

# Hazards of Setting up a Microenterprise

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## Abstract

The generation of new jobs and general economic well-being depends on the success of the nation's small enterprises. A staggering 88% of all firms in the American economy were micro-enterprises in 2008. (Association for Enterprise Opportunity, 2010). In Europe, small and medium-sized businesses (SMEs) account for more than 99 % of all businesses, with 90 percent of those categorized as micro companies.

The fact that 53% of all employment on the continent are provided by these small businesses speaks volumes about their significance (Bushfeld, Dilger 2011). There has been an uptick in studies and focus on the internal and external factors influencing the expansion and success of small and medium-sized enterprises (SMEs) (Street and Cameron, 2007). Notwithstanding the fact that most SMEs are micro enterprises, experts have said that empirical data on what affects micro company development have been disregarded (Heshmati, 2001). This prompted the study's authors to wonder whether there is a knowledge vacuum in this area or if the difficulties faced by micro companies are different from those faced by SMEs.

**Keywords:** business, backbone, economies, economic welfare, micro-enterprises, micro firms

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## Introduction

The goal of this research is to catalog the most common growth obstacles faced by small businesses. Due to the dearth of literature on the topic, this study built its foundation on an analysis of the problems encountered by small and medium-sized enterprises (SMEs) throughout their expansion. Small and medium-sized businesses (SMEs) and microfirms (micros)

face comparable expansion obstacles. Time constraints were identified as a significant barrier to development in both the present study and prior studies. The empirical results of this study also showed that many of the difficulties encountered and growth barriers faced by micro enterprises had their origins in the passage of time. Examples include founders wanting to grow and hire additional employees but not having the time to go through the recruiting process or founders

wanting to streamline the complicated company structure but not having the time to do so.

This research shows that time constraints are the primary barrier to expansion for micro- and small-sized enterprises. In addition, studies on SMEs sometimes overlooked important elements, such as marketing and industrial acceptability, that are impeding the expansion of micro enterprises.

Hence, it would be a mistake to infer that the perceived growth obstacles faced by micro companies and SMEs are same. In addition, past research on SMEs highlighted unique expansion obstacles in the service, Technology, and high-tech industries. This research lends credence to the claim that government restrictions are the greatest growth barrier in the service sector. Yet, contrary to the conclusions of this study, prior studies in the IT or high-tech industries found that a lack of cash was the most common barrier to expansion. Micro-businesses in this sector cited a lack of time as the primary barrier to expansion most often. The authors of this study were unable to locate any prior research suggesting that the age of micro companies influences the perceived growth obstacles.

A dearth of research on the expansion of small businesses has been noted by academics. While most studies have focused on small and medium-sized enterprises (Heshmati, 2001), the writers of this article are interested in learning whether or not microfirms face the same growth obstacles. Micro-business managers will benefit from knowing what obstacles their companies face most often so that they may better plan for and overcome them. One must first

determine what growth is in the context of a corporation in order to achieve the aim and to identify the most often reported barriers of development. Many authors (Penrose, 1959; Ylinenpää, 1996) have provided their own interpretations of the word "development." Penrose (1959) offered a definition of growth with two distinct meanings.

- (1) Increase in the sale amount and output
- (2) Changes in the size suggesting quality as result of development process.

Growth is characterized by the quantity of growth, including profit, customer base, employment, physical production, and assets, and therefore Ardishvili et al. (1998), Delmar (1997), Weinzimmer et al. (1998), and Wiklund (1998) integrate these two perspectives. This is the term that will be used in this study to talk about development. Microbusinesses seldom experience growth; most companies have a modest launch, a quick demise, and no substantial development phase (Davidsson, Achtenhagen & Naldi, 2010). The authors went on to claim that the widespread use of copied business models by startups in established sectors in order to service local markets is the primary cause of this phenomena.

Penrose (1959) proposed that internal, external, or a mix of both variables might stifle organic development. The term "internal" is used to describe a company's management prowess, whereas "external" refers to things like "products" and "markets," and " (Penrose, 1959). According with Figure 1, which was first established by Ylinenpää (1996) but further refined by the authors of this study, Davidsson et al. (2010)

suggested that growth problems exist on both an internal and exterior basis.

### **Challenges Faced By the Microenterprises**

The absence of various systems, such as ways for regulating operations and deficiency in acquiring data regarding market demand, procedures, and so on, are internal and physical constraints (Ylinenpää 1996). The absence of trained labor, managerial expertise in how to build the company, and anticipated negative repercussions of expansion are all internal and intangible hurdles that the author has observed. Internal impediments to management and resources are further simplified by Ylinenpää (1996).

Storey (1994) claimed that, while considering the internal problems of expansion, it is vital to take into account the manager's motivation, education, and experience, as well as the number among founders. A key internal problem of development, according to Penrose (1959), is the requirement for allocation of resources and skills, which might also be referred to as purposeful planning and requires management competencies to operate effectively.

Having the internal resources necessary to seize growth opportunities is a vital part of achieving organic development (Penrose 1959). To maintain and seize the development opportunities, the company may need to develop new management services, capabilities, efficiency, and organizational structure (Davidsson et al., 2010). Moreover, the authors suggested that addressing the importance of past growth for future development via experience and

knowledge offers an incentive for additional expansion. The fact that expansion drives expansion is more evidence of this (Orser et al., 2000).

Lack of time is another common internal obstacle shared by many Swedish small businesses. This problem is often cited as an explanation for why more could not be done to promote expansion. Lack of available resources is another major issue identified by the research (Persson, 2011b).

