

Unit 33: Small Business Enterprise

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Learning Outcome 1

- LO1 Be able to investigate the performance of a selected small business enterprise
 - AC 1.1 produce a profile of a selected small business a identifying its strengths and weaknesses
 - AC 1.2 carry out an analysis of the business using comparative measures of performance

In this Session

- LO1 Be able to investigate the performance of a selected small business enterprise
 - Understanding the Concept of Small Businesses
 - Types of Business Enterprise
 - Starting at Small Business
- Review Questions
- References

Introduction

- A business is always **owned** by someone.
- A business can have a number of different types of ownership depending on the aims and objectives of the owners.
- Most businesses aim to make profit for their owners
- Some organisations are ‘not-for-profit’.

How to measure the size of a Business

- There are various methodologies for measuring a business size:
 - Number of employees
 - Number of outlets (e.g. shops)
 - Total revenues (or “sales” per year)
 - Profit
 - Capital employed –amount invested in business
 - Market value
- You will often require to use more than one measure together. Note also that size is relative. For eg. How large are you compare to your competitors/market?

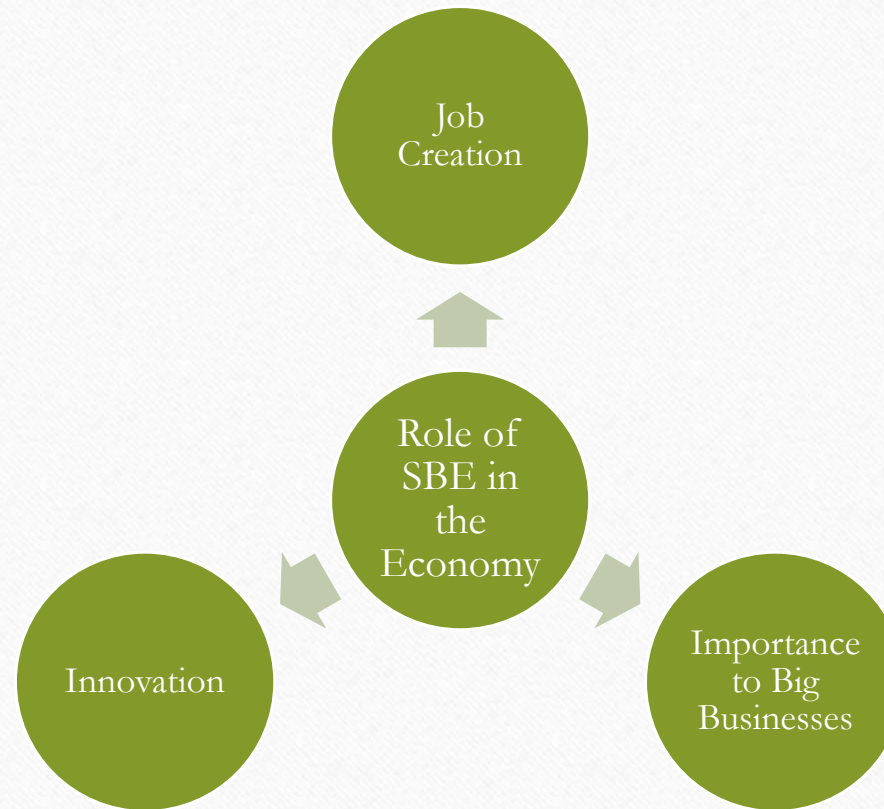
What is a Small Business?

- A review of the literature shows that there are no universal definition regarding the size of a small business (Freear 1980 cited in Bocker, 1983) . The Federal Bureau of Small Business in South Africa uses the following:
- Independently owned
- Independently operated
- Not consisting of more than 5 operating unit
- Employing no more than 100 employees
- and managed business that does not dominate its market.

What is a Small Business?

- The Micro, Small and Medium Enterprise and Entrepreneurship Policy (2013) of Jamaica defines Small business as: *6-20 employees and sales ranging above J\$10 million to J\$50 million.*
- It also indicate the following:
 - Micro business: 5 employees or less and sales of up to J\$10 million;
 - Medium enterprise: 21-50 employees and sales above J\$50 million up to J\$150 million.

