



IMPACT OF EFFECTIVE MANAGEMENT ON GROWTH OF SMALL FIRMS- A STUDY OF SOUTH PUNJAB (PAKISTAN)



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ABSTRACT

The study is held to observe the impact of Management including Management levels and decision making on the growth of small firms. Study area is South Punjab (Pakistan). Small firms have no proper firm structure, they do not follow the formal rules to run the organization. In spite of this, these firms are growing rapidly. If these firms have effective management levels and rational decision making than the firms will grow rapidly. The results show a significant increase in growth by using rational decision making and having effective management levels. Statistical results show that if we spend 1% on independent variable, then it shows an 80% increase in dependent variable.

KEYWORDS: Small Firm, Management, Growth, Decision Making

INTRODUCTION

In The Global World of Today the Crucial Importance of Management Cannot be ignored. Better Management is considered as a Magic to cope up with the worst situation. The study of Daflo & Carlen (2012) revealed that better Management consultancy have the power to change the worst situation into desired. Simply Management is defined as; process of coordinating and overseeing work activities of others, so that they can accomplish their goals efficiently and effectively. Efficient and effective ways comprise the work should be done properly and on time. The definition of management focuses on two things;

- Co-ordination
- Over-Seeing

The above two are the main functions performed by the management. Controlling the above two factors efficiently and effectively make the magic possible to be done, to cope up the worst situation. If an organization have coordination between the employees and also the work activities, and also have the better supervision, than

it can accomplish all types of goals easily (Robin).

The importance of management functions cannot be ignored in management. All the four management functions are the life blood of the organization. They provide specific pathway to the organization to run properly.

- Planning
- Organizing
- Leading
- Controlling

These functions are the Guidelines to properly run the organization toward achieving its goals.

Talking about management is insufficient without a person; who coordinates and oversees the work activities of others; The Manager, who performs all the management activities. There are three

levels of management to run an organization properly. All levels of management perform different management functions described earlier. These levels include Top Level, Middle Level and Lower Level management.



Top management deals with the big picture issues of the organization such as making strategies, hiring middle level management, making budget, deal with the outer world etc. Board of directors include this level. Middle level of management perform the functions like execution of plans for organization, making plans for different

units, involve in tracking the junior managers and also play a role in the training of lower management. It include branch managers etc. Lower management involves in assigning the work activities to workers and employees, and also responsible for quantity as well as quality production.



“In our research we have observed the effect of all levels of management on firms performance.” After management we will focus toward Growth. What is growth? Number of Researchers answered the question. Edith Penrose defined the growth in two connotations; first the term growth shows the increase in amount e.g. when we speak increase in “output, export and sales” and secondly when the growth in size is observed, it can be the increase in quality of work processes, products etc. (Penrose; 1959)

Delmar, Davidson (2003) observed the heterogeneity of growth as sometimes they observed the change in size, amount, quality, processes etc. commonly we can define the growth “Development over time”. The development can be observed in management activities, entrepreneurial activities, resources, market characteristics etc. Davidson (2003).

Now let’s have a glance at small organizations; another important factor of our study. Different researches show different views about small firms. (Ibrahim & Goodwin 1986; Keats & Backers 1988; Kenny & Dysso 1989; Crommie 1994; Karlsson & Ahlstrom 1997; & Deakins 1999). Eyre & smallman (1998) reproduce the commission of European communities (1992) and the European network of SME research (1994) groupings as follows:

- ✦ Micro firms: no to 9 employees
- ✦ Small firms: 10 to 99 employees
- ✦ Medium firms: 100 to 499 employees
- ✦ Large firms: 500 to more

The focus of our research is small firms. We have observed the impact of management on the growth of small firms. For this we should be fully aware of small firms. Different researchers observed the characteristics of small firms.

Small firms are more creative (O’Hara 1998).

Small firms are more flexible than large (Evans & Moutinho 1999)

Due to small no. of employees, decision making is quick (Rogers 1999)

Small firms have limited Resources (Stasch & ward 1987)

Face uncertainty, do not plan, bad attitude toward detailed day to day procedures (Bennet 1993).

Small firms have simple management structure (Hankinson 1991).

Manage conceptual aspects less ably than larger firms (Cohn & Lindberg 1974).

In our research our focus is small firms with 10 to 99 employees:-

Now the question raised that why some firms grow more than others? A study of FEDERICO, KANTIS, RABITINO (2006) raise the same question and present the findings that from last twenty years, we still have not the clear answer of the phenomenon. However in their study they tell one reason that the different studies did not choose the right variables for explanation.

Macpherson, Holt (2006) support the argument and further explain the reason of low growth as lack of knowledge, managerial skills, resources etc.

Management and growth both are inter related and the above studies reveals that a firm cannot grow until it has splendid management adjustments.

