SMALL BUSINESS INSTITUTE DIRECTOR'S ASSOCIATION (SBIDA) 1988

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DISLOCATION AND POTENTIAL ENTREPRENEURSHIP

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ABSTRACT
Dislocated entrepreneurs are individuals who seek to start their own business upon losing their job due to a plant closing or layoff. It is concluded that dislocated entrepreneurs resemble small business owners more than traditional entrepreneurs. Implications for researchers and practitioners are offered.

INTRODUCTION
Numerous types of entrepreneurs and/or small business owners have been identified in the literature (e.g. Carland, Hoy, Boulton & Carland, 1984; Cooper, 1979; Hosmer, 1977; Liles, 1974; Smith, 1967; and Vesper, 1979). Unfortunately, few researchers have examined a new type of entrepreneur ... the dislocated entrepreneur. The dislocated entrepreneur is an individual who, through the loss of employment due to a business closing, plant closing or layoff, endeavors to start his or her own business. The above three environmental impacts are not new. However, the stubbornly high rate of unemployment and the sheer number of individuals who have lost their jobs in the last decade (32 to 42 million) have caused many individuals, who in past years would have found employment in other large or small organizations, to turn to entrepreneurship. Therefore, the objective of this study was to determine if recently dislocated workers possessed any of the common psychological characteristics of successful entrepreneurs. Ireland and VanAuken (1987) have recently called for more research in this area. We have attempted to examine the paths to new venture creation, concentrating on the situational aspects of dislocation and entrepreneurship. In addition, we have addressed strategic issues as well as operational implications for both academic researchers and practitioners.

Reviews of Previous Research
In order to understand this sample of dislocated entrepreneurs, two psychological tests were administered. The first was the short version of the Myers-Briggs Type Indicator (McCaulley, 1977), and the second was the Miner Sentence Completion Scale-Form T (Smith and Miner, 1984). Both Tests have been used to understand the psychological characteristics of entrepreneurs (Hoy and Vaught, 1981, Carland, 1982, Hoy and Carland, 1982, Smith and Miner, 1984).

Entrepreneurship and the Independent Owner
Much of the limited literature relating to small business management has suggested that small business owners have in common a characteristic referred to as entrepreneurship (Brockhaus, 1982; Kets de Vries, 1985; McClelland, 1961). There has been considerable interest in the ability to identify this character trait and to differentiate entrepreneurs from other individuals. Various writers have offered such traits as judgment, ambition need for achievement (nAch) and locus of control (Brockhaus, 19782; Casson, 1982). However, there are also suggestions that there may be substantial differences in degree of entrepreneurship among small business owners as well as others in the population.

The popular view of the entrepreneur as a successful, adventurous super achiever certainly is an oversimplification. As Carland, et al (1984) point out, it is critical to distinguish entrepreneurs from non-entrepreneurs. They make this distinction as follows:
... An entrepreneur is an individual who establishes and manages a business for the principal purposes of profit and growth. The entrepreneur is characterized principally by innovative behavior and will employ strategic management practices in the business...The small business owner is an individual who establishes and manages a business for the principle purpose of furthering personal goals. The business must be the primary source of income and will consume the majority of one's time and resources. The owner perceives the business as an extension of his or her personality, intricately bound with family needs and desires (1984; 358).

There are several diverse groups of people who find themselves on an entrepreneurial career path. One large group would be classified as dislocated entrepreneurs and some people think that they represent a majority of entrepreneurs. Little research has been done, but the preliminary findings of this study suggest that this group may more closely resemble non-entrepreneurs or less successful entrepreneurs rather than successful entrepreneurs.

The question of why some individuals become entrepreneurs is central to the understanding of entrepreneurship (Brockhaus, 1986). Business plans address this issue, venture capitalists and lending officers consider this an important criterion for deciding who should receive funding, and entrepreneurship courses require students to give careful thought to this question. Most of the discussion within the literature has focused on the "pull" of entrepreneurship, i.e., the factors that are alluring to a budding entrepreneur, such as: independence, financial rewards, flexibility, earning a living in one's avocation, etc. To a much lesser extent, researchers have also focused on the "push" toward entrepreneurship. This includes factors such as dissatisfaction with one's current job, or the inability to find an attractive alternative to independent ownership. Although some research has been done on job dissatisfaction and its impact on entrepreneurship, research is relatively sparse. In a study done at the University of Texas, it was found that 65% of the entrepreneurs sampled said that the primary reason they chose entrepreneurship was negative (Shapero, 1975).

According to this study, the most common form of displacement occurs when someone gets fired. An earlier study based on a sample of entrepreneurs from Michigan also concluded that entrepreneurs were more likely to be "pushed" rather than "pulled" toward entrepreneurship (Collins and Moore, 1970).

THE PRESENT STUDY

Thirty-eight recently dislocated workers who planned to reenter the workforce through the entrepreneurial process were studied. Each of the subjects was a certified dislocated worker from New York State.

Demographics

Of this group, 54% were male, 28% were minority (all but one of these was black), 4% were single, 22% were divorced, 17% were separated, 52% were married, and 4% were widowed. The ages ranged from early twenties to late sixties, but most of the participants, 62%, were between the ages of 40 and 59. All of the participants hadcompleted high school, and 32% had received at least a bachelors degree.

MBTI-G

The Myers-Briggs Type Indicator (MBTI), Form G, is a personality preference inventory based on the typology of Carl Jung. Jung's theory of psychological type describes four basic mental processes used by all, but not equally preferred or equally developed. This study will focus on two of these four processes or functions, since most of the previous research in this area has been limited to just these two functions. Taken together, these two dimensions yield four problem-solving styles. The Sensing-Intuition functions are the perceptive functions. Sensing (S) is the term used for perception of the observable through the five senses. Intuition (N) is used for perception of relationships, possibilities, and meanings through insight. Sensors prefer to work with facts; intuitors prefer to look for possibilities and relationships.

The Thinking-Feeling functions are the judgment functions. Thinking (T) is used to describe the reference for making decisions based on impersonal logic. Feeling (F) is used to describe decision-making based on one's values in a subjective manner. Thinking types rely on logical structures, objectivity and impersonal judgements in dealing with situations and weighing facts. Feeling types analyze subjectively and are skilled at understanding other people's feelings and using this in part as the basis for judgments based on their personal values. These four functions combine to produce four problem-solving styles based on how information is gathered and how information is gathered and how information is evaluated. The four styles are: sensing-thinking (ST), sensing-feeling (SF), intuitive-feeling (NF), and intuitive-thinking (NT).

The ST style describes an individual who focuses on facts that can be collected and verified directly by the senses. Problem solving is methodical, logical and impersonal. Similarly, the SF-style person relies on sensing for perception, but then approaches decision-making with personal warmth.

The NF-style person focuses on possibilities such as new projects. This idea or inspiration is then approached and evaluated with personal warmth and commitment. The NT-style individual also focuses on possibilities, but then evaluates them impersonally and objectively.

Considerable research has been conducted on the validity and reliability of the MBTI. Reliability data for the MBTI include measures of internal consistency and test-retest consistencies of the separate scales and type classifications.

Internal consistency reliabilities generally fall in the .70's and .80's with test-retest reliabilities of continuous scores ranging from .60 to .83 in four samples retested after two to twenty months (McCaulley, 1981).

Based on this, the MBTI is considered a reasonably reliable instrument for measuring personality references.

The validity of the MBTI is determined by how well it measures the constructs of Jung's typology. Carlyn (1977) analyzed research which examined content validity, predictive validity, and construct validity of the instrument. He found the SN and TF scales generally consistent with the construct validity of the MBTI compared well with other tests measuring the same constructs. In conclusion, the MBTI is considered both reliable and valid.

Hoy and Vaught (1981) used form F of the MBTI to test the relationship between psychological type and interpersonal communication competence of 39 entrepreneurs. A majority of the entrepreneurs in this study were intuitive types (61%). The breakdown of problem-solving styles (described later) was as follows: ST=26%, SF=13%, NF=33%, NT=28%. In later research, an attempt was made to distinguish between 25 entrepreneurs and 52 small business owners using the MBTI (Carland, 1982). It was found that the MBTI was a particularly effective discriminator, with the entrepreneurs being classified as intuitive-thinking-perceptive types and small business owners classified as sensing-feeling-judging types. However, a follow-up study comparing entrepreneurs starting new ventures with 57 small business owners starting new ventures found no significant differences along any of the dimensions of the MBTI (Hoy and Carland, 1982). Hoy and Carland speculated that the disagreement between the studies may be attributed to the fact that the second study examined start-up businesses only. They point out that the MBTI may prove to be an effective discriminator between entrepreneurs and owners of surviving firms.

MSCS-T

Entrepreneurial intensity is reflected in motivational patterns. The foundation for this assertion is derived from some of the earliest work on entrepreneurship (Schumpeter, 1934). Schumpeter suggested that the true entrepreneur was an individual who desired to found a private kingdom, to conquer, to succeed for the sake of success itself and to create. McClelland (1961) perceived the entrepreneur to be an individual who translates need for achievement (nAch) into economic development.

Steiner, Miner & Gray (1986) suggest that the psychological foundations for achievement motivation include individual variation in the degree to which achievement is a major source of satisfaction. Furthermore, individuals high in achievement motivation will be more concerned with achieving success than avoiding failure. Finally, they will prefer situations in which they can influence outcomes and those that allow for personal attributions for success.

The authors further suggest that such individuals will tend to be successful in the entrepreneurial environment.

Miner (1980) presented a comprehensive theory of entrepreneurial achievement having its roots in McClelland's (1961) psychological theory of nAch. Miner's theory of task inducement systems specifies five role characteristics and their related motivational patterns. These relationships are summarized as follows:

1. Achievement Orientation. A desire to achieve through one's own efforts.
2. Personal Risk. A desire to take moderate risks.
3. Feedback. A desire for some clear index of the level of performance.
4. Personal Innovation. A desire to introduce novel, or creative, or innovative solutions.
5. Planning. A desire to think about the future and anticipate future possibilities.

Miner proposed that individuals with the appropriate match of role characteristics and motivational patterns would be more successful as entrepreneurs. These arguments support those suggested by Wainer and Rubin (1968). These authors conducted a study of the relationship between individual (owner) motivational and firm performance. They found that both high nAch and moderate need for power were associated with high levels of firm performance. However, a recent study by Begley and Boyd (1986) indicates that there is little relationship between the psychological attributes of relatively experienced entrepreneurs and financial performance. They did find that founders of small firms have a higher need for achievement, higher risk-taking propensity, and a greater tolerance for ambiguity than non-founders.

In a study of technologically innovative entrepreneurs, Smith, Bracker, and Miner (1987) concluded that the above five characteristics or motives are relatively strong in successful entrepreneurs. Since this sample was of relatively new experience, one may conclude that the Miner Sentence Completion Scale Form T predicts experiential success in new ventures.

RESULTS
The following tables summarize the results of the present study.

PERCENTAGE DISTR. FOR MBTI
Sensor-Thinker 18%
Intuitive-Thinker 24%
Sensor-Feeler 26%
Intuitive-Feeler 32%

These data are not altogether inconsistent with previous research investigating decision-making styles of entrepreneurs and small business owners. As was seen in previous studies, a majority of these dislocated budding entrepreneurs are intuitive types. The profile is more consistent with that of small business owners than entrepreneurs. One might conclude that the current sample of budding entrepreneurs might experience serious difficulties in starting and managing a new venture.

MEAN SCORES FOR MINER SENTENCE COMPLETION SCALE
Achievement Orientation -0.61
Personal Risk -0.18
Feedback -0.25
Personal Innovation 1.43
Planning 0.11
Total 0.50

These data clearly suggest that this sample of dislocated budding entrepreneurs is very different from other groups of successful entrepreneurs that have been studied (Smith, Bracker, Miner, 1987). The differences in scores for the Miner Sentence Completion Scale are most obvious. In every dimension, the scores of the budding dislocated entrepreneurs were lower than the successful entrepreneurs, and in three out of five dimensions the scores were actually lower than the scores of less successful entrepreneurs studied by Smith, Bracker and Miner (1987).

