SMALL BUSINESS SUCCESS: A REVIEW OF THE LITERATURE

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ABSTRACT

Much has been written in the literature regarding reasons for small business failure, leading to confusion about those studies, as it is often difficult to define failure. There are fewer studies citing reasons for small firm success. Factors citing reasons for failure may also appear as factors affecting success according to Gaskill, VanAuken, and Manning (1993). Therefore, this review of the literature will concentrate on reasons for small business success, which can in turn also infer reasons for failure for those who are interested in that topic. Three categories for success emerge in this review. They are strategic issues, demographics, and owner characteristics. However, there appears to be no one set of reliable variables that will always consistently promote success, because of the differences that exist within each individual small firm, including owner/manager differences.

INTRODUCTION

Rather than dwelling on the mountain of confusing data that has been compiled, as to why small businesses fail, this article seeks to look at the research that has been placed before us regarding what it takes to succeed in the small business arena. Granted the two different perspectives, failure and success, are related, but a positive perspective is chosen for this review, so that current businesses and their owners can prevent failure by correcting problems, or new businesses can be made aware of what must be done before they enter the market. Therefore, this article seeks to review positive ways to encourage success as the focus of this paper. The review of the literature covers the past fifteen years to concentrate on the most recent data that would seem relevant to the economy of today.

There have been several studies, which seek to identify the critical success factors for small businesses. However, according to Castragiovanni (1996), there appears to be little research which has specifically looked at factors dealing with small business survival. It is important to define these factors for any new business, as the owner should be concerned about the chances for success (Lussier, 1996). Our country depends upon information relative to the success or failure of businesses for maintaining a stable economy. (Gaskill, Van Auken, & Manning, 1993). This paper is not focused upon the failure of small businesses, however, failure data must be mentioned to indicate how this data can be translated into survival information, and to discuss discrepancies in the existing data. It is a fact that failure and success are somewhat bound together, even though at opposite ends of a continuum.

Since researchers have argued that failure rates tend to be confusing and possibly overrated, because of factors such as differences in definitions regarding failure and demographics concerning small businesses, as well as, methodology used in the collection of data (Justis & Chan, 1993); it may not be possible to accurately report data concerning failures. However, using the data compiled by the Census Bureau (the Characteristics of Business Owners), Bates (1995) reports that of the 90,000 small businesses surveyed (formed between 1984-1987), approximately 65% of the franchise firms were still in operation in 1991, while 72% of independent small firms were still operational. That indicates that over 28% of young firms went out of business. Dun and Bradstreet reported that 51.8% of firms fail during the first five years, with 9.5% failing per year (Dun & Bradstreet, 1989). If the positive aspects of these figures are considered, a large portion of firms are still in business, rather than the erroneous failure numbers that are often reported.

REVIEW OF THE LITERATURE

According to Ponthieu and Insley (1996), "Small businesses constitute 97% of all businesses in the United States and employ more than 58% of the labor force" (p. 35). The small business sector is growing at a very impressive rate, with small businesses making up more than 50% of the sales and products in the private sector (U.S. SBA, 1994). The importance of small businesses to the economy is quite evident.

Why are some firms successful while other firms appearing to follow the same paths are not successful? It has been said that specific success strategies used in one business may not work for another; as all businesses, like people, are different (Hand, Sineath, & Howle, 1987). There are so many variables to sift through. It would appear that the majority of studies in this area have found that most businesses that demonstrated success were found to have characteristics or to use tools in three separate areas. These are characteristics of the owners/entrepreneurs, demographic characteristics of the business, or strategic tools used by the business.

A study by Beckman and Marks (1996) found that business experience was a factor in the success of small firms. Another study by Costa, 1994, indicated that strategic planning contributes to long-running success for businesses. Other factors for success include quality, customer focus, innovative marketing practices, flexibility and employee empowerment (Zetlin, 1994). Filley and Pricer (1991) defined several tools for small business success. These included good management techniques, such as appropriate operating strategies, leadership and time management. Other tools were good financial management and pricing strategies, motivational strategies for employees, and ensuring only those employees with ability are hired.

Studies that have looked at appropriate management and financial planning and skill development of managers were conducted by Ibrahim and Goodwin (1986), Montagno, Kuratko, and Scarcella (1986), Hofer and Sandberg (1987), Lumpkin and Ireland (1988), and Susbauer and Baker (1989). These studies also looked at environmental factors and entrepreneurial characteristics as factors in business success.