Lot of research is done in this scenario and the theme of all the researches is same as small firms are the life blood of the economy (Macpherson & Holt 2006). Small firms support the economy of a country more than larger firms. Research of Abor & Quartey (2010) in Ghana showed that 90% organizations are small organizations.

All the above studies proves that small organizations play a crucial role to boost the economy of a country. We also observed from the previous studies that without proper managerial activities growth has no meaning in organizations. The concept of management is not limited toward management skills rather it has strong relations with Marketing, HRM, managing change and financial activities (Smith & Gannon 1987; Sexton et al; 1997; Kakati 2003).

Other activities that affect growth are entrepreneurial activities, environment and culture (Bowman & Swart 2003).

When we observe growth in Entrepreneurship, we come to know that it has a huge impact on growth or growth can not be imagined without it. It enhances growth by bringing creativity & innovation (Pie Telis 2003; Wiklund 1998).

When we observe growth in marketing point of view than we come to know here we can grow by managing horizontal, vertical type growth over time (Medlar 2003).

In HRM previous studies consider the more important capital to human capital. But in small firms, due to limited resources it is not well managed (Grigore).

When we observe the growth in terms of financial point of view, we observe that finance is the major factor, considered more important in small firms.

Our focus of study is South Punjab, that is considered the backward area of the country, having low literacy rate, so here growth is mostly taken in sense of monetary terms and we also know that the ultimate objective of a business is profit so; in our proposed research

We took growth in terms of financial performance of small firms:-

But as we explained earlier that growth is development over time so other factors can not be ignored. Development includes all the factors that are extended over time such as number of employees, number of customers, all assets of the firm etc. If all these factors

are increasing over time than we can say that our organization is growing with the passage of time. More growth shows more demand, and more demand enhances the sale and ultimately more profit. Number of researches have done in this prospects, but there are several matters that can be discussed. During my research survey, I surveyed a large number of small firms and asked their history to their owners. I can not explain the detail of all the firms in this study but I am eager to explain some of them. I surveyed a firm of shoes in the rural area of Multan, earlier it was started as a non serious business by a lady just to keep her self busy. The lady was a widow with her three married children. She have a lot of spare time, so she went to a common market and purchase ten shoes for further sale. Earlier profit decided was just to cover the expenses of her fair of transport and little refreshment. But as she started, the demand increases on daily basis. With the passage of time the shoes became famous to the near areas of her home. So, she upgraded her business by including the women of near areas in her business. As the business flourished, profit and demand also increases. In short, now a days her business has become like a small firm. It has proper customers, consumers, suppliers etc. But still this business is running on local rules, with no specific management but a proper increase in growth can be observed. All the decisions regarding extensions, supply etc are still taken by the owner lady. There is no specific name suggested for the business, but there are 55 employees working for the business now a days.

PURPOSE OF STUDY

Small firms know little about financial management and decision making and also lack of planning and development. So we are trying to high light the role of management toward the financial performance of small firms of South Punjab. Our research differs from the previous researches in the sense that previous researches were done on the strong economies; and in Pakistan in big cities. Our focus of research is the backward areas of South Punjab. The study is limited toward small organizations and in some rare situations micro firms and family owned businesses.

LITERATURE REVIEW

Previous studies also support the findings that we are going to done. But we have observed the fact that the literature on our topic is limited, and there is still enough space to research.

Bulnywa (2003) defined the small businesses as; small businesses are controlled by single ownership and have no separate legal entity. In other words we can say that they cannot be suing or be sued, have no Govt. control.

Arinaitwe (2006) explain the importance of small businesses as irrespective of their definitions, small businesses are the main sources to promote the economies and to enhance the GDP. Their number is increasing day by day, and also promoting the growth.

Bedger, Cheston, Hampson & Smith (2006) said that businesses require both Entrepreneurship and Management. They defined the Entrepreneurship as focusing on "profitability & Growth seeker", the person who takes the risk to promote the business. On the other hand a manager is a person who saves the cash to use in future considerations. So, the small organizations, due to limited resources, have a manager. Mostly management in small businesses relates with ownership.

Karaus, Reiche, Rescke (2008) said that although small businesses are involved in building the major portion of the economy but they have no proper knowledge to run the businesses in better manner. Informal planning system is followed by top management as well as employees. Planning instruments are rarely used by employees. They further said that rational decision making should be prevailed in the organisations irrespective of the size or other variable. But due to limited resources small organisations do not do it.

Deakins, Logan & Steele (2005) Small firms mostly focuses on owner manager, so they know little about financial management, Decision making and entrepreneurship's in this research the researcher mostly focus on financial management decision making. In small firms decisions are mostly taken on day to day and fire flight basis, so strategic planning toward financial management has no meaning. Small firms have no cash management strategies, however they have owner manager and transactions are usually recorded on day to day basis, so expenditure and cost is fully known, therefore tight cash control is present that helps in their survival.