IMPLICATIONS FOR ENTREPRENEURS

The results of this study reflect the value of the adage "know thyself." Entrepreneurs (actual or potential) of small businesses are encouraged to examine their motives for starting a business, and the belief system and/or assumption base within which they function. These tasks are by no means easy, and many such individuals may feel they constitute a waste of time. However, the present results provide evidence to the contrary.

Often times the dislocated entrepreneur secures venture money through past industry experience or pledging of personal assets. While this initial planning was difficult for the new entrepreneur, the importance of adapting his or her firms to the environment is rarely considered. This absence in favor of focusing one's energies on running the day-to day affairs of the business may well spell doom for the new venture.

The first economic downturn or major competitive action by another firm will probably lead to the demise of the venture.

Entrepreneurship is not a Mecca for everyone. The high failure rate of new businesses in America forces the involuntary loss of over 10 million jobs per year in the U.S.A. According to Birch (1987) the Europeans are not willing to pay the price our entrepreneurial environment fosters. Now many Americans want and need protection for that price.

According to Bracker and Pearson (1986), numerous human resource strategies could assist potentially dislocated workers. Chief among these is to create and maintain a workforce that is competent and adaptable to change, encourage the pursuit of learning and updating of skills, and emphasize long-term manpower planning in both the public and private sectors to forecast needed skills and provide sufficient time to develop skills.

The data in the present study suggest that these potential entrepreneurs have behavioral orientations that differ from successful founder entrepreneurs studied in prior research. This does not preclude them from entrepreneurship. The findings suggest that alternative forms of entrepreneurship might be more advantageous for these individuals. One might suggest that they start down the path to entrepreneurship in a less comprehensive way; for example, self-employment, part-time self-employment or a home-based business. To date, in fact, over 10 million Americans are self employed or part-time self-employed.

Another less risky avenue to entrepreneurship is the purchase of a franchise. The sensor thinkers in this study would probably find the owning of a franchise consistent with their need for rules and procedures. Likewise, the sensor, feeler would be comfortable with the incremental rate of change typical of franchise operations.

The low number of intuitive thinkers and low MSCS-T scores should not suggest entrepreneurship is not a viable career option for these individuals. One might expect those individuals with high MSCS-T scores and intuitive thinkers to have already moved toward founding a growth-oriented new venture. However, only future research on additional dislocated workers will address the above hypothesis.

Implications for Other Members of the Entrepreneurship Team

The turbulent economic environment prevalent in today's economy will create more and more non-traditional entrepreneurs. This, coupled with our economic shift to a service-oriented society, will exacerbate this condition.

The entrepreneurial team including accountants, lawyers, bankers, and other advisors need to understand the managerial shortcomings of these new entrepreneurs. These individuals are lacking in the traditional innovative growth-oriented posture of yesterday's entrepreneurs. Planning and its related subcomponents for future growth, and survival in particular, may become the domain of the advisor, not the entrepreneur. These individuals could be classified as reactive to their environment. This will force outside advisors to also take on an environmental scanning role. The outside advisor must be prepared to motivate the non-traditional entrepreneur toward sophistication of management practice. In essence, the follower must now become the leader if the new venture is to survive over time.

A warning to outside advisors: These non-traditional entrepreneurs may not feel the accountability for their actions that their founder counterparts experience. Often times the traditional entrepreneur feels great pressure to succeed.

Failure may be paramount to death for this individual. This is not the case with these non-traditional entrepreneurs.

CONCLUSION

In a nutshell, entrepreneurship is not the panacea for dislocated workers. It must be noted, though, that a homogeneous sample of, for example, dislocated engineers, might produce a greater crop of potentially successful entrepreneurs.

The results of this study indicated that the 38 dislocated workers displayed characteristics more commonly associated with small business owners than traditional entrepreneurs. While these results raise doubts about the entrepreneurial characteristics of dislocated workers only, time will tell if these individuals start and operate successful ventures.

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ON THE MEANING OF ENTREPRENEURSHIP

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ABSTRACT
What is an entrepreneur? The purpose of this paper is to report the results of a survey in which business professors, economics professors, business economists and public officials concerned with the promotion of small business were asked this question. After a brief review of the leading theoretical definitions of entrepreneurship, the paper finds considerable consensus among the categories of respondents named. Very little disagreement was found to exist among the four groups, all seeming to associate the term primarily with innovation and the bearing of risk. A lesser consensus was found to exist concerning whether employees can perform the entrepreneurial role.

INTRODUCTION

The word "entrepreneur" is used with increasing frequency in the literature of business and economics. What does it really mean? The more one examines this question, the more it seems that it means different things to different people. If true, this suggests the existence of a serious communications problem among students of the subject. It is the purpose of this paper to report the results of an effort to shed light on this issue. Before doing so, however, we review briefly some views on the meaning of entrepreneurship.

Earlier Views

Very probably the best existing source on the definition of entrepreneurship is the book The Entrepreneur: Mainstream Views and Radical Critiques, by Hebert and Link (7). All of our references on early views are to this source.

According to Hebert and Link, the first formal statement of the entrepreneur's role and significance in the market economy comes from Cantillon. Writing in the early eighteenth century, he considered the entrepreneur to be primarily a bearer of risk. By undertaking ventures with fixed expenses and uncertain revenues, he acts, said Cantillon, as the equilibrating mechanism in the market economy (7, pp. 14-22).

To Say, whom Hebert and Link describe as "the man of nineteenth century economics whose name more than any other is identified with entrepreneurship", the entrepreneur was essentially a manager. He was an expert at "supervision and administration", a kind of superior laborer whose task it was to act as a catalyst in applying scientific knowledge to a useful purpose (7, pp. 29-35). Classical and neoclassical theorists largely ignored the entrepreneur. To Smith and Ricardo, he was a capitalist, the owner of the capital employed in a venture who directed the productive process in a rational and seemingly routine way in search of a profit (7, pp 37-40). To Marshall, he was a manager or, by one interpretation, even a management team consisting of all those individuals within a firm who are required to perform entrepreneurial functions (7, pp. 52-57). To Schumpeter, the entrepreneur was an innovator (7, pp. 76-84). It was he who created the "new combinations", the new products, processes and organizational forms, through which economic progress occurs. Schumpeter, saw in the entrepreneur the very heart of the competitive process and so seriously did he take the entrepreneur's role that in its decline with the rise of a professional managerial class he saw the end of capitalism itself.

The Austrian School placed great emphasis on entrepreneurship, placing it at the center of the entire economic process.

Mises viewed entrepreneurship as not applying to a person but to a function. To him, everyone is an entrepreneur who is engaged in purposeful action in an uncertain world (7, pp. 91-99). There are indeed many perceptions of entrepreneurship in the literature of business and economics. Hebert and Link list twelve, in fact, which they state are not exhaustive. These describe the entrepreneur variously as the person who assumes the risk associated with uncertainty; a supplier of financial capital; an innovator; a decision maker; an industrial leader; a manager or superintendent; an organizer or coordinator of economic resources; a proprietor of an enterprise; an employer of factors of production; a contractor; an arbitrageur; and the person who allocates resources to alternative uses (7, pp. 107-108).

More Recent Positions

The meaning of entrepreneurship has received more recent attention as well. Several current writers hold, in effect, that entrepreneurship is little more than rational economic behavior in the context of uncertainty. Demsetz, for example, states that "Entrepreneurship is little more than profit-maximization in a context in which knowledge is costly and imitation is not instantaneous (5, p. 277)." Schultz tells us that individuals who perceive and evaluate economic disequilibria in an effort to decide whether it is worthwhile for them to reallocate their resources (including their own time) are entrepreneurs. He states that workers, students, housewives, and consumers frequently act as entrepreneurs and, indeed, that "Entrepreneurship is a pervasive activity in a dynamic economy (19, p. 437)." In a similar vein, Baumol seems to hold that while entrepreneurship is not merely maximizing behavior amidst uncertainty, it is merely maximizing behavior of an exceptionally determined kind. As he puts it, "I use the term (entrepreneurship) to refer, loosely, to a person's exercise of imagination, alertness, and daring in the pursuit of his goals (2, p. 176)." Moreover, he specifically avoids limiting these goals to the realm of business (2, p. 176).

Even among those who see a more specialized role for the entrepreneur, consensus is lacking. What agreement there is centers first around a feeling that the role of the entrepreneur is to perceive opportunity. Thus, Fellner states that,"...successful entrepreneurial judgments are in the nature of 'discoveries' or 'inventions'--essentially of discoveries of market opportunities... (6, p. 31)." Kirzner tells us that"...the entrepreneurial function must necessarily always be that of sniffing out opportunities that on the surface do not appear to exist (10, p. 149)," and that "The entrepreneurial function is to notice what people have overlooked (13, p. 273)." Finally, Rosen writes that "...entrepreneurial activities must involve the organization of resources that are initially outside the existing market system" and that with entrepreneurship, "It is the creative idea which is the crux of the matter... (18, pp. 303; 305)."

Another common view is that the entrepreneur must not only perceive opportunity but must also exploit it. Thus, Fellner states that in addition to judgments about opportunities, entrepreneurship involves " . . achieving the acceptance of these judgments by economic agents

(6, p. 42)," Kirzner states that "Entrepreneurship in the market consists in the function of securing greater consistency between different parts of the market (12, p. 153)," and Leibenstein includes among the activities of the entrepreneur such active tasks as gap filling, obstacle overcoming, and input completing (14, p. 135).

Where disagreement arises is over the degree to which entrepreneurship entails the bearing of risk. According to one group, the risk of losing one's job is sufficient to meet this requirement, while a second requires the risk of bankruptcy. The former admits certain employees to the order of entrepreneurs while the latter limits it to residual claimants. Casson belongs to the first group. An entrepreneur, he states, is "...someone who specializes in taking judgmental decisions about the coordination of scarce resources (4, p. 23). " Included among such individuals are salaried managers (4, p. 350). Young would also include employees as entrepreneurs, apparently accepting the view that entrepreneurship is basically "... an organizing and promoting activity, which may be paid for by wages or other means... (21, p. 23)" and citing numerous examples of employees performing entrepreneurial activities. Fellner, too, admits the possibility of employee-entrepreneurs when he writes "In most major enterprises, the entrepreneurial function is performed by many individuals, by some to a greater extent than by others (6, p. 46)" and that "Successful entrepreneurs usually earn their incomes in the form of favorable salary and retirement conditions and/or bonuses and stock ownership or stock options ... (6, p. 46-47)."
In the second group are those such as Kirzner who states flatly that "To hire an entrepreneur is to be an entrepreneur (11, p. 16)" and that "Services that have been hired must be presumed not to be entrepreneurial (9, p. 174)." Bearse takes a similar position when he writes "The entrepreneur of this study is someone who bears the risk and uncertainty of not receiving payment for work on a regular basis ... (3, p. 112)" and selects for his sample the set of "self -employed proprietors" and "self-employed incorporated" from the U.S. Bureau of the Census, Survey of Income and Education. Leibenstein also seems to take the position that employees are not entrepreneurs when he states that despite the possibility that the entrepreneur may choose to take his reward in the form of a job in the new organization, he must, nonetheless, bear (at least initially) the uncertainty of the organization and its environment (14, p. 136-137).

There is thus significant disagreement among writers on entrepreneurship. Is this reflected among those who, while not necessarily writing in this area, nonetheless make frequent use of the term in their professional activities? What does the term entrepreneur mean as used today among scholars in business and economics and among those promoting small business? To find out was the purpose of this study.

METHODOLOGY

Data for the study were obtained by mail survey from four groups of respondents. Each group possesses a different professional relationship with entrepreneurship, thus permitting a comparison of how each views the term entrepreneur. The four groups and their response rates are shown in Table 1.

Questionnaires were mailed to a systematic sample of individuals in each group. The names of the government officials in each state responsible for the promotion of economic development were obtained from the Council of State Governments publication, State Administrative Officials Classified by Function for 1985-86. The names of the Small Business Institute directors, the business economists and the academic economists were obtained from membership directories of the Small Business Institute Directors' Association, the National Association of Business Economists, and the American Economic Association, respectively.

