

4

Entrepreneurship and Small scale businesses



This chapter discusses the following facts.

- 4.1 Small scale businesses
- 4.2 Relationship between small scale businesses and entrepreneurship
- 4.3 Importance of small scale businesses for economic development
- 4.4 Strengths of small scale businesses
- 4.5 Limitations of small scale businesses
- 4.6 Reasons for the failure of small scale businesses
- 4.7 Actions to be taken for the success of small scale businesses
- 4.8 Roles of an entrepreneur
- 4.9 Skills to be developed by an entrepreneur

4.1 Small scale businesses

Now that you have completed Chapter three and reached Chapter four, we assume that you have gained a broad understanding about the concept of business. Businesses can be categorized under different bases. One such basis is the categorization of businesses according to their size. Here, three categories can be identified

- ★ Small scale businesses
- ★ Medium scale businesses
- ★ Large scale businesses

Out of the three types of businesses given above, what is the type that you see most commonly in your area? You will observe that it is the small scale businesses. This shows that small scale businesses play an important role within the business economy.

Small scale businesses have been defined in various ways. One such definition is as follows:

Businesses that are conducted in an independent manner, under private ownership, with a relatively small number of employees and a low sales volume, are small scale businesses.



Activity 01

The following is an excerpt from an interview given by Mr. Naveen Fernando to the monthly magazine “**The Small Businessman**”:

When I started up this business, all that I put in was my own small plot of land and a small sum of about Rs. 5000. I also took in two or three employees. Since I own this business myself, it is very easy to run it. My business activities are mostly limited to the village. Though it is difficult to compete with large scale businesses, my business does have a strong foundation...

Read the above paragraph well and identify five features of a small scale business. Check whether you have identified the following features:

- ★ Small capital
- ★ Small number of employees
- ★ Owned by one person
- ★ Easy to run the business
- ★ Business activities limited to a small area

4.2 Relationship between small scale businesses and entrepreneurship

Having reached this chapter, we assume that you already have some understanding about small scale businesses and entrepreneurship. You will find that many entrepreneurs have started up their career through small scale businesses.

Entrepreneurial skills and hidden strengths (potential) of a person can be put into use to create opportunities for business development. It is through small scale businesses that most innovations have been created. It is easy for small scale businessmen to make use of their creative thinking and experiment with new products.

Today, the large scale businesses operating in the market cannot fulfil the needs and wants of everybody. As a result, there remains a section of the market whose needs and wants have not been satisfied (i.e. a market gap). By studying the market gap carefully, good business opportunities can be generated. Small scale businesses are ideal to address such opportunities.

There are many Sri Lankans who have conquered the business world through small scale businesses, by identifying their own skills and potential, and making use of their creative thinking.

Accordingly, the relationship between small scale businesses and entrepreneurship can be indicated through the following

- ★ Many successful large scale businesses have been started up in a small scale.
- ★ It is easy for entrepreneurs to make practical use of their creative skills, and this gives rise to innovations.
- ★ When the market gap is identified, business opportunities can be exploited.



Activity 02

Prepare a list of Sri Lankan entrepreneurs who have achieved great success through small scale business ventures based on entrepreneurial skills.

4.3 Importance of small scale businesses for economic development

The importance of small scale businesses for the country's economic development can be discussed along the following factors

- ★ Increase in employment

As small scale businesses come up in rural and peripheral regions, more job opportunities are generated in those areas. When people take up such jobs, the rate of employment is increased.

- ★ Increase in the national production

Small scale businesses create various products. Their value is added to the national production. This leads to an increase in national production.

- ★ Greater equality in the income distribution

As small scale businesses spread throughout the country, more jobs are created, and the people employed in them can earn their living. This way, when many people earn an income, the inequalities of income distribution are reduced.

- ★ Providing goods and services that are not offered by large scale businesses

It is difficult to fulfil the needs and wants of everybody through large scale businesses. A small scale entrepreneur who is capable of identifying this market gap can easily supply the required products to the market.

- ★ Possibility of becoming large scale businesses in time

As time passes, small scale business owners can transform their businesses into large scale ones, through their enthusiasm, dedication and creativity.

- ★ Making use of indigenous knowledge and resources

Small scale businesses most often use indigenous knowledge and resources for their business activities. This brings additional benefits. For example, it will stop such knowledge and resources from being wasted. Further, it will create a market for them, as well as add them an economic value.

4.4 Strengths of small scale businesses

Successful survival of small scale businesses is an essential factor in the economic development of any country. The strengths of small scale businesses, therefore, become important in this context.

‘Strengths’ refer to all favourable factors that are used and can be used for the starting up and running of a business.