Ibrahim and Goodwin (1986) stated that "Success in business is defined in terms of rate of return on sales, and age or longevity of the firm" (p. 42). Cuba, Decenzo, and Anish (1983) and Khan and Rocha (1982) also found that sales, profit, and longevity were important to success. Hofer and Sandberg (1987) noted that high quality services or production was the key to success for firms and was directly related to effective management and planning, which relied upon effective management decisions.

According to Lussier (1996), "There is no generally accepted list of variables distinguishing business success from failure ..." (p.10). The two most commonly stated variables, however, that seem to make the difference are capital and management experience. Steiner and Solem (1988) reported key success factors in small manufacturing businesses would include an owner/manager with experience in the business or prior experience; adequate financial resources; a competitive advantage based upon customer and product specialization; and strategic planning. Dyke, Fischer, and Reuben (1992) found that management experience may be a significant factor in achieving success or successful performance in the small business environment. It stated that "would-be business owners should be concerned to gain related industry, management, and start-up experience... regardless of the type of industry in which they plan to operate" (p.86). It was also noted, however, that while experience was a significant factor, it could vary by industry in importance. This would support Cochran (1981), who suggested that research for specific industries in specific regions might prove more useful than national studies. This study was referring to research regarding failures of small businesses, however, this may apply to successes also.

Hand, Sineath, and Howle (1987) discussed variables thought to be related to business performance, such as characteristics of the entrepreneur (age, education, experience, willingness to work, and ability to deal with customers and employees). Also discussed were the planning abilities of the entrepreneur. Chaganti and Chaganti (1983) indicated that key success factors were innovation, creativity, and managerial competence, which are characteristics found in owners/entrepreneurs. Keats and Bracker (1988) found that success factors are a part of an organization's general environment, task environment, or characteristics of the business owner.

Chawla, Pullig, and Alexander (1997) found that "owner experience and industry trend are not critical to the success of a manufacturing/construction firm in the early stages of the life cycle. Comparing retail firms to manufacturing/construction firms in the same stage of the life cycle, differences were found in the importance of the owner's experience, market knowledge, industry trend, location issues, and purchasing/inventory control" (p.47). Location issues were more critical to success for retail firms both during early and late stages of the life cycle. Purchasing/inventory control also was critical for retail firms in both the early and later stages.

According to Zetlin (1994), small business owners feel that having a good product is most important, however, other means of achieving success include a commitment to quality and to the customer, innovation in marketing, being flexible when change is needed, maintaining good supplier/customer relationships, and hiring good people that can be empowered. Bird (1989) stated that firms where owners showed innovation, risk-taking, and had previous training were most successful. Another study dealing with characteristics of the owner was by Duchesneau and Gartner (1990). They found that the characteristics of the owner/manager, the strategy of the firm, and the way the business approached start-up were most important to success. Prior experience, long working hours, good communication skills, customer service, planning, flexible management, and risk reduction were other factors cited. Hills and Narayana (1990) also found a myriad of factors that were possible contributors to success. These included customer treatment, good products, management practices, good treatment of employees, and a good reputation for the company. O'Neill and Duker (1986) indicated that small businesses that were successful had higher quality products, lower levels of debt, and lower capital intensity, as well as, relied on the good advice of their accountants.

Cooper, Dunkleberg, and Woo (1989) looked at demographic factors, such as age, gender, and race, and found that older, nonminority, male entrepreneurs with four or more years of college were usually associated with successful firms. A study by Bates and Nucci (1989) confirmed that the age and size of the firm had an impact upon survival. The older the firm, the more likely it was to remain in business, and the larger the firm, the more likely it was to be successful. Boyle and Desai (1991) also pointed out that statistics have shown that the longer a small business has been in operation, the better the chance that it will stay in business. Success breeds success.

Mintzberg (1994) stated that small business owners must be able to define the required strategies to find success as they continue to change within their organizations. Castrogiovanni

(1996) explored the impact that planning has on the survival or success of firms. Pre-planning was specifically investigated using three environmental conditions, which were uncertainty, munificence, and industry maturity. He also investigated two founding conditions, knowledge and capital. Findings included a negative relationship between uncertainty and the survival of new businesses. Munificence (abundance of demand) was positively related to survival, while industry maturity had mixed effects on the degree of planning and survival. Pre-existing founder knowledge was found to be positively related to survival, while capital reduced incentives to plan and, thus, was likely to negatively impact planning.

Bates (1995) conducted a study of survival rates among franchise and independent small firms, and found that for the period 1984-1987, the survival rate was much higher for independent firms, as opposed to franchise businesses. The study also stated that while existing studies identifying traits leading to long-term success of small businesses are not incorrect, small firms should not enter markets that are saturated; which would lead to the assumption that a knowledge of the market is most important. In 1990, Bates indicated that a firm's likelihood for success was increased if owners were educated, and if an adequate resource investment was made at start-up.

