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Motivation in Small Businesses

Moyosoreoluwa Ogundipe
Parere Inc.

Abstract: This article explores the motivations behind small businesses and challenges the traditional focus on financial gain.It acknowledges the high failure rate of small businesses and questions the assumption that all aim for significant growth.The author argues that non-financial motivations, such as flexibility and independence, are equally important for many small business owners.The article critiques the current economic structures that prioritize financial growth for small businesses, suggesting a need to consider alternative goals and success metrics.It proposes a reevaluation of expectations for small businesses and suggests educational programs to equip owners with skills to achieve diverse goals.Overall, the article advocates for a more nuanced understanding of small businesses, recognizing the variety of motivations that drive their creation and operation.

Introduction

Though it varies by industry, a small business is often defined as any business with a maximum of 250 or 1,500 employees. They are privately owned corporations, partnerships, or sole proprietorships that have less revenue than larger businesses (McIntyre, 2020).The SBA classifies some manufacturing companies with up to 1,500 employees as small businesses. In mining, large businesses are those that have 500 or more employees. In the construction industry, heavy construction contractors and general building contractors have a large business if there are annual receipts of $33.5 million. In comparison, dredging companies with average annual receipts of $20 million or less are small businesses and specialty trade contractors have small businesses if the average annual receipts are $14 million or less (Richards-Gustafson, 2019) (Hamel, 2019). Besides size, small businesses are also identified through their structure and financing (Zhang, 2021). Small businesses have less formal hierarchal and role structures.

The importance of the small business to the economy cannot be overstated. It is estimated that small businesses are responsible for two-thirds of net new jobs, account for 44 percent of U.S. economic activity, and drive U.S. innovation and competitiveness (Office Of Advocacy, 2019). Small businesses contribute to local economies by bringing growth and innovation to the community in which the business is established. Small businesses stimulate economic growth by providing employment opportunities to people who may be unemployable by larger corporations (Brown, 2018). Small businesses also act as stimulants for the economy because theyhelp circulate money in the local economy. Since they are local, they make up a nice part of the taxable base for the government. There is also the contribution to the building of a strong communal identity and promotion of involvement in local development (Sutton, 2021). A strong small business presence can give a community character.

Despite all these numerous advantages to the establishment and maintenance of small businesses, the failure rate for small businesses is on the high side. According to the U.S. Bureau of Labor Statistics (BLS), approximately 20% of new businesses fail during the first two years of being open, 45% during the first five years, and 65% during the first 10 years. Only 25% of new businesses make it to 15 years or more. Though the odds are better than the commonly held belief, there are still many businesses closing every year in the United States (Deane, 2022) (Gustafson, 2020).

Problem Statement

It seems like small businesses generally fail, and the only benefit the economy gets from small businesses is the attempt of new entrepreneurs to beat the odds. In other words, very few generate value, most are just capital losses spread over long periods. So, despite the numerous benefits that small businesses supposedly offer to the individual, the community, and the larger economy, many of them fail. Even in scenarios where the founding entrepreneur(s) get the small business to “not fail”, they struggle with the motivation of staff. The informal nature of the hierarchal and role structures usually leads to freeloading.

- What role does motivation play in small businesses?

Literature Review

The expectation of each stakeholder in a small business varies. The expectations of the federal/state/local government(s), the local community, the entrepreneur(s)/employer(s) and the employees vary. Wang, Walker & Redmond (2006) concluded that the motivations for small business ownership are diverse and significantly influence how operators manage their businesses. In most cases, the operator is the business and accordingly, research into small business strategic planning needs to focus on the operator and his/her motivations and ambitions.

In their paper, Hurst & Pugsley (2011) show that there is a substantial deviation in the desires and expectations of individuals who start small businesses. They also show that there is substantial heterogeneity in the reported reasons for why individuals start their businesses. They found that most owners of small businesses do not expect to grow, report not wanting to grow, never expect to innovate along observable dimensions and report not wanting to innovate along observable dimensions.

Hurst & Pugsley (2011) show that about one-third of new businesses (on the eve of their start-up) reported that they were starting their business because they have a product or service that they want to bring to market. Instead, the most common response for why individuals were starting their business was the existence of non-pecuniary benefits. Individuals reported that they liked being their boss and liked the flexibility that small business ownership provided. Regardless of the exact reason, most individuals who start their small business have little desire or expectation to grow their business beyond having a few employees. They also find that the economies of scale of certain industries just do not motivate many small business owners to desire growth or innovation along observable dimensions in any meaningful way. For example, the fixed costs to be a plumber, barber, lawyer, or insurance agent may be small relative to the variable costs making the returns to scale quite small. The existence of non-pecuniary benefits of owning a small business (because of increased flexibility and control) may cause individuals to forgo some natural benefits of agglomeration in exchange for higher utility.

Lussier (1996) concludes that there is no valid and reliable list of variables that explain the failure of small businesses. Lussier also talks about how there is a system relationship between the most frequently stated reasons for failure. If the entrepreneur starts the business undercapitalized with high fixed costs, and economic activity slows down, it becomes increasingly difficult to meet high fixed costs. When going to the bank or other source for credit, and being turned down, many firms are forced out of business by creditors either voluntarily or nonvoluntarily. Couple this with slow accounts receivable due to the economy, tax problems, and the loss of a major customer makes the odds of survival low.