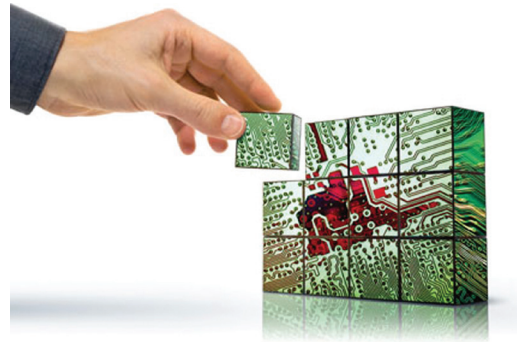


Figure 4.1

There are a number of strengths associated with small scale businesses

- ★ They can be started up with a small amount of resources (capital)
- ★ The technology that is already available can be used
- ★ It is easy to adapt the business according to the changes in the environment
- ★ Special incentives are offered by the government for business activities
- ★ It is easy to hire and train employees
- ★ The multiple skills of the employees can be put to maximum use
- ★ The employees of small scale businesses do not demand much privileges
- ★ Family members can assist in the business activities

4.5 Limitations of small scale businesses

Today, the proliferation of small scale businesses has become a common feature in the economy of any country. However, once they are started up and being run, small scale businesses face certain limitations that are unique to them.

Here, limitations refer to the factors that hinder or limit the functioning of a business.

The following are some limitations associated with small scale businesses

- ★ There are limited sources to obtain capital from
The capital for a business is provided by the owner. When this is not sufficient, it becomes necessary to obtain a loan from another party. But in this regard, there can be certain limitations for small scale businesses.
- ★ New technology is not used
Small scale businesses do not make use of new technology, because of the owners' lack of awareness or the high cost involved.
- ★ The market is limited
The commercial activities of small scale businesses are limited to one area or a village. So the available market is small.
- ★ Family members interfere in the business activities
The business owner's family members may interfere unnecessarily in the business activities. This can disturb the functioning of the business.
- ★ Limited experience and knowledge regarding business
Small scale business owners often have very limited knowledge and experience regarding business. This may hinder the success of business activities.

4.6 Reasons for the failure of small scale businesses

Have you seen how many small scale businesses end up as failures, due to different reasons? If you look at such a business, you will see that most of these reasons are practical ones. So, if you list down the reasons for failure that you have noticed, they will more or less include the following facts

- ★ Weak control of business finances
- ★ Difficulty in facing the competition
- ★ Business activities are not planned well
- ★ Business owner fails to think as an entrepreneur
- ★ Not controlling the business resources well
- ★ Insufficient experience in business activities
- ★ Weak human relationships

4.7 Actions to be taken for the success of small scale businesses

When you go through the above list, you will understand that many small scale businesses can fail due to various reasons. Therefore, what a successful entrepreneur should do is to identify those reasons for failure, find good solutions for them, and conduct the business in the correct manner.

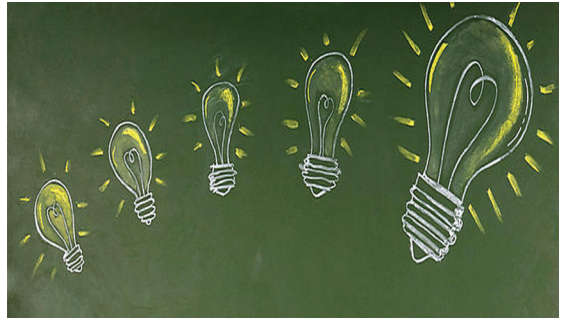


Figure 4.2

Given below are some tips for the success of a business

- ★ Plan the business activities well and implement them accordingly
- ★ Get advice and guidance from experts
- ★ Record the transactions accurately
- ★ Identify the changes in the external environment
- ★ Keep personal life separate from the business
- ★ Obtain the help of governmental institutions that provide assistance with regard to market facilities, loans, research, etc
- ★ Maintain good human relations



Activity 03

Choose a small scale business in your area and study it thoroughly.

1. Indicate two benefits (each) from the business to the business owner and to the economy.
2. Identify two problems that the entrepreneur may have to face when running this business. Suggest some possible solutions for them.

4.8 Roles of an entrepreneur

A role refers to the functions performed by each party with regard to some work. When engaged in a small scale business, an entrepreneur has many tasks to perform. These functions performed as an entrepreneur can be identified as the roles of an entrepreneur.

For example, consider the functions performed by the father in a family. He has many roles - as a protector, a guide, an employee, a teacher, etc. All of these roles are necessary for the success of the institution called “family”. Similarly, the principal of your school also has many different roles to perform.

An entrepreneur has different roles as the business owner, a manager, and a leader. Though we consider these roles separately, they are interrelated; and this interrelation is crucial for the success of the business.

Role of the business owner

The ownership of a business is obtained by investing resources in the business. Investing resources can be done in different ways, such as by investing money, by putting in physical resources such as furniture, land etc, or by contributing through one’s skills, talents etc.

When an entrepreneur fulfills tasks such as providing the necessary resources, taking risks, making decisions etc in order to reach the goals and objectives of the business, it can be identified as the business owner’s role.

Example :-

- buying the equipment necessary for the business
- taking up the profit or loss that is incurred

Role of the manager

It is important to use resources so as to fulfil the goals and objectives of the business. This can be simply referred to as ‘management’. To attain success in a business, the business owner must play the manager’s role very well.

