STUDY OF THE EFFECT OF THE CREATION AND DEVELOPMENT OF SMALL BUSINESSES IN ECONOMIC GROWTH

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ABSTRACT

Entrepreneurship and the creation of small and medium sized businesses as the engine of economic and social development, play a fundamental role in the development of their communities. Because we cannot ignore the effect of small and medium enterprises in economic growth, to become a leader in this, countries act as long-term policy and planning and Create incentives and conditions to use the productive potential of small and medium businesses to achieve sustainable growth. In this paper, we discuss first study how to create a small business, and then the development of these businesses. In each episode, we discuss the impact of small businesses on the economic cycle.

KEYWORDS: Creation of Small Businesses, Growth, Economic Growth, Development.

INTRODUCTION

In the past two decades, changes in the content and quality of a lot has happened in global markets and Move towards regional and global markets has accelerated. Along with, production-focused courses has reached the end of its life and customer-focused courses in emerging. With aimed at efficient use of resources and Preventing waste valuable resources, Manufacturers have provided fields that the result is a change in industrial structure. One of the main features of the restructuring is growth and promote more in small and medium industries.

In this article, we will identify the causes of such changes and will discuss the impact of this industry on developing of countries. Complex and rapid changes of recent decades and also acceleration of the globalization process has caused that various communities try to prepare himself for accepting evolution and changes. What few decades ago, was regarded as an economic advantage include: Establishing and maintaining large corporations and governmentalization of organizations. It also argued that the larger the company, the economy is more dynamic and powerful. Although this idea has flourished for decades and accordingly, the giant companies have emerged but recent developments, such as population pressure, constant...
innovation, management and decision-making processes evolve complex and require immediate
decisions cause major changes in the structure of giant organizations.

So for today's economic reforms of the formation and operation of small and medium
enterprises (SMEs), In many countries, especially developing countries is a strategic approach
and need to change the role of government, empowerment of the private sector, economic
competitiveness and interaction with rules of globalization., etc. It is essential policies based on
economic liberalization and strengthening of private sector to develop economic activity. The
most fundamental factor in the design of policies for economic development of a country is to
determine the scope and importance of public and private sector in the process of economic
developments.

Thus, prior to various policies of the development should be determined within the framework
of recent cases and determine the weight of a section in a variety of economic activities. Determine the weight of a section depends on many factors of internal and external include: the
dominant ideology, goals of government, world economic conditions, public and private sector's
capacity and degree of economic development. What is Small Business? Small businesses are
businesses with few employees and a sales volume down, which belong to the private sector. Usually Small businesses are dependent on private companies or individual or limited
partnership. In addition to number of employees, there are other ways to classify and identify
small businesses Include: Financial turnover, value of assets, net income and balance sheet alone
or in combination.

From small businesses can be noted home jobs that this term is also known as micro-
businesses. This term by international organizations like the World Bank are used for these jobs
is called “SOHO”. According to the labor law in Europe and America, home businesses have
fewer than ten employees. For statistical analysis of small business must be said that this issue
has been commercial applicable law. Based on annual income and employment levels, all
industries defines a standard size for himself. In many cases this definition is defined by
government agencies that under the variable laws of the government, do the analysis. (Matlay,
2010)

In addition, these standards are effective for programs that help to improve their financial
affairs. Small business is independent and any company with fewer than 50 employees are
located in this area. This is known as the defined standard. Approximately 22.5 million
businesses in America are independent from agriculture account for 99 percent of it comes to
small business.

1. GUIDE TO STARTING A SMALL BUSINESS

This guide has been developed to be able to express all points, yet retains the simplicity and
understandability that will help you create a successful business. (Robbins, 1994)

2.1. Step One: Initial Evaluation: Assessment of individual personality

Obviously, starting a new business comes with many risks which of course, the planning
would raise the chances of success. Thus the best starting point is to know your strengths and
weaknesses points as a business owner.
2.1.1. Are you an independent person?

You always keep in mind that if you start a small business, these are your own and not someone else who must decide how to manage projects, programs and your time.

2.1.2. How much you can communicate with different personalities and different people?

Business owners have an obligation to deal with different people and groups. The interests of business, can you communicate with customers, suppliers, employees and others.

2.1.3. You have the power to make decisions?

Small business owners should be consistent, fast, and able to make decisions in critical situations.