Grablowsky (1984) argued that stock control difference between large and small companies. Large companies use statistical methods while small companies use Judgment (6%), Anticipation (32%), past experience (15%), with no methods (27%).

Wilson (1996) said that small firms face liquidity problem, short term funding and banks give them short term loans. Furthermore, he argued that small firms can grow either by organic or acquisition means.

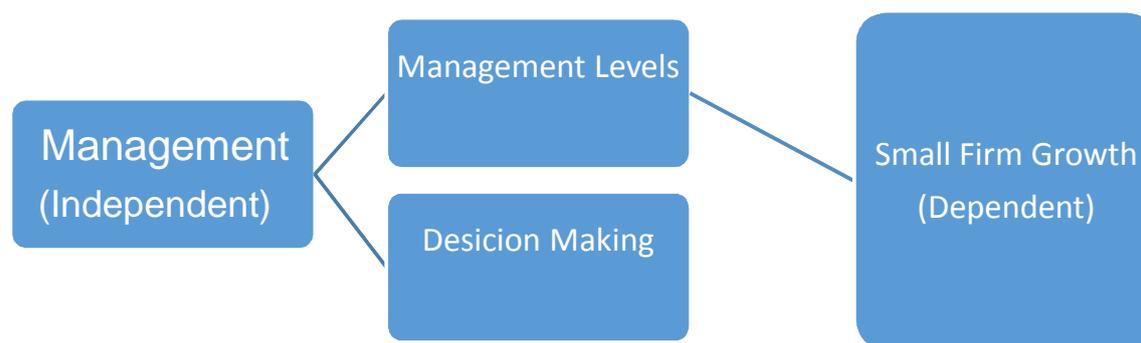
Delmar & Wilkins (2008) told the role of small business managers, growth motivations, taking into account the important effects of previous motives and feedback from earlier performance we hypothesize that small firm's managers growth has a unique influence on firm outcome, measured as growth in sales and in number of employees.

Pout Ziouris (1998) argued that in growth process, behavioral issues are also very important e.g. the behavior of the management toward an unstructured problem. He also reflects the agency problem in small organizations "a situation in which management goals are proffered over organizational goals", a big hurdle toward the attainment of growth.

FEDRICO, KANTIS, RAITINO said that unfavorable business conditions are the results of culture differences, entrepreneur profile, low firm resources & market characteristics. Firm that have maximum tangible and intangible resources, financed by external resources exhibits higher employed growth. Presence of large and more specifics networks contributes positively subsequent venture growth. Facing high competitors, high growth exports activities and firm's employed, a firm will attain high growth.

Chio & Shepherd (2004), Persn & Grant (2000) and Lefebvre et al. (1995) all argued that organizational technologies compliant and support but remained influenced by decision making and technical ability.

Gregory (2006) reflects a research from Romania and explained that in Romania it is accepted that small firms represent a key factor of economic growth. Development is the percentage of workforce hired. The power of a company is reflected in the number of employees. Also focuses on high performance work system e.g. assessment, training, development & improvement of communication. High risk of failure limits the small firms to grow, as survival is their main concern. At least four parameters have to be supervised in order to obtain stable level of financial standing e.g. %age of the work cost in added value, profitability, liquidity and solvency.

PROPOSED RESEARCH MODEL**MANAGEMENT**

In this research model we took management as independent variable. In management we observed two main factors e.g. management Levels e.g. top, middle and front line management. We observed the role of these management levels in small firms, and their impact is observed on the growth of small firms.

Our next independent variable is Decision making. Decision making is a thought process of choosing the right option from different alternatives. We do forecasting between the cost and benefits of different alternatives, and choose the best one. In our research we observed the behavior of small firms toward decision making. There are two styles of decision making: Centralisation and Decentralisation. In centralization the important decisions of the firms are taken by either top management or the owner of the firm. Whereas Decentralisation involve every employee of organization in decision making. Mostly the European and other countries follow decentralization, but in Pakistan most preferred style is centralization. Most previous researches focus on small firms of developed areas, where every decision is taken on the basis of already defined rules, but our focus is small firms of south Punjab. So we observed some different behavior. Moreover, previous literature mostly take decision making in sense of entrepreneurship, but we observed the behavior of small firms toward decision making toward Centralisation and decentralization. We observed the behavior of small firms in our study, these firms have no specific management structure, and most firms have the owner as a top manager, so I observed Centralised and decentralisation behavior alternatively. The businesses are small and most firm have less or no qualified employees, so automatically decision making is decentralized mostly but some firms have owner as top management, so in these firms decisions are taken by the owner. But I observed a sharp growth in these firms. As we took the example of the shoe business of a lady, The business grow in a short period of time and

also growing day by day. We observed the positive impact of management levels on growth. So our profit is increased by involving different management levels in our business, and also by positive decision making.