Walker & Brown (2004) shows that the motivation for people going into small business ownership is varied and includes financial as well as non-financial factors like personal satisfaction, independence, and flexibility. Their study found that the owners of small businesses measure their success using both criteria and that the non-financial lifestyle criteria are sometimes more important. Given the strong entwined nature of the business and the owner, personal success often equates to business success. Walker and Brown also discuss how if the metrics of measurement of success are adjusted and non-financial measures are accepted as being a legitimate measure of business success, then small businesses do make a major contribution to overall economic and societal well-being. They make sure to acknowledge that this is not the intended form of growth that stakeholders from the federal/state/local government(s) and local communities will prefer.

Walker and Brown (2004) also discuss how the uncertainty of paid employment, and the derivation of satisfaction from being the decision maker drives more people to choose the uncertainty of self-employment/small business ownership. They acknowledge that there will also always be some small business owners who are strongly motivated by financial rewards and who aspire to grow and become major players, and they should be encouraged to do so. However, the results of their study while restricted to the property and business services sector and including many home-based businesses, show that owners who are financially motivated are in the minority and that most small business owners are content to stay very small.

Delmar &Wiklund (2008) show that it makes sense to study motivation in the context of small firm growth. Small business managers do affect the growth of their firms by their intentional behavior.Small business managers with greater growth motivation are more likely to realize growth. This suggests that there is an opportunity for economic growth if small business managers' growth intentions can be increased. Their results indicate that there are long–term effects of growth motivation because of feedback from previous outcomes. Growth motivation affects growth, which in turn has a positive effect on future growth motivation. This suggests that once a small business manager is motivated to try to expand the firm and is successful in doing so, his or her commitment to expansion will be reinforced.

Delmar &Wiklund (2008) also note that motivation is not the only factor influencing the growth of small businesses. It is important that growth-oriented small businesses can access the resources they need at reasonable costs, and that growth opportunities are abundant in the economy. Furthermore, they must understand how to manage the firm through a growth process and understand the consequences of expanding a firm, most of which are positive.Furthermore, these results support the notion that intentional behavior has an impact on firm development, as suggested by psychological and strategy research, even if the impact is relatively small. Firm growth is not only the result of initial conditions or follows an initial path. Both the behavior of the small business manager and the ongoing process of growth itself affect outcomes.

Blackburn, Hart & Wainwright (2013) discuss the complexity of small firm growth and touches on the structural constraints on small firm growth (age, size, and sector) that combine with some strategic factors and other personal factors that are notoriously difficult to measure to produce different performance outcomes. They conclude that the structural conditions within which the enterprise operates strongly determine its performance. They suggest that slower growth is more sustainable and manageable for owner-managers, in comparison to the rarely unobtainable high growth favored by policymakers and the media. Blackburn, Hart & Wainwright (2013) claim that the presence of an owner-manager who considered themselves an "innovator" or "creator of change" increased the likelihood of growth substantially and that factors relating to business characteristics, owner-manager characteristics, and business strategy can all be important in understanding small firm growth

Analysis

People have different motivations, and it seems small businesses are set up for different reasons. It seems the major form of motivation that we focus on is the financial motivation. There is this general tendency to focus on the financial motivations only. However, we must consider the non-financial motivations as well. The non-financial motivations might just be as important if not more important than the financial motivations.

It is easier to measure the financial motivations and their results, so I understand the importance of those factors, or why we tend to put so much weight on them. We tend to think what we can measure automatically means we can grasp the concept being measured. However, one thing science and scientists forget is that science is an explanation, and most conclusions/metrics of measurements are consensus-based, which means they are open to change. Also, an explanation is still just an explanation, and it could be wrong because humanity is flawed, and everything we think we “built’, we just explained and leveraged already available natural phenomena.

From the literature, it seems that while policymakers and regulators would like small business owners to set up small enterprises exclusively or largely for financially motivated goals, the non-financial motivators of the small business owners make that difficult to achieve. This also boils down to the role the small community plays in the local community. The type of employees engaged by the enterprise.

From personal experience, coming across the non-financial motivations of small business owners made my overview of small businesses change. Depending on what kind of community is being discussed, the non-financial factors could vary, and even though there is a sort of financial reward for the employees still, to the small business leadership/ownership, it might just be about this indirect transfer of capital, skills, knowledge etc.

Solutions

A review of the expectations of small businesses will be a good place to start. At this point, while small businesses might be seen to financially stimulate the economy, maybe they should be treated to stabilize the economy and maintain a kind of equitable generational growth. This will require a lot of structure and theoretical framework development, however, an overview of what small business is about cannot hurt. The high turnover of entrepreneurs might be feasible for now, but when are we going to discuss the effects, these failed entrepreneurs have on the general cost of operating in that industry?

After reviewing what we hope to accomplish from the creation of small businesses, I will recommend we also re-adjust our measures of what a successful small business is. Some might just be useful for the transfer of skills and as a launching pad for employees to do other things. My third and final solution will be to educate new small business owners so that they can achieve multiple motivating goals. They can still adopt proper and efficient business practices. I think that is the problem. Even if the reason for starting a business is outside the financial motivations, the business can still adopt proper and efficient business practices.

Reflection

A free and fair economy, fully regulated by the invisible hand of demand and supply aims to have a system where the cost of production keeps going doing due to the acquisition of specialization. There is also the assumption of the free flow of capital to the most efficient sectors of the economy. This is a problem if the reason capital is flowing into certain industries is simply to be a source of employment. The longer I go through the world as an economist, the more I realize that older economists lived in a dream world, and a lot of their theories expect so much from everyday folks who are just motivated differently or not at all. Rationality is a very big assumption.

I guess various businesses are set up for various reasons and judging all businesses on the same goals. I wonder if it is still the same for businesses that just seem unable to operate professionally or efficiently.

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