2.1.4. Do you have the physical and emotional ability to manage a business?

In addition to the challenge and excitement, ownership of a business requires a lot of work pressure and long working hours. Can you work 12 hours a day and seven days a week?

2.1.5. Can you plan and organize?

Research shows that with proper planning, a lot of failures do not occur.

2.1.6. How does this business affect your family?

Early starting a business can create difficulties for your family and your personal life. However, it is possible to achieve the profitability of your business, your family are experiencing financial difficulties and pressures. So support or lack of family support plays an important role in starting and building a business. It is true that there are many reasons to don’t start a small and independent business. But for those who are qualified, there are many advantages that definitely are greater than its risks. You'll be your servant! Too much effort and work hours directly benefit you and not someone else!

2.2. Step Two: Planning of business

Starting a business requires motivation, desire and talent to achieve a complete understanding of the business, we must first know ourselves and then we started to analyze business requirements. Also important is the extensive research and proper planning. The following information can be very effective for the preparation of a business plan (BP):

2.2.1. Before you start work, you get a list of all the reasons you want to enter the business world. For example:

- You want to be your boss
- You want to have financial independence
- You want to be free
- You want to be free to use all your abilities and knowledge

2.2.2. Then you must determine what is essentially a business is right for you?

- I love what I do with my time?
- What technical skills have I learned?
- According to others, what skills am I?
- I have enough free time I like to run a successful business?
- Do I have any hobbies or interests that may have the ability to become a business?

2.2.3. after determining the appropriate business, you supplied the necessary research to answer the following questions:
- Is my idea practical, and whether it will meet my needs?
- Who are my competitors?
- What is my company’s competitive advantage over other companies?
- Can I give a better service?
- Can I apply for my new business?

2.2.4. the last step before the business plan is to get following checklist and answer it’s questions:
- What I like to start my business?
- What service or product do I provide? Where do I need to do?
- What skills and experience do I have to?
- What will be my legal structure of company? (LLP or Limited , …)
- What is the name of my business?
- What facilities and equipment will I need?
- What insurance facilities will I need?

The answer to all these questions, will help you design a complete business.

2.3. Step Three: meet resources of Financial and economic:

One of the fundamental keys to success and progress of the work is to provide sufficient financial resources to launch a successful business. Note the profitability and effectiveness of business on the initial investment. For example, we’ve created a business that is profitable in the first year an average of 10 percent and however, we have received a loan with interest of 20% per year. It means to accept defeat in the beginning. So before we think how to provide sufficient financial resources, we need to learn how to profit in the business. Another example is that we have enough information about the sale because for the repayment of the loan or debt is very impressive.

For example: Suppose you have established a business in which money is received by the term check against sale and while the repayment of loans taken in cash and deadline and it is here that we find the effects of income and the sale on debt repayment. Primarily, a large part of the profits or losses of the business is related to cash flow. The following information focuses on ways to collect money for small businesses. It also assists you in preparing loan applications. There are many resources for collecting of capital. We should note that, before decisions, we have to search for all possible sources:
- Personal savings
- Friends and family
- Banks and credit institutions
- Venture capital firms
In the following, we refer to the process and conditions of accepting or receiving of financial resources:

- **Character**: character and commitment and moral and youth of the borrower to return the loan within the stipulated time.
- **Ability to pay**: Borrower's ability to repay the loan is determined based on analysis and evaluation of loan application, financial statements and other documents.
- **Capital**: Is the sum of total debts and assets that Lenders prefer borrowers firms have less debt than their assets. Because it reflects the financial stability of the company.
- **Pledge**: The pledge amount is higher and closer to the loan amount, the lender is assured of paying the loan.
- **Qualification**: General conditions of economic and geographical of the company....
- **Trust**: A successful borrower tries to attract reliability of lender about recent 5 cases and to encourage lenders to lend.