TABLE 1
CATEGORIES OF RESPONDENTS AND RESPONSE RATES

	Questionnaires		
Category	Mailed	Returned	Response
Government Officials in Charge of Economic Development	50	25	50.0%
Small Business Institute Directors	100	44	44.0%
Business Economists	100	43	43.0%
Economics Professors	100	37	37.0%
Totals	350	149	42.6%

Responses were received from every state except Alaska, Arizona, Colorado, Hawaii, South Dakota, Utah, and Wyoming. No differences were found between the characteristics of responding and non-responding individuals. The sample was therefore considered to be representative of the populations from which it was drawn.

A copy of the questionnaire used in the study is included as an appendix to this paper. The four questions in Part A of the questionnaire were suggested by the recent economics literature dealing with entrepreneurship. Four statements were developed which reflect recurring issues in that literature and with which respondents were asked to express their degree of agreement or disagreement. The four statements are:

1. Entrepreneurship is simply decision making under uncertainty.

2. Entrepreneurship always involves recognizing an opportunity.

3. Entrepreneurship involves not only recognizing an opportunity but making use of that opportunity as well.

4. Entrepreneurship can be performed by an employee.

A seven interval(1) Likert scale was employed to assess each respondent's degree of agreement or disagreement with these four statements. All scaled statements were scored 1 to 7 consistent with previous measurement of individual opinions using single-item measures.(2) One-way analysis of variance, chi-square, the t-test, and discriminant analysis were used to determineif any significant differences exist among the four groups in the way each perceives what constitutes an entrepreneur.

(1) A seven interval Likert scale has been found to be optimal. See Nunally (16, p. 512).

(2) Employing numerical scales as the method of quantifying variables is customary in opinion

studies. See McClure and Ryans (15, pp. 35-40) and Tesar (20).

FINDINGS

The four groups of professionals examined did not differ significantly in their opinions toward the four entrepreneurship issues examined. The results of the ANOVA tests are shown in Table 2. For the issues examined, these findings do not offer support for rejecting the hypothesis that no differences exist among the opinions of the four groups of professionals.

To determine how useful the responses to these four issues are in predicting group association, a multiple discriminant analysis was performed. The resulting discriminant equation could only correctly classify 36.2% of the respondents.

Based on the results of the ANOVA and discriminant analysis, the conclusion must be drawn that the four groups of professionals possess no differences in the way they perceive an entrepreneur for the four issues examined. In general, these professionals reject the view that entrepreneurship is nothing more than decision making under conditions of uncertainty. They agree fairly strongly that entrepreneurship always includes recognizing an opportunity. They even more strongly agree that entrepreneurship must involve making use of a recognized opportunity. The interviewed professionals also tend to agree that entrepreneurship can be performed by an employee, that is, that one need not be his or her own boss in a venture to be that venture's entrepreneur. To further examine opinions of the four groups about entrepreneurship, each respondent was asked in Part B of the questionnaire to agree or disagree on a four-interval Likert scale with the view that an individual in each of sixteen different categories should be considered an entrepreneur. The categories, along with the results of the ANOVA tests, are shown in Table 3. In only two instances were F values obtained that result in probabilities sufficiently small to expect that the means of the four groups of professionals were significantly different. The individual means for these two categories are shown in Table 4. Group means were compared using Scheffe multiple comparison tests to determine which differences were responsible for producing the significant F values. In both cases, the average responses of the economics professors are significantly smaller than the average responses of the other three groups. In both cases, the economics professors perceive the category as one in which the person is acting entrepreneurially while the other three groups of professionals perceive it as not involving entrepreneurship. In general, the results of these analyses tend to indicate all four groups of professionals view entrepreneurship similarly and further support rejection of the hypothesis that they do not.

Of further interest concerning the questions in Part B is what they seem to suggest about the commonly-held perception of all respondents combined about what constitutes an entrepreneur. Table 5 contains a ranking of the 16 categories in Part B.

To obtain this ranking, the absolute value of the difference between the mean of the responses for each category and 2.5 (the mid-point or neutral response since the responses on the questionnaire were assigned values from 1 to 4) was obtained and then divided by the standard deviation of the responses for that category. The first seven categories in the ranking are those with means of less than 2.5 arranged in descending order according to the number of standard deviations by which their mean differs from 2.5. The remaining nine categories are those with means exceeding 2.5 arranged in ascending order according to the number of standard deviations between their means and 2.5. The ranking is thus from those categories which the respondents as a whole most clearly feel to be entrepreneurial to those which they most clearly feel not to be entrepreneurial.

TABLE 2
ANALYSIS OF OPINION DATA(1)

Mean Values(2)

Issue	F Value	Prob-abil-ity	XA	XB	XC	XD	XE
Entrepreneurship is decision making under conditions of uncertainty	1.97	0.121	5.48	5.07	4.79	5.41	5.14
Entrepreneurship involves recog-nizing an opportunity	0.71	0.545	2.32	2.59	2.70	2.32	2.51
Entrepreneurship also involves making use of the opportunity	2.65	0.051	1.88	1.91	2.16	1.54	1.86
Entrepreneurship can be performed by an employee	0.98	0.405	3.40	3.59	3.44	2.97	3.36

1 The Cochrans C and F Max tests indicated each issue possessed no significant heterogeneity of variance.

2 1 = very strongly agree and 7 very strongly disagree

XA = mean value for Government Officials
XB = mean value for Small Business Institute Directors
XC = mean value for Business Economists
XD = mean value for Economics Professors
XE = mean value for All Respondents

In Part C of the questionnaire, an additional question was asked to determine who, if anybody, respondents perceive as the entrepreneur in the large corporation. Given categories of individuals connected with the corporation, respondents were asked to indicate which of those individuals they considered to be the corporation's entrepreneurs. The results were compared by chi-square and are presented in Table 6.

No significant differences were found in the frequency of responses of the four groups of professionals. Approximately 53 percent of all respondents felt that only the top management of the firm performs the entrepreneurial function. Only a small percentage of the respondents (less than 20 percent) felt that any other individual or group in the firm acts as an entrepreneur. Slightly more than 25 percent of the respondents believe that the large firm has no entrepreneur. A respondent's demographic characteristics have no influence on responses. A t-test based on race and sex indicated significant differences existed only 10 percent of the time. Because of the small number of females and nonwhites in the study, these findings should be treated cautiously. Demographic influences on responses are likely to be minimal.

TABLE 3
RESULTS OF PART B RESPONSES

Categories	F Value	Probability	Agree 1 Disagree
A store manager for a major retailing corporation	0.55	0.650	D
A salesperson who works on commission	0.62	0.603	A
A recent college graduate accepting his/her first job	0.94	0.424	D
A person buying silver bullion in hopes of a capital gain	1.03	0.381	D
A person opening up his/her own wallpaper store	0.22	0.883	A
Any exceptionally innovative employee of a firm	1.40	0.245	A
The person in charge of new product development at a major chemical firm	2.96	0.035	A
A recent high school graduate enrolling at a university	1.21	0.307	A
The owner of a McDonald's franchise	0.26	0.291	D
The owner of 100 shares of General Motors stock	1.87	0.137	D
A geologist exploring for oil for Exxon	1.43	0.236	D
A self-employed barber	0.60	0.615	A
A vice-president in charge of long-range planning at a large corporation	3.93	0.010	D
A person who believes that a convenience store would do well on a particular street corner	0.61	0.613	D
The president of a large corporation	1.88	0.136	D

1 If the mean value of all respondents is below 2.5, the respondents agree entrepreneurship is

involved. If the mean value is greater than 2.5 they disagree that entrepreneurship is involved.

TABLE 4
COMPARISON OF MEANS

Category	Mean Values(1) XA	XB	XC	XD
Any exceptionally innovative employee of a firm	2.52	2.56	2.51	2.06
A vice-president in charge of long-range planning at a large corporation	2.72	2.95	2.90	2.38

11 = strongly agree and 4 = strongly disagree
XA = mean value for Government Officials
XB = mean value for Small Business Institute Directors
XC = mean value for Business Economists
XD = mean value for Economics Professors

TABLE 5
RANKING OF PART B CATEGORIES BY ALL RESPONDENTS

Rank	Categories
1	A person opening up his/her own wallpaper store
2	A person operating a TV repair shop in his/her basement
3	A self-employed barber
4	The owner of a McDonald's franchise
5	Any exceptionally innovative employee of a firm
6	A salesperson who works on commission
7	The person in charge of new product development at a major chemical firm
8	The president of a large corporation
9	A person buying silver bullion in hopes of a capital gain
10	A vice-president in charge of long-range planning at a large corporation
11	A person who believes that a convenience store would do well on a particular street corner
12	A store manager for a major retailing corporation
13	A geologist exploring for oil for Exxon
14	A recent college graduate accepting his/her first job
15	The owner of 100 shares of General Motors stock
16	A recent high school graduate enrolling at a university

Conclusions
The first conclusion of the study has already been drawn: Members of the four groups of respondents do not differ significantly in the way they perceive the entrepreneur. Given then that they agree, what is it that they agree on? Some clues to this can be drawn from Table 5.

In Table 5, the four highest-ranked categories are all residual claimants. They are thus all bearers of risk in the sense intended by Cantillon. Number 6 is also a bearer of risk. It would thus appear that according to the respondents an entrepreneur is one who bears risk. This impression is strongly reinforced by results obtained from Part D of the questionnaire. In Part D, respondents were asked to express in their own words exactly what it is that makes a person an entrepreneur. Of the 122 respondents who completed that question, 84, or 68.9 percent, stated that it is the bearing of risk.

Besides being bearers of risk, the top four categories in Table 5 are also innovators. Each has gone into business for himself or herself. Numbers 5, 7, 8 and 10 are also involved with innovation, although each of these is an employee. It would, therefore, seem that by the term entrepreneur the respondents also have in mind an innovator. This would seem especially true since the owners of precious metals and common stock, who clearly bear risk but do not innovate, are ranked as low as ninth and tenth on the list, respectively. Moreover, only 10.2 percent of the respondents view the shareholders of a corporation, also residual claimants who normally do not innovate, as entrepreneurs.

As regards the question of whether or not an employee can be considered an entrepreneur, the evidence is ambiguous. The "Yes" response indicated in Table 2 is at best very weak. Top management, on the other hand, is identified in Table 6 as the entrepreneur in the large corporation. Finally, employees rank no higher than fifth in Table 5, and, with the exception of the risk-bearing commission salespeople, the four highest- ranking employee categories are all closely bound up with innovation. This ambiguity seems to mirror the disagreement in the literature on this issue.

Finally, the survey yields one other unambiguous result. The respondents clearly do not agree with Mises, Schultz, Demsetz, and others for whom the term entrepreneur means anyone who is attempting to make decisions in an uncertain world. This is indicated not only in Table 2 but also by the low rankings of the high school and college graduates in Table 5.

In sum, the definition of an entrepreneur which seems most compatible with the views of our sample is "one who innovates and bears risk."

TABLE 6
INDIVIDUALS WHO ARE ENTREPRENEURS IN A LARGE FIRM

Individuals	Chi Square	df	Probability	Percent Indicating Yes
Shareholders of the firm	1.102	3	0.777	10.20
The board of directors	6.738	3	0.081	18.37
The top management of the firm	4.644	3	0.200	53.06
The middle management of the firm	1.844	3	0.605	14.29
The first-line supervisors of the firm	2.831	3	0.418	13.61
Non-management employees	5.370	3	0.147	9.52
There is no entrepreneur in the large firm	2.675	3	0.445	25.85

Entrepreneurship Questionnaire

This questionnaire concerns your opinions about entrepreneurship. There are no right or wrong answers to the opinion questions, so please let your responses reflect how you personally feel. Please answer all of the questions.