In a study by Lussier and Corman (1995), it was noted that successful firms used better professional advisors than did nonsuccessful ones, and it made a significant difference if their parents owned a business. However, the authors were unable to find a reliable set of variables to firmly distinguish success from failure. Variables used in the study included capital, recordkeeping and financial control, industry experience, planning, professional advisors, education, staffing, product/service timing, economic timing, age, partners, parents, minority owners, and marketing. Various other studies have used one or several of these to identify critical success factors.

IMPLICATIONS FOR FUTURE RESEARCH

As has been mentioned, Cochran (1981) suggested that research on business failure would be better served by studying specific industries by region, rather than national studies. The same would seem to apply for research into success factors. It is often difficult to infer accurate results when studies are too broad, especially when there are so many variables to research. Ibrahim and Goodwin (1986) also concluded that no one study could address the entire population, and thus, smaller studies covering different industries would be more appropriate to obtain accurate data.

Future research is also needed to determine whether differences in previous business experience by the small business owner is essential or can affect success. In addition, research should look at how the differences in owner management styles can affect success rates. Management styles can be changed over the course of business ownership and the number of years experience should be explored as well.

One last area for future research that might be explored would include a study of the effects that outside help would have on the success or survival of the small business. Some owners would be more willing to ask for help or assistance than others. A study of the differences between men and women owners of small firms would seem logical to see if those who asked for help is greater for one group than the other.

This paper contributes to the literature relative to small business by offering a timely summary of success factors that are concentrated on the more recent studies of the past fifteen years. The need to concentrate on the more recent data is important to determine whether success factors are changing in recent years, and whether the knowledge of these factors by educators and small business owners/entrepreneurs will make a difference in the numbers of successful firms in the future. A study to determine whether owners are influenced by the more recent data concerning variables for success should be conducted citing the three areas. These are demographics, characteristics of owners/entrepreneurs, and strategic planning/decision issues. Studies researching data in only one or two categories cannot cover the array of possibilities.

Perhaps the major implication for small business owners is that while there are many variables that can be used to help develop a successful business, it is wise to consider the individual business and develop those that will work best for that one firm based upon demographics, characteristics of the owners, and strategic planning.

CONCLUSIONS

This review summarized much of the literature of the last fifteen years to determine whether new information has emerged over time regarding criteria leading to success. It was also written as an aid for new and experienced small business owners, would-be small business owners, lenders, policy makers, educators, and researchers. It is important to look at the literature from time to time, especially if there is contradictory data, to assess what has been said and to explore future needs for more research. While there have been many studies conducted concerning failure rates, few summaries exist concerning success factors in recent years. This review of the literature should be a more positive aid to business owners and others, and it is hoped that a knowledge of these various factors for success will assist in helping to turn businesses around if problems arise.

While it is certain that all of these various factors will not work for every organization, each one should be able to assess their weaknesses relative to the suggested factors, and be able to devise a plan to correct problems as needed. It is also realized that across the various industries, small businesses differ greatly. Certain of these factors may make a substantial difference for some and be of no consequence for others. However, the factors provided in this summary should allow business owners and others to become aware of the many options available for success in a small business environment.

It is apparent that many misconceptions about failure rates of small businesses have developed over the years. In some cases it is the interpretation of data, due to differences in definitions of failures and what constitutes a small business, and in others it is simply the lack of good data. However, from the perspective of those who wish to continue in business or start a new business, realizing that there are misconceptions, it appears to be more positive and proactive to look at the success factors as a more vital way to approach the problems encountered by small firms. The information gathered by studying success factors may result in better decision making by owners. It was suggested by O'Neill and Duker (1986) that small business educators need to develop a body of knowledge focusing on strategic behaviors or on decisions made in small business, rather than the characteristics or personalities of owners. While a body of knowledge is being developed in the area of small business success, a large number of studies do not exist, as with failures. According to Ponthieu and Insley (1996), the major focus of research has been on failure of small businesses, because of the terrible effect that failure can have on all concerned. The major reason for research in this area is to find successful approaches and avoid the unsuccessful approaches. It would appear that while there has been much written concerning strategic issues, there is still an abundance of data relative to demographics and characteristics of owners. The literature seems to indicate that the three success categories are equally important to study to understand the process toward successful management of a small business. In developing the body of knowledge it would seem remiss not to consider all possibilities.

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