2. **THE ROLE OF SMALL AND MEDIUM SIZED BUSINESSES IN ECONOMIC DEVELOPMENT**

The role of small and medium sized businesses to economic growth posed as follows:

- Provide context for individuals that they haven’t the ability to launch large businesses that on a smaller scale in order to show their talents and capabilities and be able to be entrepreneurs. (Imani Rad, 1995)
- Play a huge role in creating job opportunities for people and have a high share of employment. (Wong & Lin, 2007)
- Considered as sources of innovation in products, services, processes and experience something new.
- By providing a variety of products and services are as a major constituent body of the national economy and small and medium-sized businesses operate in certain areas and special markets that the major industries are not entering those markets. (Storey, 1994)
- Particularly in the manufacturing sector, many small businesses are as a supplier of components, parts and specialized sub-assemblies and large industrial contractors and as a productive economic base which guarantee prosperity and success of the large industry. Performance of major industries also shaped by the Small Industries because the performance is directly related to small and medium sized businesses. (Whittaker, 1997)
- In order to increase profit margins, most major industries are amenable to control the prices of key products. Small industries in this state play a role by providing healthy competition and prevent monopoly and market forces. In this way, they help to ensure the economic system and their effectiveness. (Cross, 1983)

Definition of economic activity refers to any activity through which a person or group of people using the space, equipment, tools, facilities, expertise, information and materials needed act together to produce goods and services and features include:

- Divided into smaller parts that are not effective
- Be accompanied by added value
- Provide various and similar and determined of products or services
- Income generated provides the livelihood of working people.
- Meet certain standards
- In the framework of the rules and regulations of the government operate in one of three sectors: private, cooperative and government.

A look at economic and social systems in many developed countries and new developed countries demonstrate that the creation and support of small and medium enterprises is one of the main priorities in the development programs of economic activities in these countries. Despite these enterprises require less investment, but have more efficient and play an important role in creating jobs and creating the enabling environment for innovation and invention and increase exports of these countries. These units in many developing countries, while achieving the main objectives, have a key role in expanding and diversifying of industrial production and dedication to a set of fundamental objectives are important role Such as: job creation, poverty eradication, improved income distribution and to meet the basic needs of developing countries. In many countries, these were industries as: suppliers of new jobs, nursery of development and innovation, leading to the development of new technologies. On the other hand, because of their unique properties, these industries can have a great attraction for the private sector. Which depending on local economic conditions, laws and support policies have been introduced in various countries as a successful model for scientific and industrial capacity.

3. INTERESTS OF SMALL AND MEDIUM Sized INDUSTRIES IN THE ECONOMY OF COUNTRIES

Small and medium sized industries, a minimum of four aspects affect the global economy. Such as entrepreneurship, innovation and technological change, the dynamics of the industry and create employment and income (Zoltan, 2004). In this section, we will have a quick look on each of these aspects.

4.1. Entrepreneurship

With the growing development in the world today, According to the concept of entrepreneurship among economists, politicians and the general public has become increasingly popular once again. However, most of what economists have said about it after the World War, was a kind of static. Only dynamic theories still have a lot of credibility theory are Schumpeter and Knight's theories. Schumpeter's Theory of Economic Development, first published in German in 1911, Schumpeter outlined his vision of the role of entrepreneurs in front of the old conceptions of economic development. Schumpeter's vision of economic development hadn’t as an additional item to the body of conventional economic theory, but as the basis for looking back on the vital process that had as a branch of the neoclassical economic study from general equilibrium and static methods. By using economics, sociology and history, Schumpeter seems to be unique impressions of the circular flow of economic life. He agreed with Marx that economic processes are structured (Mozaffar Mirbargkar, 2010), and changes come from within the economic system. His theory is the central role of the social role of entrepreneur.

According to him, the entrepreneur is a member of a social class which will continue to develop spontaneously. He (the entrepreneur) is a person who creates innovation. In this system, the pre-analytical steps of understanding is the social hierarchy that the initiative by the chosen
few, stop and change back. Although Schumpeter considers the distinction between the entrepreneur and the financier is its financial performance but Knight consider the capital and the entrepreneur’s performance as an inseparable and coalescent form. Entrepreneurs need finance and accept the risk of failure.

4.2. Innovation and technological change:

It is generally accepted changes in technology. It is believed that large firms are the engine of technological change and for the benefit of the individual and the powers of the market. In this view, innovation occurs in plants and components within the model. But the reality is that technological progress is stopped by replacing large industries instead of small and medium industries and creating new markets and consistently destructive storms of creative.

Economic development in the long run, when the rate of innovation remains at the lower limit for a substantial period of time, era of economic growth turns into the economic recession. Scherer summarizes the advantages of small-scale industry in innovation activities. Smaller firms have a considerable role in innovation because of they have several advantages compared to large companies. One of his strengths lies in their less bureaucratic.