Part A. For each of the following four statements, please indicate the extent to which you agree or disagree by circling the appropriate number. The numbers have the following meanings:

1 = Very strongly agree
2 = Strongly agree
3 = Agree
4 = Neither agree or disagree
5 = Disagree
6 = Strongly disagree
7 = Very strongly disagree

1. Entrepreneurship is nothing more than making decisions under conditions of uncertainty. Every individual who seeks to maximize his or her own well-being is thus an entrepreneur.
1 2 3 4 5 6 7

2. Entrepreneurship always includes recognizing an opportunity (even though this same opportunity may have been recognized earlier by someone else).
1 2 3 4 5 6 7

3. To qualify as entrepreneurship, behavior must not only include recognizing an opportunity, but also making use of that opportunity.
1 2 3 4 5 6 7

4. Entrepreneurship can be performed by an employee. That is, one need not be his or her own boss in a venture to be that venture's entrepreneur.
1 2 3 4 5 6 7

Part B. To what extent do you agree or disagree that each of the following individuals is an entrepreneur? Circle the number that represents your opinion. The numbers have the following meanings.

1 = strongly agree 3 = disagree
2 = agree 4 = strongly disagree

5. A store manager for a major retailing corporation.
1 2 3 4

6. A salesperson who works on commission.
1 2 3 4

7.A recent college graduate accepting his first job.
1 2 3 4

8. A person buying silver bullion in hopes of a capital gain.
1 2 3 4

9. A person opening up her own wallpaper store.
1 2 3 4

10. A person operating a TV repair shop in his basement.
1 2 3 4

11. Any exceptionally innovative employee of a firm.
1 2 3 4

12. The person in charge of new product development at a major chemical firm.
1 2 3 4

13. A recent high school graduate enrolling at a university.
1 2 3 4

14. The owner of a McDonald's franchise.
1 2 3 4

15. The owner of 100 shares of General Motors stock.
1 2 3 4

16. A geologist exploring for oil for Exxon.
1 2 3 4

17. A self-employed barber.
1 2 3 4

18. A vice-president in charge of long-range planning at a large corporation.
1 2 3 4

19. A person who believes that a convenience store would do well on a particular street corner.
1 2 3 4

20. The president of a large corporation.
1 2 3 4

Part C. Mark the appropriate spaces for the next question.

21. Who is the entrepreneur in the large corporation? Indicate who, in your opinion, performs the entrepreneurial role for the corporation; not who acts entrepreneurially in furthering his or her own interests in the firm. (Check all that apply)

__The shareholders of the corporation.
__The board of directors.
__The top management of the corporation.
__Non-management employees.
__The middle management of the corporation.
__The first-line supervisors of the corporation.
__There is no entrepreneur in the large corporation.
__Other (explain)____________________________________

Part D. Please state in your own words precisely what it is that an entrepreneur does that nobody else does. In other words, what is it, in your view, that makes one an entrepreneur?

Part E. The following five questions are for classification purposes.

22. Sex. __Female __Male

23. Age. __years

24. Highest level of education completed.

__Did not graduate from high school.
__High School graduate.
__Attended college but did not graduate.
__College graduate. Please indicate highest earned degree.__

25. Race. __Black __White __Other

26. Political preference. __Democrat __Republican __Other

27. State in which you reside.____

Thank you very much for your time and consideration in completing this questionnaire. If you could now mail it in the enclosed preaddressed, stamped envelope to the following address by July 20, 1987, it would be very much appreciated.

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THE OLDER ENTREPRENEUR: AN EXPLORATORY STUDY

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ABSTRACT
Little research has been done concerning the older entrepreneur. This paper reviews the retirement and age and work literature to provide a framework for an exploratory field survey. The results of the survey indicate that older entrepreneurs are different than their younger counterparts on psychological, business and familial factors. No differences were found in length of workweek, health and attitudes toward retirement. An efficient method of reaching older entrepreneurs for further study is needed.

INTRODUCTION
Older Americans are increasingly interested in entrepreneurship and becoming entrepreneurs. There are three reasons for this phenomenon. First, as lifespan increases there are more `once younger' entrepreneurs finding themselves now older entrepreneurs. Due to the discretionary nature of self-employment, the autonomy of running your own business and the lack of mandatory retirement, entrepreneurs higher work force participation rates than executives and managers (Burkhauser and Quinn, 1985). Quinn (1980(b)) reports that a disproportionate number of self-employed are older men (12%) and women (6%).

Secondly, due to the phenomenon of early retirement, there are many executives and managers of excellent health and financial means who are interested in pursuing entrepreneurship as an alternative to retirement. Lastly, there are more older managers catching the entrepreneurship `bug' and setting out on their own to pursue second careers.

For example, the Wall Street Journal reports that early retirees have flocked to venture capitalfirms seeking financing for their projects (Wall Street Journal, p. 1, Jan 7, 1986). Also a number of firms have provided early retirees counseling and workshops on starting a business as part of their outplacement programs (Wall Street Journal, p. 1, March 11, 1986). While young professionals can't imagine what they will do in retirement (Wall Street Journal p. 35, 1985), more ex-managers in their 40s and 50s are seeking to turn their hobbies into full time businesses (Wall Street Journal, p. 33, December, 23, 1986).

Business Week (p. 114-115, July 20, 1987) reports that not only retirees, but also active, seasoned executives are breaking out of the corporate environment to run startup businesses. They profiled three executives over the age of 60 who have ventured into diverse industries as construction, biotechnology and food service. Popular books designed to the older person to make the adjustment to the aging process even include chapters on starting your own business (Buckley and Schmidt, 1973; Myers and Anderson, 1984).

However, there has been almost no serious work investigating the older entrepreneur; his or her characteristics, the nature of their businesses, the efficacy and performance of their ventures. Age is rarely used as an independent, dependent or moderating variable in any study of entrepreneurship. A computer search of the literature failed to turn up any study of entrepreneurship or entrepreneurs crosslisted with terms like `aging' and `older.' The Encyclopedia of Entrepreneurship (Kent, Sexton and Vesper, 1982) refers to only one study where age was an important variable. With few exceptions (Ronstadt, 1984; Unni and Brewer, 1981) the reporting of age data in the study of entrepreneurs has not been a prevalent practice.

In an attempt to understand the phenomenon of older entrepreneurs and to begin to remedy the gap in our knowledge of age as a variable in entrepreneurship research, an exploratory field survey was conducted. Because there is no body of literature directly concerned with entrepreneurship by older individuals, our approach was indirect. This paper reviews the literature on age, work and retirement in order to offer a perspective and inform the survey's design. By examining the literature on retirement we try to develop a frame of reference for those that do not retire older and, conversely, start new ventures. Following this literature review, the results and conclusions of the study are presented.

LITERATURE REVIEW

Retirement Literature

The literature that comes the closest to speaking to the issues and problems of older entrepreneurs is the literature on the older worker and retirement. Here the major concerns are the nature and causes of retirement and especially early retirement, and the labor force participation rates of older workers and the economic consequences of these rates for the workers themselves and the economy overall (Robinson, Coberly, and Paul, 1985).

Atchley (1982) provides an overview of retirement as a social institution. He notes the social and economic benefits of retirement, including the opportunities it brings for younger workers, the reduced wage costs to the firm, and the personnel benefits to the firm of retirement plans (it ties workers to their jobs due to vesting, defers wages, acts as an incentive, accommodates individual desires and improves morale).

At the individual level, Atchley developed a process model of the retirement decision (Atchley, 1979). The model begins with system pressure to retire or individual need to retire causing the individual to begin a search for information. The information is processed and it interacts with individuals personal characteristics. The model culminates in a series of decisions to determine the final outcome. Among the types of information the individual gathers are the nature and characteristics of retirement, the financial needs and resources available for retirement, the alternatives to retirement. The individual characteristics which provide the context for the retirement decision include personality traits, social psychological factors, internal reward system, and physical and mental health.

Atchley's work helps identify some of the exploratory areas of interest for this study. The older entrepreneur is a person who chooses not to retire, or who `unretires.' The variables and factors that affect and influence the retirement decision are also salient to the decision not to retire.

A large body of work on retirement comes to us from the United States Social Security Administration's Longitudinal Retirement History Survey. The LRHS follows a cohort (1906-1911) of men and women through their work and social history. It takes a life course approach to retirement and assumes that all aspects of life affect the event and timing of retirement. Details of the approach and variables can be found in Fillenbaum, Abolofia, Maddox and Manton (1984).

A great deal has been learned about older workers and retirement from the LHRS data set. Quinn (1977) found that poor health and pension eligibility magnified the effects of personal and financial characteristics in determining early retirement. He also found the characteristics of the job affected the decision to retire early and these too were magnified by health effects (Quinn, 1978). In later work (Quinn, 1980, 1981), it was found that partial retirement is much more prevalent the self-employed. Self-employed persons are more likely to stay in the work force than wage and salary types as they get older. Partial retirement (flexible hours) was found to be positively correlated with pension eligibility among those in good health, and negatively correlated with the presence of dependents. Beck (1983) also using LRHS data found the self-employed less likely to be retired but attributed this to a lack of planning rather than the positive factors such as autonomy and job characteristics. In a contradictory study, also using the LHRS data set, Palmore, George and Fillenbaum (1982) found that their results varied considerably depending upon how retirement is defined. They found that for persons over 65 with pension eligibility, health is a relatively unimportant variable. Their regression analyses produced very low R-squares for predictors of retirement. Lastly, Fuchs (1982) found that the self-employed were significantly more likely to continue working partly by reducing their hours. Also significantly related to continued work were: good health, no private pension expectations, years of schooling, white collar occupation, a work week over 50 hours (negative), and age of Social Security eligibility.

The value of the LHRS research to the study of the older entrepreneur is in the identification of broad factors which influence the life course and bring the entrepreneur to his or her current position. These factors include health and family situation, socioeconomic status and expectations, and personal and demographic characteristics.

A few studies conducted independently examine the attitude of older workers to retirement and explored the determinants of these attitudes. Fillenbaum (1971), in a study that did not use LRHS data, tested hypotheses concerning the relationship between job attitude and retirement attitude. In a panel study that used 5 different age groups, he found that only achievement was significantly correlated with attitude to retirement (negative correlation). Glamser (1976) found that those who expect a positive retirement experience have a positive attitude to retirement. He also found no relationship between the commitment to work and retirement attitude. Goudy, Powers, Keith and Reger (1980) conducted a large panel study (n=1152) to determine if attitudes toward retirement changed while people passed through the retirement stage. They found relatively insignificant change in attitude. This study did not include self-employed individuals.

Plans and planning for retirement and particularly early retirement have also received attention. Barfield and Morgan (1978) argued that recent historical periods have been altering the position of different cohorts in a non-linear fashion. In other words, there is no linear relationship between age and retirement planning. Ekerdt, Bosse and Mogey (1980) found that there is a trend to retirement planning, that older workers preferred later retirement (an age effect), but that changes in retirement plans were the results primarily of the time at which the survey was taken (a period effect). Between these two studies we see all three major effects in gerontological research: age, period and cohort. However, only two of these are independent since period minus age equals cohort. Rones (1982) examined this methodological issue in a study of labor force participation and concluded that the results were due to the age effect.

The deleterious effects of inflation on incomes has been offered as a reason to promote retirement planning (Patton, 1981), however a study by Parnes (1981) implied that inflation did not discourage retirement. Regardless of the determinants and correlates of retirement planning, having a plan for retirement is often urged (Bradford, 1979; Cezer, 1984).

The trend that early retirement is taking is not clear at this time. In one of the earliest studies of the predictors of early retirement, Barfield and Morgan (1969) concluded that retirement can be satisfying and that the trend to early retirement will increase. Parnes (1981(a)) in his monograph Work and Retirement felt that the trend toward early retirement might continue. He noted that 35% of the retirees he survey had taken early retirement. He also found that about 20% take post-retirement jobs. Additional relevant results of Parnes' indicated 20% of white males and 10% of blacks who retired then moved into wage and salary post-retirement jobs. Only 6% of whites went from wage and salary employment to self-employment, but this figure rises to 9% for the early retirees.