GROWTH

In our research we took Growth as Dependent variable. As our focus is backward areas of south Punjab, where small firms mostly see growth in terms of financial performance, that's why our focus is also profitability. But as we defined growth as Development over time, so by increase in profit the assets as well as all other factors will show development. There are number of researches in this scenario, but there are a lot of factors that must be defined.

The literature on these variables not enough to cover all the prospects, the variables that we took are short in supply in previous studies, so we are took these variables to take the next step, that is useful to highlight the behavior of small firms of south Punjab.

METHODOLOGY**Research Design:-**

The study will use both qualitative and quantitative measures. Due to presence of quantitative data, Financial and statistical tools will also be used.

Study Area:-

The study area is the areas of south Punjab, where small firms are present. The study focuses on the impact of management activities on financial activities of small firms.

Study population:-

Population is the employees and owners of the small firms.

Methods of Data Collection:

Data is collected both by qualitative and quantitative means. It includes both primary and secondary data. Primary data is conducted through observation, surveys, interviews, Questionnaires etc. Secondary means are internet and previous researches. Secondary means are internet and previous researches.

| Model Summary | | | | |
|--|-------------------|----------|-------------------|----------------------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .922 ^a | .850 | .844 | .30712 |
| a. Predictors: (Constant), effect. management & d. m | | | | |

| ANOVA ^a | | | | | | |
|--|------------|----------------|----|-------------|---------|-------------------|
| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
| 1 | Regression | 12.852 | 1 | 12.852 | 136.249 | .000 ^b |
| | Residual | 2.264 | 24 | .094 | | |
| | Total | 15.115 | 25 | | | |
| a. Dependent Variable: firm. Growth | | | | | | |
| b. Predictors: (Constant), effect. management & d. m | | | | | | |

| Coefficients ^a | | | | | | |
|------------------------------------|--------------------------|-----------------------------|------------|---------------------------|--------|------|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .965 | .374 | | 2.581 | .016 |
| | effec. management & d. m | .811 | .069 | .922 | 11.673 | .000 |
| a. Dependent Variable: firm.growth | | | | | | |

DATA ANALYSIS

Data is analyzed by using the software of “SPSS” to get the better results.

Research Problem:-

The study is conducted in backward areas of Punjab. The small firms of south Punjab are growing day by day and have a meaningful impact on growth of the economy, but the basic culture of these firms is not so well developed. The owners or employees of the firms are not well educated, so I face a lot of problems in collecting data from them. Mostly they are not fully aware of the formal terminologies of management, I tried my level best to clear the terms and to get the pure data. So, it might be a chance of some impure data in the study. But it will be in a little quantity that can be ignored.

CONCLUSION

As we are observing the behavior of small firms growth toward their Management, we mostly focus the Management levels and Decision making, but the role of whole effective management can not be ignored in this regard. If our management will be effective than we observe

a huge growth in the small firms. So, if a firm have Effective management layers and also take decisions that are effective and wise (according to the situation) than the firm will grow at a broad level and it is the possibility that it will change its status from small to Large firm in a very short period of time. If a firm involve all the three levels of management (Top, Middle, Lower) in every decision of its firm than the projects of the firm will be successful, its profit will increase and ultimately the firm will develop on a daily basis. If a firm is started with a minimum investment, No or little assets, One or small employees than it is not necessary that it will remain in this condition whole its life. If The decisions regarding all the matters of the firm will took wisely by involving all its employees, than there are chances that the firm will grow rapidly. During my whole research, and surveys, and also the Questionnaires that are filled by the employees and owners of small firms, I observed positive behavior between dependant and independent variables. It shows that the results are highly significant. It mean If the Management layers of a firm are effective as well as Decisions are taken wisely than the firm will surely grow. Results of the study are showing



positivity. A reasonable growth can be observed by rationally controlling the independent variable. The firms that were not showing a reasonable increase in growth were failed to control the independent variable. These firms have not an effective management layers and also lack rational decision making. So according to my study, the firm that is willing to grow should have effective management structure and rational decision making. The importance of human capital can not be ignored in any organization whether it is small or large. If the potential persons will be present than automatically they will take the decisions that are favourable for the organization, so on the behalf of these persons the firm show positive and intensive growth.

The statistical data possess significant influence among effective management levels and rational decision making for the growth and productivity of small firms. In accordance to finding, effective management levels and rational decision making and firm growth are statistically significant at .000 (>.005) and effective management and decision making coefficient is .81, it reveals that if we invest 1% on independent factor like management level and decision making, it will give return more than 80% which is greater than others. So firms must put more efforts for effectiveness in managerial levels by hiring potential and productive personnel and also by making rational decisions for firm growth.

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