In large industries, internal resistance layers prevents new formations tools and traps them in a complex organizational structures. The second issue that is often neglected, this is a lot of detailed improvements in the technological innovation that comes from small Inventions and related to parts, materials and production techniques. But when using and selling these small and accurate improvements is not economically justifiable and remains unused for giant firms and industries.

In contrast, an entrepreneur is so used to a new product or process with good sales prospects that he earn millions of dollars a year. While such a small investment opportunities can barely find their way to the big companies, where they are stationed. The third feature is that in small organizations is easier to control and direct emotions because of the direct link between challenges and encourage staff and increased productivity individually.

4.3. Industry dynamics:

Historically, small and medium industries have played an important role in industrial development. The process of industrial transformation has been likened to a "young trees of the forest" that should try to achieve sunlight to pass through the deadly shadow of his older Competitors. New enterprises are revolutionizing in each industry with their new products and ultimately, they limit the market power of strong firms.

This will help in the long run that small firms be effective as a major contribution to improving the health of the economy. It should be noted that we cannot assume that normal operation of market forces extend small industries and they are doing this job in the future and in any situation. So in this case seems necessary efforts and the assistance of the governments. There are fundamental differences between the various countries in the small industries share from total economic activity. That is why small industries role vary in the development of different countries. Based on EKS’s studies in the 1980s, the share of small industries from industrial employment has fallen sharply in Eastern Europe due to politics factors over the past 30 to 40 years and varied between 1 and 11 percent. The presence of an innovative
entrepreneurial class in small businesses is one of the main factors of economic growth in these countries.

4.4. **Create employment and income opportunities:**

The idea of small business affect as the engine of job creation frequently is expressed by small business of the United States and a number of political leaders in the 80s. Their opinion was influenced in manufacturing jobs by David Birch’s opinion. He showed that out of 10 new jobs in America, eight jobs are created by companies under 100 employees. Although this theory has been repeatedly questioned by researchers. Armingto & Adel in 1982 noted that ideas of Brich are not true about new companies that are controlled by large organizations.

For example: When Wal-Mart has established a new branch, consider it a small business with 80 employees instead of figuring it out as one of the big companies. In 1987, Don and Roberts and Samuelson had told the truth that jobs that were created with the theory Birch, destroyed by the high failure rate of small businesses. Large companies with more than 500 employees have stable jobs. However, in recent years, small and medium industries have made a significant contribution rate to the creation of new jobs.

In other words, in modern worlds, small businesses with specific characteristics have significant effects on important and various variables such as economic growth, competitiveness and solve the unemployment crisis. Researchers in any field of economics are largely due to issues that directly linked to their area of expertise. For example, financial economists believe that the pattern of effective financial markets in small businesses will not work.

Economists know that small businesses pay lower wages to employees and industrial economists know that small businesses have higher failure rate and faster growth rate than the larger industries. Unfortunately, what has not been addressed, is these laws can connect together with a systematic manner. (Trkaysh & Kamali Baryjough, 2011)

5. **CONCLUSION**

As seen from the discussion in this article, move toward small and medium businesses not only is an efficient and profitable affair, but also in the current situation of IRAN, it is essential to achieve sustainable development and objectives of document 20 years old. With the emergence of small and medium business concepts and the role of tangibility in: Employment, innovation in products and services, the influence of special markets and activities in specific locations, creating healthy competition and prevent monopoly that lead to sustainable economic growth in strategic areas makes more explicit attention to the development of these businesses by the governments.

Three decades ago, economists look at the large industries had as the engine of economic growth, job creation, innovation and global competitiveness. By some expert economists realize that a major change in economic activity is taking place away from big industries and activates the small and medium industries. Thus, drew all the attention to itself. Especially in the United States, not only small businesses create 18 million new jobs in 1980 as an appropriate replacement for large industries, but also they outgo in innovation activities and international competition in large industries.
In the case of developing countries, in summary, we can conclude small industries development and medium technologies that can be considered as an appropriate strategy for these countries and by eliminating poverty, increase incomes, create employment opportunities for unskilled labor, capital accumulation through increased efficiency, improved productivity in the rural sector and to prevent uncontrolled urbanization and migration contribute to the development process in developing countries at economic and social dimensions and accelerate the economic growth of these countries.

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