However, later that year a new set of data became available from the 1978 National Longitudinal Survey of Middle Aged and Older Men. In it Parnes discovered that while the trend for early retirement continued from 1966-1976, it was halted in 1977-1978 when labor force participation rates didn't change (Parnes, 1981(b)). He again found that almost 20% of retirees would take employment if offered. This finding was re-emphasized recently by Hayward, McLaughlin and Grady (1986) who discovered including re-entry after 1980, concluding that retirement is not a one-time event. More and more of American's work-life is being spent in their careers (Hayward, et al).

Policy makers are interested in reversing the trend to early retirement if it exists and keeping people in the work force (Copperman and Keast, 1983). This has the benefits of reducing social security payouts, increasing social security contributions and tax revenues in general, keeping wages (and thereby inflation) down and increasing the productive capacity of the nation (Sheppard and Rix, 1977). Clark and Barker (1981), recommended modifying social security benefits and eliminating tax breaks on private pensions as ways to make retirement less attractive. Quinn (1980(a)) suggested that older wage and salary workers would stay in the work force longer, like their self-employed counterparts, if they had more options available for partial retirement. Other nations have similar problems. In Japan, re-employment and the extension of employment systems are being developed to enable the retired worker to lengthen his productive years. This saves the company and helps to maintain the incomes of the elderly. The government is encouraging this trend and even encouraging the self-employment of older retirees through training programs, and loan guarantees (Kii, 1979).

Labor Force Participation

Most of the research specifically directed at the older self-employed person is focused on labor force participation rates. Quinn (1980(b)) examined labor force participation patterns for older

self-employed workers and found that 88% of the self-employed in his sample (LHRS, n=4845) were career self-employed. He defined career self-employment as self-employment for over 10 years, or self-employment as the last job or the longest job held. The remainder of the self-employed he termed recent, self-employed. He found that 60% of the self-employed could be characterized as managers/professionals. This indicates a large number of lawyers, doctors, dentists, and consultants in the sample relative to the number of entrepreneurs. Self-employment, as illustrated by this study, cannot be equated automatically with entrepreneurship. Additional findings include more blue collar/service persons among the recent self-employed, a preponderance of representation in trades and services, more labor force participation among self-employed than wage and workers. Health is still an important consideration for retirement, but pension eligibility less so.
Fain (1980) found that the number of self-employed grew between 1972 and 1979 by 1.3 million individuals, excluding agriculture. His study of census data indicated that while self-employment had been a countercyclical phenomenon, during the 1970s it had become cyclical. He also noted that census data generally under- reported the prevalence of self-employment because incorporated self-employed are included as wage and salary workers by the Bureau. In addition, when self-employment was listed as a second job by a respondent, the Census Bureau coded the subject as wage and salary.

Fain's other findings are relevant for this study. He noted that due to the baby boomers, the median age of the self-employed was dropping. Seventy five percent of self-employed were men, but the rate for women was growing faster. Ninety five percent of self-employed are white. Service industries accounted for 80% of the employment, manufacturing only 5% but growing at a faster rate. The mean workweek was 42 hours, median earnings were $10,240 (compared to the wage and salary median of $12,016). However, mean earnings was well above these figures because the distribution is highly skewed since some self-employed `strike it rich'. The incorporated self-employed person has a different profile. He is older, more male, more administrative/managerial, than his wage and salary or non-incorporated counterpart. Also, median earnings were $20,187 not including fringes and tax sheltered perquisites (Fain, 1980).

Age and Work

There is abundant literature on the relationship between age and work. The consensus of the work indicates that a functional approach to the problem is most appropriate, i.e. does performance in a specific job or functional activity change as the worker ages? (Sheppard and Rix, 1977). While it is acknowledged that there are physiological and mental declines as people age, these changes generally do not affect performance on the job. There are compensatory changes in physical and psychological functions that offset declines caused by age (Welford, 1976). Copperman and Keast reviewed the literature on age and work and, using age 55 as a cutpoint for the older worker, concluded: 1) the skills of older workers matched those of their younger counterparts 2) turnover was lower for the older workers 3) motivation levels were higher for the older workers and they displayed more maturity and seriousness to their jobs 4) older workers were more concerned about job security 5) older worker productivity rivaled younger workers.

Welford (1976) reviewed thirty of psychological research on age and work and he identified the leading issues in this literature. Using an information processing perspective, he concluded that for the older worker the locus of change is mostly mental. He notes that while it is appealing to blame our extremities (hands and fingers) for declines as we get older, most of the decline can be attributed to mental processes. Again, there are compensatory processes at work and there is no evidence that job performance is severely impaired. He notes that the signal to noise ratio in older persons is lower, that certain aspects of memory are weaker, but that decision making capability may be unimpaired as the knowledge of the worker increases with age while intellectual agility declines.

METHODOLOGY

Definitions

In the context of the literature reviewed above, an exploratory field survey was conducted. For the purpose of this study, an entrepreneur was defined as an individual who "assumes personal financial risk in the process of creating and running an economic organization for the purpose of making a profit." This definition discriminates entrepreneurs from investors and promoters (no management), managers (no creation or personal financial risk), and government/social service and church organizers (no profit and risk).

The problem of defining `older' was solved by examining the age distribution of the respondents. While 55 or 65 were a priori candidates for the cutoff point, there is a growing separation between the concepts of functional age and chronological age. The distribution of age in our sample is shown in Table 1. Approximately thirty percent of the respondents were 55 and over and thirty percent were 40 or younger. Due to the exploratory nature of the research, these two groups were used to test comparisons between older entrepreneurs and their younger counterparts.

Table 1

Age Distribution of Sample

Age	Frequency	Cumulative Percent
23	1	.6
25	1	1.2
26	1	1.7
29	2	2.9
30	3	4.7
31	1	5.2
32	1	5.8
33	3	7.6
34	1	8.1
35	4	10.5
36	4	12.8
37	6	16.3
38	3	18.0
39	9	23.3
40	7	27.3
41	6	30.8

42	8	35.5
43	7	39.5
44	7	43.6
45	6	47.1
46	8	51.7
47	7	55.8
48	6	59.3
49	5	62.2
50	2	63.4
51	10	69.2
52	9	74.4
53	3	76.2
54	3	77.9
55	2	79.1
56	6	82.6
57	4	84.9
58	3	86.6
59	2	87.8
60	3	89.5
61	5	92.4
62	1	93.0
63	1	93.6
64	1	94.2
65	2	95.3
66	2	96.5
67	1	97.1
68	1	97.7
69	1	98.3
71	1	98.8
72	1	99.4
75	1	100.0

MEAN=46.9 MEDIAN=46.0 NUMBER REPORTING=172

Survey Instrument

The survey instrument was developed within the framework of the literature reviewed above and within the context of previous entrepreneurship research. The questionnaire was divided into five parts. Part I requested information concerning the characteristics of the business, including: business organization, ownership, number of employees, sources of financing, length of work week, financial performance figures, and plans to wind-up the business. Part II was a Work History Scale designed to capture the career characteristics of the subjects before they went into business for themselves. Part III consisted of five subsections; four psychological scales that had been previously used in entrepreneurship and career research, and a subsection on health and attitude towards retirement. The four scales were: Intolerance of Ambiguity (10 items from Budner, 1962), Locus of Control (6 items from Rotter, 1966) Need for Achievement (6 items from McClelland, 1961) and a Satisfaction Scale (8 item on employment, health, income and global). Part IV collected demographic information, age data, and information on income and family. Part V requested a written description of the business and the entrepreneurs own explanation of why he or she went into business. Copies of the complete survey are available from the authors.

Table 2 presents the means, standard deviations and reliabilities (Cronbach's alpha) for the scales used in the survey.

TABLE 2

SCALE RELIABILITIES

VARIABLE	N OF ITEMS	MEAN	S.D.	ALPHA
Work History	9	45.81	9.06	.74
Tolerance of Ambiguity	10	32.39	8.09	.59
Locus of Control	6	10.18	1.56	.60
N-Ach	6	22.36	1.56	.52
Satisfaction	8	28.58	5.13	.75

All scales constructed from a 1 (Strongly Agree) to 7 (Strongly Disagree) Likert Scale format.

Sampling frame

A major problem encountered by this research was the design of a sampling frame. There are apparently no means to sample older entrepreneurs without a great deal of wasted mailing. This leads to higher than desirable rates of non-response. Chambers of Commerce do not collect age data from their members, the Small Business Administration will not release this information, organizations of older people will sell their mailing lists but do not identify occupation or self-employment. With only about 12% of the over 55 group self-employed (and not all of those technically entrepreneurs), this would have been grossly inefficient.

Given the limited resources available for this study, we chose to target our sampling to individuals identified as `older' and in business for themselves. This was done through the offices of the state Small Business Development Center network. Each center director was asked to cull his or her files and meet with their consulting staff to identify `older entrepreneurs'. Since SBDCs do not collect age data, all of these identifications were based upon the opinions of the staff. In addition, each SBDC center was instructed to send surveys on a random basis to clients to develop a subject pool for comparison purposes. The surveys went out under identical cover letters but signed by each center directly separately.

Eight hundred and fifty surveys were mailed. Approximately 50 were returned to the local SBDC centers marked `address unknown'. One hundred and eighty usable responses were returned for a response rate of 22.5%. While this number is clearly on the low side, there are a number of mitigating factors. Due to budget constraints, no follow-up of non-respondents was possible. Because the survey was sent to individuals who only `looked older', it is not known how many actually older entrepreneurs received the survey. Since the questionnaire was designed for the older entrepreneur, it may have had low salience for younger subjects. In addition, the survey requested financial and income information which tends to have low compliance rates. Lastly, the questionnaire was fairly long requiring approximately one half hour to complete. This further lowers response.

RESULTS and CONCLUSIONS

Summary statistics of the entire sample for the variables in the research are presented in Table 3.

Table 3
Summary Statistics for Variables
Total Sample

I. Business Information

Variable	N Reporting	Mean	S.D.	Median
Percent Ownership	159	81.0	26.1	100.0
FT Employees	146	9.3	18.2	2.0
PT Employees	129	4.8	26.6	1.0
Family Employees	159	1.0	1.4	1.0
Hours worked/week	158	50.1	20.7	52.0
Business Organization:	N Reporting	Pct.		
Proprietorship	48	30%		
Partnership	13	8		
Corporation	99	62		
Kind of Business:				
Retail	48	34.8%		
Wholesale	2	1.4		
Manufacturing	16	11.6		
Construction	2	1.4		
Service	38	27.5		
Other	32	23.2		

Table 3 cont.

II. Financial Information (1986) in thousands

Variable	N Reporting	Mean	S.D.	Median
Sales	105	1,246.3	3,456.6	86.0
Net Income	88	23.2	44.2	10.4
Owner's Draw	77	22.0	39.4	0.0
Dividends	76	3.4	1.2	0.0
Fringe Benefits	79	3.3	5.8	0.0
Pct. Family Income from Business	145	57.6%	42.5	80.0
Total Inc. from Business (Net Inc.+Draw+Div.+Fringes in thousands)	53	35.8	65.9	12.0

III. Retirement/Health variables

1. Do you have plans to retire?

Yes	11%	(n=17)
No	89%	(n=134)

2. Do you thing retirement is a good thing?

Good	52%	(n=93)
Bad	40	(n=71)
Don't know	8	(n=14)

3. Do you look forward to retirement?

Look forward	23%	(n=41)
Dislike	37	(n=65)
Undecided	40	(n=63)

4. Do you have a work limiting health condition?

Yes	19%	(n=34)
No	81	(n=143)

5. During the past year, has your health improved, worsened, stayed the same?

Improved	22%	(n=40)
Same	69	(n=123)
Worsened	9	(n=14)

6. Characterize your health?

Excellent	32%	(n=57)
Very good	43	(n=76)
Good	18	(n=33)
Fair	10	(n=16)
Poor	2	(n=2)

7. Work days lost to illness and injury last year? Mean=4.4

Table 3 cont.