This way, the manager’s role is to use the resources (which have been supplied in the role of business owner) appropriately in order to attain the goals of the business.

Example :-

- formulating business plans
- checking their implementation

Role of the leader

When attaining the established goals and objectives of a business, a good leadership is essential especially with regard to the human resource. Being a living resource, humans always respond where it is required. So a proper leadership for them is a must.

When an entrepreneur properly leads, motivates and influences the human resource of the business as required, it can be identified as the role of the leader.

Example :-

Motivating and guiding the employees
Commanding them in work

Although these have been discussed as separate roles, an entrepreneur will have to perform all of them in the context of a small scale business. These roles are all interdependent. Study the following diagram.



Activity 04

Lahiru Sirimanna is the owner of a small scale business and a well known entrepreneur in the area. Given below are some facts regarding his business.

- ❖ Had started up the business with his own money.
- ❖ His aim was to start the business with a good vision.
- ❖ Always tried to manage the resources properly
- ❖ Motivated the employees and gave them proper guidance
- ❖ Exchanged ideas with the employees
- ❖ Tried to organize all activities well and implement them

- ✦ Very keen to offer new products to the market, but understands the risk involved there
- ✦ One objective is to produce high quality goods
- ✦ Comparing the targeted results with the actual results is a habit of his
- ✦ Lahiru's skill for making correct decisions is the basis for all of these activities

Study the above facts well and identify 10 roles of an entrepreneur. Then complete the table given below as per the given example.

| No. | Task | Entrepreneur's role |
|-----|-------------------|----------------------------|
| 1 | Providing capital | Role of the business owner |
| 2 | | |
| 3 | | |
| 4 | | |
| 5 | | |
| 6 | | |
| 7 | | |
| 8 | | |
| 9 | | |
| 10 | | |

4.9 Basic skills to be developed by an entrepreneur

By now, we assume that you have gained a good awareness about the entrepreneur's roles as the business owner, the leader and the manager. The entrepreneur needs to have certain competencies/skills in order to perform such roles.

If we take an example, to perform your role as a student, your skills related to comprehension, memory, writing, discipline etc are of great importance.

Similarly, an entrepreneur needs to possess certain basic skills to perform well in his/her roles. Let us try to understand some of these skills.

Technical skills

When working in a certain organization, an entrepreneur needs to have the knowledge, skills and experience relevant to using any system or technology that is specific to that work. These skills are referred to as technical skills. Technical skills are needed not only to perform some task, but also to lead others properly.



Figure 4.3

Example :-

skills relevant establishing, operating and maintaining a new machine brought in for the business.

Ability to follow a formal procedure to hire a better employee.

Human skills

It is necessary to build good interrelations with the people inside and outside the organization. An entrepreneur's ability to create such a background, to motivate and persuade the relevant parties to develop good relations etc. is considered as human skills. These skills are especially important when dealing with groups of individuals, which is a live resource.



Figure 4.4

Example :-

Skills for exchanging ideas with groups of individuals in the business, delegating them work, motivating employees etc.

Conceptual skills

An entrepreneur should be able to look on the business as a whole and make decisions for its future success, to develop them further, as well as to decide on and implement suitable strategies etc. This capacity of the entrepreneur is known as conceptual skills.



Figure 4.5

Example :-

- Creating new products
- Discovering new markets
- Facing market competition

Teamwork skills

When engaging in business activities, an entrepreneur has to work together with various groups and various people. He has to make the organization's personnel come together as a team and work towards attaining the goals and objectives of the organization. These skills are called teamwork skills.



Figure 4.6

Examples :-

- Teamwork system
- Team spirit

Communication skills

Disseminating information among the various parties of the organization, gathering the required information, recording the information methodically etc are considered as communication skills.



Figure 4.7

Examples :-

Conducting meetings

Conveying messages

Providing the relevant records and information to the relevant parties

Counselling skills

A large number of employees engage in the business activities of the organization. Various practical issues can arise among them. On such occasions, an entrepreneur has to guide and advise the parties involved. This is identified as counselling skills.

Examples :-

Employees' personal issues, issues between employees, issues pertaining to welfare

Setting the example

An entrepreneur has to lead his/her employees properly, provide them with guidance, and always take the initiative in order to achieve the planned goals of the organization. These are known as the skill of setting an example.

Examples :-

Not being discouraged when losses are incurred, and working harder to stabilize the business

Being punctual

Being fair



Activity 05

What skills do you think are necessary to perform the various roles of an entrepreneur? Name them, and describe them in brief.

Let us write answers.



01. What is a small scale business? Explain briefly.
02. Indicate the relationship between small scale businesses and entrepreneurship.
03. Name the features of small scale businesses and explain one of them in brief.
04. Explain the importance of small scale businesses for the economy of Sri Lanka, pointing out three factors.
05. Many small scale businesses tend to fail some time after their start up. What are the reasons behind this failure?
06. Name the roles of an entrepreneur in a small scale business.
07. Briefly identify the following entrepreneurial skills:
 - Technical skills
 - Human skills
 - Teamwork skills