Small business plays a critical role in the economy.



Popular Areas for SBE

- O'Conor (2015) identify the following:
 - Services
 - Retailing
 - Construction
 - Financial
 - Insurance
 - Wholesaling
 - Transportation
 - Manufacturing

Types of Business Organizations

- Oconnor (2015) identifies the following
- Sole Proprietorship
- Partnership
- Corporation
- •Consists of one individual doing business.
- •The most numerous form of business organization
- •They account for little in the way of aggregate business receipts.

Sole Proprietorship

- Consists of one individual doing business.
- The most numerous form of business organization
- They account for little in the way of aggregate business receipts.

- **Advantages:**
 - Ease of formation and dissolution.
 - Low start-up costs and low operational overhead.
 - Ownership of all profits.
 - Subject to fewer regulations.
 - No corporate income taxes.

- **Disadvantages:**
 - Unlimited liability.
 - Limited life.
 - It may be difficult for an individual to raise capital.

Partnership

- Consists of two or more individuals in business together.
- May be as small as mom and pop type operations, or as large as some of the big legal or accounting firms that may have dozens of partners.
- There are different types of partnerships—the basic differences stemming around the degree of personal liability and management control.
 - general partnership
 - limited partnership
 - limited liability partnership

Partnership

- **Advantages:**

- Synergy.
- Relatively easy to form.
- May be subject to fewer regulations than corporations.
- There is stronger potential of access to greater amounts of capital.
- No corporate income taxes.

- **Disadvantages:**

- Unlimited liability.
- Limited life.
- There is a real possibility of disputes or conflicts between partners.

Corporation

- Probably the dominant form of business organization
- Although fewer in number, corporations account for the lion's share of aggregate business receipts.
- A legal entity doing business, and is distinct from the individuals within the entity.
- Public corporations are owned by shareholders who elect a board of directors to oversee primary responsibilities.
- Along with standard, for-profit corporations, there are charitable, not-for-profit corporations.

Types of Corporation

- Closely Held (Private) Corporation
- Publicly Held (Public) Corporation
- S Corporation
- Limited Liability Corporation (LLC)
- Professional Corporation
- Multinational or Transnational Corporation

Corporation

Advantage

- Unlimited commercial life.
- Greater flexibility in raising capital through the sale of stock.
- Ease of transferring ownership by selling stock.
- Limited liability.

Disadvantage

- Regulatory restrictions.
- Higher organizational and operational costs.
- Double taxation

Franchising

- **The franchisor** is the business who sells the right to another business (franchisee) to operate a franchise
- Franchisor may run a number of their own businesses, but also may want to let others run the business in other parts of the country/world
- **Read Further on:**
 - What is Franchising
 - Advantages and Disadvantages of Franchising
 - Reasons for Franchising

Further Reading

- <https://books.google.com.jm/books?id=8KcABAAAQBAJ&printsec=frontcover&dq=developing+a+small+business&hl=en&sa=X&ved=0ahUKEwjwxeKr3rfMAhUCkx4KHUoqB64Q6AEIMjAA#v=onepage&q=developing%20a%20small%20business&f=false>

Review Questions

- Define small business and explain its importance to the Jamaican economy.
- Describe sole proprietorships, partnerships, and corporations, and explain the advantages and disadvantages of each.
- Identify the different types of corporations.
- Describe the start-up decisions made by small businesses and the potential sources of financial aid and management advice.
- Identify the advantages and disadvantages of franchising.

References

- Bocker, Hans (1983) Small Business Today – Canada, South Africa and the United States; Journal of Small Business and Entrepreneurship, Summer Edition
- Micro, Small and Medium Size Enterprise and Entrepreneurship Policy (2013), Government of Jamaica
- Oconnor, (2015) Small Business Enterprise Lecture Notes, Colbourne College
- Small Business Association of Jamaica website