IV. Demographic Information

1. Sex:	N Reporting	Pct.
Male	115	66%
Female	58	34

2. Marital status:

Never Married	7	4%
Married	137	77
Widow/Sep/Div.	29	17

3. Number of dependents: Mean=2.8 S.D.=1.3 Median=3

4. Education:

Some grammar	1	1%
Some H.S.	5	3
H.S. Grad	19	11
Some college	59	34
College grad	47	27

Grad degree	41	24
5. Total annual family income (all sources):		
<10,000	4	2.3
10,000-29,999	56	34.0
30,000-49,999	49	29.7
50.000-69,999	25	15.2
70,000-89,999	15	9.1
>90,000	16	9.7

The initial thrust of this exploratory research is to test hypotheses comparing the older entrepreneur to his or her counterpart. This was done by performing a series of two tailed T-tests for the variables (Chi-square tests were performed for the categorical variables). The two tail tests were appropriate because at this stage of the research it is premature to postulate the direction of the relationship. Tables 4 and 5 present the results of these initial tests.

Table 4

Comparisons between younger and older groups

Variable	(n=47) 40 and younger Mean	S.D.	(n=38) 55 and older Mean	S.D.	t-value
1. Pct. ownership	77.7	26.9	74.1	28.9	.56
2. Hrs. worked/week	51.0	18.0	47.8	22.0	.69
3. Work history scale	5.1	1.0	4.9	1.1	.92
4. Intolerance of amb.	2.9	0.7	3.5	0.9	-3.27***
5. Locus of control	1.7	0.2	1.7	0.2	.00
6. N-ach	3.7	0.3	3.7	0.2	.00
7. Satisfaction scale	3.6	0.6	3.9	0.8	-1.72*
8. Total employees	10.8	20.4	26.4	62.2	-1.30
9. Ave. sales (3 yrs ($000000)	7.7	18.7	31.8	59.4	-1.75*
10. Ave. income (3 yrs ($000)	16.9	35.6	22.6	23.0	.60
11. Family mem. employed	.7	1.0	1.0	1.2	-1.56
12. Inc. from business (% of total)	74.7	37.3	57.9	39.3	-1.81*
13. Number of dependents	3.1	1.5	2.2	0.9	-3.05***
14. Family income level	2.9	1.1	3.5	1.4	-2.01**

*p<.10
**p<.05
***p<.01

Table 5

Comparisons between older and younger groups

Variable	40 and younger	55 and older	Chi-square
1. Sex	M=30	M=38	
	F=15	F=10	1.31
2. Marital Status			
Never married	7	0	
Married	34	34	
Widow/Sep./Div.	5	4	6.40**
3. Education			
Some H.S.	0	2	
H.S. Grad	4	7	
Some college	14	13	
College Grad	15	8	

Table 5 contd.

Graduate degree	13	7	5.87
4. Working spouse			
Yes	20	13	
No	13	21	3.35*
5. Kind of business			
Retail	12	12	
Manufacturing	3	4	
Service	10	11	
Other	10	6	1.13
6. General health condition			.38
7. Is retirement good?			1.21
8. Do you look forward to retirement?			1.15

*p<.10
**p<.05
***p<.01

The results of the comparisons between the two groups fall into three different categories: psychological differences, business differences, and family differences. Table 4 indicates two significant difference on psychological variables Intolerance of Ambiguity and Work-life Satisfaction. The older entrepreneursare more intolerant of ambiguity and novelty than the younger group, and higher degrees of satisfaction with their overall situation. This is not inconsistent with the literature on retirement and work and aging. Mental agility and the ability to deal with newer situations has been previously noted as a characteristic of the older person (Welford, 1976). The overall more satisfied condition of the older entrepreneur may be a function of business success and wealth. These two items account for much of the difference in the scale. A comparison of just the income and wealth items show a t-value of 2.44 (p <.02). The superior wealth of the older entrepreneur is affirmed by the differences in business characteristics.

The business of the older entrepreneur is bigger than his younger counterpart in terms of sales, number of employees and net income, with the difference in sales being statistically significant (t=1.75, p <.10). The cause of this may have more to do with the age of the business as opposed to the age of the entrepreneur. When the comparisons are made based upon the age of business, the most recently formed businesses show lower levels of financial performance (results not presented here). This may be explained by the theory of `liability of newness' (Stinchcombe, 1965).

There is also a family component of differences between younger and older entrepreneurs. Some of this may be expected since the subjects would be at different stages of their lifecourse. Table 4 indicates significant differences for total family income, percent of family income that comes from the firm, and the number of dependents to be supported. This would also seem to indicate that the older entrepreneur is more financially secure than younger entrepreneurs, has a larger portion of his or her income from sources outside the firm, and has fewer expenses in terms of dependents. As indicated in Table 5, the older entrepreneur is more likely to be married and less likely to have a working spouse. There are a number of non-findings, non-significant relationships that are surprising. The older entrepreneur works only slightly fewer hours than younger ones, indicating no abatement of energy, enthusiasm and concern for the firm. The retirement literature would have suggested that the older self-employed person partially withdraws from work with age. The data of this study suggests that this may not be true, but a longitudinal study would be necessary to confirm or deny this.

Another surprising non-finding is that there is no statistical difference between the groups for gender. Older women as well as younger women have the entrepreneurial `bug.' Data analysis for this sample based upon gender has not yet been performed.
The final non-finding concerns the health and retirement variables. No statistical differences were found. Older persons should, according to the retirement literature, be in poorer health and feel less favorably about retirement. It may be conjectured that the entrepreneurs in poor health have already retired and therefore are not represented as subjects in this study. As to the attitude toward retirement, this may be an artifact of this sample or a factor of self-employment.

In summary, there are important issues concerning the older entrepreneur that this research has suggested. Information regarding the winding-up of these businesses, partial retirement and the eventual succession needs exploring. The relationship between family concerns and business issues is also of interest. Lastly, the increasing affluence of older entrepreneurs may affect business performance, and decision-making.

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THE ROLE OF STRATEGY IN SMALL-FIRM ADAPTATION TO A CHANGING ENVIRONMENT

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ABSTRACT
The CEO who hopes to adapt his/her small firm to a changing environment must focus on strategy formulation and implementation. This paper seeks to apprise SBI Directors and their student consultants of theories, concepts, and models that can be used to improve the process of formulating strategies, to determine the content of specific strategies and, to implement the selected strategy.

INTRODUCTION
Strategy formulation and implementation are critical elements of the small firm's process of adapting to a changing world. Strategy can be conceptualized as the firm's competitive "game plan" that aligns a firm's resources and capabilities with its environmental opportunities, constraints, and threats in order to achieve some objectives). A considerable body of knowledge has developed to assist the small-firm CEO in crafting the specific content or substance of the strategy, as well as in improving the process of generating and evaluating strategies. This body of knowledge consists mainly of theories, concepts, and models, with some empirical research evidence.

STRATEGY CONTENT
The typical business strategy advice given to the small firm, especially if resource-poor, is to focus or specialize in products and/or markets. Porter [41] recommends either a cost-focus or a differentiation-focus generic strategy. With the former, the firm seeks a cost advantage in a target segment. In the latter, the firm seeks to be unique in its target segment. Both depend on differences between the target segment(s) and the remaining industry segments. Some research evidence exists to support these two theoretical options [43]. Others advise making a focus strategy contingent on the position of the small firm in the product life cycle [52] and with more specificity, in the cycle's early growth or decline phases [12]. Empirical support for a small-firm focus strategy is growing. It was found to have had a significant effect on the performance of small, technology-based firms [30]. A narrow business focus was reported as one of six success themes for a large number of high-technology firms [26]. Smaller, niche-occupying firms were found to be more successful [34]. In Great Britain, newer small electronic firms are selling a highly specialized product in a profitable market niche [49]. There may be a tradeoff between a focus strategy and flexibility, i.e., in an uncertain future, a small firm may have to focus (bet) all its resources on one scenario if it wishes to have any chance of winning. If it attempts to maintain flexibility by spreading its limited resources over multiple scenarios, it will lose regardless of which scenario is realized because of under-investment [54]. Some theorists maintain that the advice given to small firms not to enter into direct competition with larger firms is too limiting and have examined the conditions under which direct competition with large firms might be contemplated [10].

Another broad typology can be utilized by the small firm in formulating business strategy content. Miles and Snow demonstrate in their classic study [31] that there is no "one best way" for a firm to adapt to its environment. Using many small- and medium-sized firms as empirical support, they have identified four types of adaptation: defenders, prospectors, analyzers, and reactors. They summarize the types in terms of adaptation in this manner:

1. "...the defender is perfectly capable of responding to today's world. To the extent that the world of tomorrow is similar to that of today, the defender is ideally suited for its environment."

2. "A true prospector is almost immune from the pressures of a changing environment since this type of organization is continually keeping pace with change and ... frequently creating change itself."

3. "The Analyzer is a unique combination of the Prospector and Defender types. The word that best describes the Analyzer's adaptive approach is balance."

4. "Reactors are unstable organizations because they do not possess a set of mechanisms which allows them to respond consistently to their environments over time."

Miles and Snow point out the major advantages and disadvantages of each adaptive type and argue that the success of any one type depends upon the establishment and maintenance by management of a unique configuration of or fit among the firm's chosen domain, technology (can the firm deliver?), structure, and process variables. Their theoretical framework can be of considerable assistance to a small-firm CEO in assessing the firm's present adaptive posture, in maintaining a desired posture, and in changing postures. In a rare test of the typology, Davig [11] found that both the defender and prospector strategies were highly effective for small manufacturers in a fragmented, maturing industry.

A strategy map [39] is a third device that can aid in formulating specific competitive strategy content. A strategy map is a four-quadrant visual on which are mapped various performance measures (e.g., ROI, ROS), competitors' locations and tactical variables. The map affords the CEO a better unified perception of "what is going on" versus, e.g., a spread sheet. Different strategies can be simulated on the map and the tradeoffs involved in pursuing a given strategy can be examined.

In addition to these general strategic prescriptions and typologies, there are numerous theories, concepts, and models that are useful. The Five Forces Model [40] is an environmental analysis model that can be used to determine market segment profitability, to develop a specific strategy to defend the firm against the five forces, and to decide how to "attack" a competitor. The five forces are: bargaining power of suppliers, threat of new entrants, rivalry among existing firms, bargaining power of buyers, and threat of substitute products or services. Vulnerability analysis [45] is a six-step technique which forces the CEO to examine closely external threats and internal weaknesses when formulating or auditing a strategy. It begins with the question: "What supportive elements, if suddenly taken away, might seriously damage or even destroy [my] business?" It ends with the construction of a Vulnerability Assessment Chart. Porter [40, 41] provides a number of useful concepts: generic value chains, switching costs, signaling criteria, first-mover advantages, strategic group map, and segmentation matrices. He advises (indirectly) that small firms formulate strategies that exploit the larger firm's compromise, coordination, and inflexibility costs [41].

As the external environment becomes more turbulent, complex, and unpredictable, the smallfirm CEO should consider inter-firm cooperative relationships [46] as potential adaptation mechanisms, including joint ventures [19].

THE STRATEGY-MAKING PROCESS

There are numerous theories, concepts, and models from which a small-firm CEO can select to improve the process of generating strategies. Strategic Assumption Surfacing and Testing (SAST) is a key environmental analysis technique that: (1) identifies stakeholders who are critically involved in a firm's proposed strategy; and, (2) uncovers, challenges, and analyzes the critical assumptions that serve as premises for proposed strategies [28]. A critical assumption is viewed as a property of a stakeholder and is operationalized as that which must be true for a given stakeholder if a proposed strategy is to be effective. Other techniques that can be used by the small firm are: (1) scenarios, detailed competitor analysis, and product life cycle analysis [40,41]; (2) taking the role of the competitor, i.e., if I were to attack my firm, where would I find the least resistance? [13]; (3) the survival question technique, i.e., the generation of a large number of questions in the form "Can our business survive if .... ?" The questions are completed with brief scenarios. An analysis of the responses leads to strategic decisions [13]. (4) Building networking competencies [24] and including outsiders in strategic planning [42]; (5) Devil's Advocacy [47] and Dialetical Inquiry [27] these techniques and hybrids thereof stress the adaptive value of designing into the firm dissent, minimal consensus [20] or at least some type of critical evaluation process concerning the meaning of external events and the effectiveness of current strategies, so that the firm can be protected against the CEO's interpretations going uncontested; (6) problem interaction matrix- a technique which forces a manager to realize that a single problem is usually interrelated with others, so that a potential solution cannot be considered in isolation [28]; (7) techniques to stimulate creativity [3, 50]; (8) fault tree analysis [7] a procedure to systematically identify weaknesses and to construct a strategic path; (9) weak signal analysis [4, 5] - a firm facing an unpredictable environment must listen differently and must begin its response to change while environmental signals are still vague; (10) backward induction heuristic [8] determine objectives 3 to 5 years out and work back to near-term objectives; (11) critical success factors - the factors of greatest importance in implementing the firm's strategy [44]; (12) strategic four-factor analysis [45] - a simultaneous examination of the external environment, resource requirements, internal environment/strategic control, and organizational considerations; and, (13) contingency planning [21] – an alternative strategic plan that could be adopted if the basic assumptions for the chosen strategy change or if it is ineffective.