### **Internal and External Challenges of Growth**

When a company is trying to expand, it has the issue of doing so in an area where it doesn't know the ground rules (Bernanke, 1980). Without the ruleset, a company will realize it cannot formulate a plan, which might cause it to halt operations until the ruleset is made public (Fisher, 2010). The argument is made that widespread economic uncertainty might cause firms to put off investing in growth (Bernanke, 1980).

Penrose (1959) proposed that in addition to internal and external difficulties, there is a third main class of problems. She used the ideas of uncertainty and risk to describe the interaction. As was said before, the external and internal environments are the sources of risk and uncertainty. If the necessary management skills and expertise are not available, a company's growth will be constrained since it must first gather information before taking any action (Penrose, 1959). Capitalism, it is said, functions best when individuals engage in economic activity based on judgments informed by assessed reasonable risks (Bernanke, 1980).

Although some degree of unpredictability and risk is to be expected in every commercial endeavor, problems arise when these elements dominate (Fisher, 2010). He went on to explain that when there is too much unpredictability, it makes it difficult for businesses to plan for the future or estimate how things will turn out.

Kangasharju (2000) identified the demand for the company's product or service, the competition, the production variables, and the business climate as the four external difficulties that decide small firm development. It is stated that institutions in Sweden have systematically hampered the expansion of independent firms ever since World War II, making the business climate one of the most major drivers of growth problems (Davidsson & Henreksson, 2002). Institutions including taxes, wage setting bodies, and labor market regulation were all highlighted in the report. This was highlighted as an issue specific to Sweden in a comparison with Ohio, Us, and the conclusion was drawn that Swedish institutions are stifling company expansion (Carlsson, 2002).

It is also stated that the institutions that will have an impact on businesses would vary from one sector to the next. Although the service industry sees tax rates and currency exchange as important obstacles to expansion, IT and high-tech enterprises seem to consider capital availability as a big hindrance to growth (Orser et al., 2000).

Ekberg and Hedell (2011) found that although regulations are the leading growth inhibitor in the service sector, just one manufacturer sees this as a significant problem. The companies who took part in

this research tackled the issue of rules being too onerous, time-consuming, and distracting. Administrative activities such as law enforcement, disadvantageous taxation procedures, and complicated employment institutional structures diverted the founders' attention away from sales and customer service. Also, organizations taking on more risk, such as by adding a new employee and thereby incurring greater expenditures, was cited as a common growth inhibitor.

Companies were hesitant to hire since doing so would raise their expenses and dangers. Bernanke (1980) argues that restrictions have an impact here because the unknown cost of recruitment discourages businesses from taking any action at all. Many of the companies in the research addressed the problem by highlighting potential financial losses that may arise from the new hire's extended durations of sick absence. The company is still obligated to cover the worker under Swedish law, and small businesses simply cannot afford this.

This is consistent with the research conducted by Frischenfeldt (2011), who found that smaller firms face more risks when hiring another member owing to higher expenditures in the event of an employee illness. This study's authors agree with the results of Orser et al. (2000) that, due to differences across sectors, the service sector views restrictions like tax levels as obstacles to expansion.

### **Recommendations**

Certain recommendations are made for microenterprises for flourishing in a conducive environment. These are:

- a) The company should hire a consultant to have access to the necessary expertise in areas such as rules, taxes, or accounting. This will help the company save time and money while maintaining financial stability and command. The little inconvenience will be readily compensated for.
- b) To maximize their time, skills, and resources, microbusinesses require a well-defined corporate structure. Many of the difficulties inside the company may be solved if the business is structured properly, as shown in this analysis.
- c) In the business world, clients and rival companies are more likely to do business with a limited liability corporation (LLC) than with a sole proprietorship. Companies should, therefore, seek to convert from sole proprietorship to limited company status as soon as practicable.
- d) If the government wants to see more micro businesses expand and contribute more to the national economy, it has to take action. Reduced hiring risk for small businesses might result from measures taken to streamline rules, streamline bureaucracy, reduce taxes, and alter the so-called 14-day rule (sick-leave).

Depending on the field, a company's network may be very important. As they need to build trust with their clientele, it is crucial for them to meet with potential consumers in person and participate in networking events. Their clientele is built on the back of these gatherings. The operation of every company is fraught with risks and uncertainties. Certain difficulties may be beneficial, but they still have the potential to introduce

doubts. There is an element of risk or uncertainty associated with being in a position of responsibility for a company that incurs new costs. Time constraints need careful preparation, prioritization of the customer, and effective job management. Accounting and wage standards are governed by laws and guidelines. Many items are best retained in long-term memory. In addition, there should be a simpler approach for smaller enterprises that may not have the financial resources to pay an accountant and controller to manage these issues, since learning the process may be difficult because it is not always a logical process with respect to taxes. Therefore, microbusinesses have challenges, but they also do things differently.

### **Conclusion**

Because of their limited resources, microbusinesses face significant difficulties. There are advantages and disadvantages to this. The restricted funds might be seen as a challenge or competition to be won. The company has the problem of maintaining operations with limited resources, but this obstacle can be seen as an opportunity for growth. Negatives include the difficulty of being a minor player in a very prestigious market. These drawbacks might also be influenced by the kind of consumers one is trying to attract. Little businesses like this show dedication and enthusiasm for their field. They don't try to copy their rivals, who are likely aiming to emulate more established businesses. Conversely, these businesses value openness and modesty among their employees. The entrepreneur is also pleased with the fact that he has established a successful business and managed to preserve its core values.

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