, a local community may patronize the beer for the mere fact that it is locally brewed. Small businesses cannot thus compromise on quality.

Responding to Change

In business, knowing the customers and selling products and services directly according to their tastes and preferences is critical towards sustainability. Businesses cannot keep producing the same products and services all the time (Welch, 2005). Small business leadership may have to adapt to the trends of time and changes in their environment, and customer taste and preferences for the sustainability of their businesses. It may be that there is a decline in sales of G.E products, small business owners may have to sell Samsung products in alignment with customer demand. It may also be that a natural disaster hit the local community. Small businesses may have to be flexible to sell disaster relief items such as water, lights, household equipment etc. In an era of health consciousness, venturing into healthy foods restaurants or items for sale, selling gym equipment or opening a gym, may be profitable. The mission of every small business may be “to become a big global business”, or “serve the needs of customers, local and beyond.” not remain the same which may result in extinction.

Customer Service

Customers are the number one interest of business leaders as they determine the profit and growth of businesses. Maintaining customer loyalty may be difficult especially in the 21st century of technology development and dissemination, where customers post reviews on social media about a business. Small businesses utilize social media to enhance customer demand for their products and services. Customer service may require more than a smiling face and respectful service. Promptness of service, knowledge to educate customers on the importance of

the product and services on offer, being courteous and having a friendly and problem-solving disposition may be required of customer service personnel. Cleanliness of staff and establishment may be considered. Appearance is important. Having tattoos, piercing, wild hair styles may not be good for customer service.

Websites

In the age of technological advancement and dissemination businesses have websites to advertise products and hire the best employees. However, in a survey conducted by Clutch of 350 small business owners and managers, 46% claimed to not have a website and cited cost and irrelevance as the main reasons for not having one (Soderlund, 2016). In as much as small business owners may want to reduce cost, cost associated with operating a website cannot be eliminated. Creating a website may be considered as part of the fixed cost of establishing a small business.

Small businesses have to be innovative to reach out to customers even in their local community and offer them reasons to not go to Walmart or Amazon for their products and services. Customers in the age of technology prefer browsing websites of businesses to inform their choice of demand thus websites are necessary in businesses of the 21st century era of technological dissemination. Many customers discover businesses on social media sites and google web search. Reviews of these businesses as posted on social media determines patronage thus it is incumbent on small business owners to be tech savvy to control the narrative of their business in the view and experience of customers.

Conclusion

Small and large businesses have the same purpose thus require similar blueprints for profitability and sustainability. Small business owners may have to copy the modus operandi of large businesses especially in the area of setting a clear value proposition that customers can easily relate to, mission, vision, and culture of behavior within the organization. The value proposition of a small business should be realistic, succinct, and clearly communicated to customers. Small business customer base may be 90% local thus presenting an opportunity to capture these markets through CSR and other community involvement programs. Quality of goods and services, exceptional customer service, responding to changes in the environment, and knowledge of management and accounting disciplines may be areas that small business owners may have to focus on more. Small business owners may have to adopt a broader mission of sustained growth by serving a national and global customer base.

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