The empirical evidence concerning effective small-firm strategic planning processes is sparse. Based on a review of the evidence, Robinson and Pearce [43] suggest that the small firm should keep the strategic plan under a two-year horizon, keep it informal, include outsiders in the process, and not start the process with extensive objective setting. Miller and Toulouse [36] found that successful small firms had more explicit strategies, with longer time horizons, and more detailed analysis of decisions to decrease the dangers of large commitments.

KNOW THYSELF

The small-firm CEO must develop self-insight, i.e., he/she must recognize that certain of his/her cognitive perceptual and personality characteristics can influence and/or bias both strategy content and the strategy-making process. Ansoff [5], for example, argues that the major obstacle to a firm's adaptation to a new reality is the historical success model that exists in the CEO's mind. In the cognitive/perceptual area, Schwenk [48] provides an excellent summary from a management perspective of common problems, e.g., selective perception, anchoring, control illusion. Hoy and Hellriegel [22] found that over two-thirds of the small business managers in their sample were "sensation-thinking" style problem solvers, who concentrated on short-term goals, emphasized facts, details, control, and certainty, and were heavily biased toward identifying their major problems as internal to the firm. The inference of the existence of major cognitive/perceptual biases appears legitimate, given the unexpectedly low proportion of "intuition-thinking" style problem solvers found in this study. It appears that effective owner/managers restricted the complexity and size of their firms to fit their informationprocessing skills [29]. Dollinger [14] reported that greater entrepreneurial informationprocessing capability and higher tolerance of ambiguity strengthened the relationship between intensive-type boundary spanning and the firm's performance. It is likely too (but unresearched to date) that the small-firm CEO is susceptible to the escalation/entrapment phenomenon: why does she/he "throw good money after bad, and how can this be prevented [6]?

Empirical evidence demonstrates the effect of the small-firm CEO's personality on strategy. Locus of control, self-esteem, risk-taking propensity, and rigidity affect information source decisions [53]. Locus of control had overwhelmingly more influence on strategies selected and environmental domains chosen in small as opposed to large firms [35]. The CEO's flexibility, need for achievement, and locus of control were very significantly related to small-firm strategy [36]. Those CEOs who successfully cope with environmental uncertainty demonstrate higher tolerance for ambiguity and uncertainty, and are more predisposed to take risks [16]. The CEO's years in the firm, years in the CEO position, rigidity and an external locus of control together restricted the adaptiveness of the small firm and were a major cause of "strategic stagnation" [36].

STRATEGY IMPLEMENTATION

The organization structure is the device the CEO uses to implement the strategy, i.e., decisions about structure should follow strategic decisions. Mintzberg [37] narrows the structural options for the younger and smaller firm to two, Simple Structure or Adhocracy. He recommends the Simple Structure for the small firm which is operating a simple technical system and is adapting to a simple and dynamic (sometimes hostile) environment. The Simple Structure, among other characteristics, is centralized, has few liaison devices and little specialization. He recommends the Adhocracy for the small firm operating a complex technology and adapting to a complex and dynamic environment. The Adhocracy is characterized by selective decentralization, many liaison devices, and much horizontal specialization. Both structures are viewed as organic with little formalization. Miller [32], however, provides evidence that mechanistic structures may be adaptive for some small firms. He argues that to determine the appropriate structure, one must consider the type of firm, its task and industry, its environment, the relative level of slack, and its stage of development. In designing and using organization structures, small-firm CEOs must guard against the "momentum tendency" [33], i.e., it appears that entrepreneurial firms tend over time to become excessively entrepreneurial, while bureaucratic firms tend to become excessively rigid and risk averse. Mintzberg says it succinctly: "Managers who are obsessed with either change or stability are bound eventually to harm their organizations" [38, p. 75].

CONCLUSION

Since a typical small business doesn't exist, the content of a specific adaptive strategy will depend, among other things, on the firm's industry and domain [23], degree of industry concentration [40], founder's goals [51], and stage of development [9]. The firm's stage of development is especially relevant here because aging appears to inhibit adaptation [2], and because success at one life-cycle stage appears to generate a crisis at the next [15]. Passing through a transition may also reopen the firm to the liability of newness [17]. For the small firm in the mature stage, the primary concern should be `readaptation,' the process of simultaneously achieving both efficiency and innovation [2]. Dyer and Lawrence [25] maintain that when the firm has achieved an intermediate amount of information complexity and an intermediate amount of resource scarcity with which to cope, i.e., when it has produced an intermediate amount of stress for itself, the readaptive state of competitive vitality will have been achieved. The small-firm CEO can use their analytic framework to diagnose his/her firm's present position and to generate tactical options to move, if necessary, the mature small firm into a readaptive state.

There is some moderately alarming evidence that the problem-solving styles of small-firm CEOs may be dysfunctional for effective adaptation [221. One tentative conclusion of this study (unreplicated to date) is that SBI and SBDC Directors should place much more emphasis on developing the CEO's diagnostic and conceptual skills, rather than continuing to emphasize primarily the development of the small business manager's technical and human relations kills.

Finally, the small firm which is coping with a highly unpredictable environment must be flexible enough to adapt quickly to threats and opportunities. The CEO faces a difficult balancing act between making and not making some irreversible resource commitments in pursuit of a strategy. While Aaker and Mascarenhas [1] provide a systematic approach for measuring flexibility and for choosing flexibility options, it is difficult to argue, especially for the smaller firm, with the statement that "The barriers to flexibility can be asset-specific, but they are more likely to be mental" [18, p. 1].

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THE CHANGING STATEMENT OF CHANGES AND ITS IMPORTANCE TO SMALL BUSINESS

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ABSTRACT
Small businesses continue to have difficulty planning, controlling and reporting cash flow. This paper will review some of the history of the statement of changes in financial position, and stress its importance as a financial statement for small enterprises. The statement of cash flows, as promulgated by the Financial Accounting Standards Board, will be explained and illustrated. Managers of small businesses will need to develop an understanding of the statement of cash flows, and recognize that it not only has value as a statement for external reporting purposes but can also be useful in dealing liquidity problems.

INTRODUCTION

What is cash flow? Why do many owners and managers of small businesses complain of never having adequate cash to meet obligations when, in fact, they feel their profits are satisfactory? Why is improved cash flow management espoused as a goal by many managers of small businesses and achieved satisfactorily by few? Cash flow has historically been a frequent topic of conversation and analysis, but seldom has there been agreement on its definition. Norman Strauss, Ernst & Whinney partner, indicated that, ". . . cash flow is whatever it is in the eyes of the company issuing the information" [14]. Weinger has also identified four different basic definitions for cash flow [15]. Although cash flows have traditionally been defined as net income plus such noncash charges as depreciation and amortization, most accountants and managers of businesses today find such a definition to be too limited and possibly misleading. From a review of literature, Kirkpatrick identified six dimensions associated with cash flow models. They were reporting format, representational faithfulness of accounting data, capital maintenance considerations, forecasts of cash flows, relationships of cash flow to stock valuation models, and liquidity [11].

When asked to define cash flow, respondents often reply by describing activities involved in planning and controlling cash. Such activities frequently begin with cash budgeting or forecasting and culminate with the statement of changes in financial position on a cash basis with perhaps some spreadsheet analysis, ratios, and financial models included. This paper will emphasize the importance of the statement of changes in financial position to small businesses, and the newly adopted statement of cash flows. Regardless of how cash flow is or is not defined, there is general agreement among accountants, bankers, and managers that understanding how cash flows through a company and being able to strike a balance between cash receipts and disbursements are essential to survival.

BRIEF HISTORY

Although the statement of changes in financial position has only gained prominence in approximately the past fifteen years, the need for some form of reporting on funds flow was recognized much earlier. The Accounting Principles Board (APB) issued Opinion

No. 3 in October, 1963. The Board did not mandate the inclusion of the statement of source and application of funds in a company's financial reports, but did express its belief that such a statement should be presented as supplementary information. It also endorsed the "all financial resources" concept, wherein investing and financing transactions not involving working capital would be included in the statement [1].

The statement of changes in financial position became a financial reporting requirement in 1971 with the promulgation of APB Opinion No. 19, Reporting Changes in Financial Position. Two objectives of a funds statement were set forth:

> (1) to summarize the financing and investing activities of the entity, including the extent to which the enterprise has generated funds from operations during the period, and
>
> (2) to complete the disclosure of changes in financial position during the period [2].

These objectives provide the basis for classifying and summarizing information in a way that could not be done on either the balance sheet or income statement. A statement summarizing changes in financial position had to accompany the balance sheet and income statement for each period for which an income statement was provided; however, exceptions were allowed in some instances such as financial statements issued for internal use only or for special purposes. The Board adopted a flexible posture in dealing with form, content and terminology, and allowed either the working capital basis or cash basis to be adopted for reporting purposes [3]. In fact, some of the flexibility allowed by the Board later led to controversy. Two examples are the definition of funds (cash vs. working capital), and the direct versus indirect method of calculating income from operations.

In the early years following the issurance of APB No. 19, accountants and businesses showed a strong preference for the working capital definition of funds; however, in the past ten years, businesses, accountants and third party users have demonstrated an increasing preference for a cash basis definition. According to Accounting Trends and Techniques, as reported by Kreuze, the percentage of firms presenting a cash-based definition of funds increased from 22% to 59% from 1981 through 1984 [12]. While there are probably numerous reasons for this trend, three will be emphasized at this time. First, the statement of changes in financial position, on a working capital basis, has probably always been underutilized by management and not properly emphasized and explained by accountants; this is especially true of small businesses. Second, when economic conditions deteriorate, bankruptcies increase, and companies experience difficulty in meeting their debt obligations, future profits become secondary in importance to cash flow. Finally, professional organizations and boards such as the American Institute of CPAs, the Financial Accounting Standards Board (FASB), and the Financial Executives Institute have taken an active interest in this area.

In response to the increased interest in a cash basis definition of funds, the FASB issued Concepts Statement No. 1, Objectives of Financial Reporting by Business Enterprises, and Concepts Statement No. 5, Recognition Measurement in Financial Statements of Business Enterprises, in November, 1978, December, 1984 respectively. Paragraph 37 of Concept No. 1 addresses the importance of providing information to investors, creditors and other users regarding the amounts, timing and uncertainty of prospective cash receipts. Paragraph 49 emphasizes that financial reporting should disclose how an entity obtains and spends cash [5]. Concept Statement No. 5 (paragraph 13) lists five financial statements that should be included in a "full set" of financial statements for a period; one of these is "cash flows during the period" [6]. It is important to note that both concepts 1 and 5 encourage but do not mandate a statement of cash flows.

Groups other than the FASB have actively researched and encouraged reporting of cash flow information. According to Thomas, The American Institute of CPAs Study Group on the Objectives of Financial Statements and the SEC have both made contributions. The Study Group Identified cash flow information as a primary objective of financial reporting in 1973. In 1980, the SEC revised its rules to require discussions of a company's ability to generate sufficient cash to meet the enterprise's needs [19]. The Financial Executives Institute has shown an interest in funds statements, and encouraged the reporting of cash flow as early as 1982 [10].

In July, 1986, the FASB issued an Exposure Draft of a proposed Statement of Cash Flows for public comment [7]. Finally, this was followed by Statement of Financial Accounting Standards No. 95, Statement of Cash Flows, issued in November, 1987. This document will be the subject of discussion later in this paper.

IMPORTANCE TO SMALL BUSINESS

In recent years, there has been a substantial increase of interest in cash flow as is reflected by the large number of enterprises adopting a cash flow basis of reporting in the statement of changes in financial position. This increased interest is also well documented in related literature. A survey conducted by Weinstein of 120 small businesses revealed inadequate control of receivables, payables, inventory, cash receipts and cash disbursements [20]. In-depth interviews, conducted by a research team, of 65 randomly selected small businesses (sales of less than $100 million) revealed business and financial information to be a common problem of small businesses. Of those needing financial information, computer consultation and cash flow analysis were the two areas in which consultation was commonly sought [17]. In a study conducted by Gale and Branch, more than a third of the businesses studied had negative cash flow before interest expenses. After deducting interest expenses and dividend payments from cash flow, they concluded two-thirds of the businesses were cash drains [9].

If so many companies, large and small, are experiencing difficulty with cash flow and liquidity problems, does this mean the statement of changes in financial position has been a failure? Quite the contrary. It has been underutilized, misunderstood, and in many instances, poorly explained or not explained at all by CPAs to their clients. It has, however, made valuable information available to those who knew where to look.

Byrd and Byrd identified five reasons the SCFP is important:

* Information from the statement of changes can be compared to the cash budget;
* The quality of earnings can be assessed better;
* Analysis of funds provided by operations can provide insight into the possibility of expanding or contracting operating capacity;
* Financial flexibility and liquidity can be analyzed and,
* Financing and investing activities are clearly disclosed to the small business manager [4].

In addition to the above items, it may give a user some insight into the philosophy or policies of management regarding financial matters. It is also the primary statement to which management can look to see the results of decisions made during the accounting period. Isolated decisions, made throughout the year, may not seem to be having much of an influence upon the financial condition of a company; however, when the numerous decisions are compiled and reported in one statement, the overall impact may be very significant.

Even though the statement of changes in financial position, on a working capital basis, has provided valuable information to businesses for many years, there is still justification for changing to a cash basis format. Sarhan, Sadhwani, and Lessard have identified usefulness, better liquidity presentation, understandability, industry financial reporting practice, conceptual soundness, and the influence of standard setting bodies and professional organizations as reasons that have motivated companies from working capital to cash [16].

A comparison of a working capital basis to cash basis statement of changes reveals the critical difference to be the working capital elements, current assets and current liabilities. Perhaps one of the major problems with the working capital format was not the statement itself, but rather the failure of the preparer and user to devote adequate attention to all of its important areas. Invariably, most of the attention was directed toward the main body of the statement which reported sources and uses of funds (adjusted operating income, non-current assets and liabilities, and stockholder equity accounts). Too often, the changes in the elements of working capital were looked upon as merely being a calculation that would generate a check figure that would have to equal sources minus uses. Seldom was proper attention directed to the changes actually taking place in the current asset and current liability accounts, or to attempting to maintain a desirable relationship or balance among those accounts. By narrowing the definition of funds to some form of cash, the analysis of sources and uses will be broadened to include the accounts that comprise working capital, and are so essential to liquidity.

It is commonly recognized that a major problem with forecasting and controlling cash is timing. In the cash-to-cash cycle, cash must be invested in inventories; inventories must be converted to receivables; and receivables must be collected. Unfortunately, the purchase of inventories creates accounts payable that often must be paid before any cash receipts are realized. This is especially true of growth companies that must provide for anticipated increased sales in advance. Add to this the complexity of fluctuating sales, whether anticipated or unanticipated, and projecting cash flow can become illusory.

The cash definition of funds should be especially advantageous to small businesses. This is true largely because small companies tend to be undercapitalized, and are often forced to use short- term sources of financing. The calculation of net cash flow from operating activities. Whether calculated by the direct or indirect method, will focus management's attention on the changes occurring in working capital items and the company's ability to meet short-term obligations.

QUESTIONS/ISSUES

To fully appreciate and understand the position taken by the FASB in SFAS No. 95, it is helpful to review some of the questions and issues that have been debated regarding the statement of changes in financial position in recent years. Table 1 presents a summary of major questions, and the characteristics of the statement of changes in financial position to which the questions commonly relate; however, it is not intended to be all-inclusive.

PROPOSED STATEMENT OF CASH FLOWS

With the major questions and issues as a background, the Financial Accounting Standards Board's (FASB) SFAS No. 95 will be examined. The material in this section of the paper describes and explains the position of the FASB as expressed in FASB, Statement of Financial Accounting Standards No. 95 Statement of Cash Flows, Financial Accounting Foundation, Stamford, CT., 1987 [8]. Illustrations presented utilize accounts that would be common to small businesses.

The newly promulgated Statement of Cash Flows supersedes the statement of changes in financial position required by APB Opinion No. 19, and will be effective for fiscal years ending after July 15, 1988. A statement of cash flows will be required each time a set of financial statements (balance sheet and income statement) are presented. The Board expressed the primary and secondary purposes of a statement of cash flows to be the providing of information about cash receipts and cash disbursements for a period, and the providing of information about investing and financing activities during an accounting period respectively.

The standard eliminates the working capital definition of funds, and the presentation of a statement of changes on a working capital basis. Under SFAS 95 funds are defined as cash and cash equivalents; the Board has defined cash equivalents as investments that are short term, highly liquid, readily convertible to cash, and near maturity with little risk of changes in value due to interest rate fluctuations. Cash equivalents result from investment of a company's idle cash and would include such items as treasury bills and money market funds. As a guideline, the Board determined that only investments maturing within three months of their inception would generally qualify as cash equivalents. An enterprise will be allowed some discretion in deciding what to include as cash equivalents; however, it will have to disclose its policy for making such determinations.

TABLE 1

STATEMENT OF CHANGES IN FINANCIAL POSITION
SUMMARY OF ISSUES AND QUESTIONS

Question	**Characteristics**
* What is the purpose of the statement of changes in financial position?	* Large number of Possibilities
* What is the most appropriate definition of funds?	* Working capital * Cash * Cash and cash equivalents
* What is the most effective format or method of presenting the state-ment of changes in financial investing position?	* Sources and uses * Operating, financing,
* How much flexibility should be allowed to the individual company?	* Definitions * Presentation formats * Classification of items
* What is an appropriate definition of cash and/or cash equivalents?	* Cash, certificates of deposit, treasury bills, etc.
* How should net cash flow from be calculated?	* Direct method operating activities * Indirect method
* How should capital investments be of reported?	* Maintenance capacity and expansion * Combined
* How should material non-cash transactions be disclosed? (All financial resources concept)	* In the body of statement * In a supporting schedule * In a footnote
* Should cash flow per share data be disclosed?	* Yes * No
* Where should interest and dividends received and interest paid be reported?	* Operating activities * Investing activities * Financing activities * Allocated
* Where should cash receipts and cash payments on an installment basis be reported?	* Operating activities * Investing activities * Financing activities

An area of concern and confusion has been whether cash inflows and outflows should be reported on a gross or net basis. For example, if a company continually borrows and repays debt on a short term basis it can be argued that reporting the gross amounts borrowed and repayed would result in amounts that would appear to be extremely high relative to other values on the cash flow statement. Conversely, it can be argued that netting amounts borrowed against those repayed and reporting only the difference would fail to reveal the true amount of cash flows. In SFAS 95 the Board has taken the position that net reporting is permissible for debt, investments (not including cash equivalents), and loans that originally mature in three months or less.

A review of the literature revealed that numerous formats of presenting a statement of changes have been advanced. The main issue, however, seems to center on whether a sources and uses format, or a functional format provides the better disclosure. Proponents of the sources and uses approach contend that it is important to continue to emphasize where cash came from and how it was spent, and that the functional areas are secondary in importance. The new guidelines set forth in SFAS 95 will, however, require that cash flows be reported as operating, investing and financing activities. Cash flows from operations usually result from transactions that enter into the determination of income (see Illustration I). The largest amount of cash inflows will likely result from sales of goods or services to customers; whereas, the largest amount of outflows will probably consist of payments to suppliers and employees. Interest and dividends received, and interest paid are a part of operating cash flows according to the Board. This was a controversial issue with three of the seven Board members dissenting and expressing their belief that interest and dividends received should be an investing activity; whereas, interest paid is better classified as a cost of financing. Investing encompasses a wide range of activities such as purchasing or selling long-term productive assets or securities (see Illustration III). Financing activities relate to the obtaining of resources from owners or creditors, and the subsequent return of investment or settlement of an obligation. A return on investment to creditors and owners is also anticipated (see Illustration III). The Board did acknowledge a need for some flexibility in determining which classification is most appropriate for certain items, depending upon the circumstances. It is interesting to note, for example, that purchases and sales of marketable securities, a current asset, should normally be reported with cash flows from investing activities [18].

Should the direct method or indirect method be used in calculating cash flows from operating activities? The direct method requires the listing of all operating cash receipts minus all operating cash payments to arrive at net cash flow from operating activities (see Illustration I). The indirect method essentially begins with net income and adjusts for noncash items such as depreciation, and for the effects of other accruals and deferrals (see Illustration I). Advocates of the direct method believe it is straightforward, easy to understand, and that it tends to follow the income statement. A problem of the direct method is that data are not as readily available for it. Respondents to the Discussion Memorandum believed the quality of earnings could be better assessed by the indirect method due to its emphasis on the differences between earnings and funds flow. Critics of the indirect method do not like having depreciation and amortization associated with cash in any way. In SFAS 95, the FASB has taken the position that either method is permissible; however, the direct method is encouraged. If the direct method is used a reconciliation of net income to net cash provided by operations must be reported in a supporting schedule (see Illustration IV). This conciliation essentially provides the same information as would be reported using the indirect method. If the indirect method is used the reconciliation can be reported in the body of the statement of cash flows or in a supporting schedule.

In response to the question of how to handle material noncash investing and financing activities the FASB concluded they should be reported in either a narrative form or in a separate schedule, thus, retaining the all-inclusive concept. For transactions involving both cash and noncash elements, the cash amount should be included in the statement of cash flows, whereas the noncash amount should be reported in the supporting schedule (see Illustrations II and III).

The final two items that warrant discussion are the effects of exchange rates and cash flow per share. SFAS 95 requires any company with foreign operations to use current exchange rates in effect at the time of cash flows to report the reporting currency equivalent of local currency cash flows. This will disallow the practice, under Opinion No. 19, of many companies with foreign operations, whose local currency was the functional currency, to use the year end translation rate to translate changes in balance sheet accounts in the statement of changes in financial position [13]. There seems to be a substantial amount of confusion on this controversial item, and additional clarification will likely be forthcoming in the future.

Finally, the reporting of cash flow per share amounts is prohibited by the statement. The Board expressed its belief that cash flow is not an alternative to income as an indicator of performance. Concern has also been expressed by many in accounting that cash flow per share might be confused with earnings per share.

Summary

Cash flow has been difficult to define, complicated to plan and control, and has often been poorly reported in the past. Considerable interest has been generated in cash flows in the last fifteen years resulting in a newly promulgated statement of cash flows by the Financial Accounting Standards Board. SFAS 95 requires that funds be defined as cash and cash equivalents and encourages the usage of the direct method of reporting net cash flow from operating activities. The Board has determined that cash receipts and disbursements be classified as operating, investing, or financing activities, and has provided guidelines as to what should be reported in each section. It is important that management of small businesses become familiar with this new statement, and be prepared to utilize it effectively for external reporting and internal cash management.

ILLUSTRATION I
NET CASH FLOW FROM OPERATING ACTIVITIES

Direct Method

Cash flows from operations:			
Cash collected from customers		$715,000	
Interest received		60,000	
Dividends received		20,000	
Cash proceeds from settlement of lawsuit	8,000		
Cash provided by operations			$803,000
Payments to Suppliers		$340,000	
Payments to employees		260,000	
Interest paid		35,000	
Taxes paid		63,000	
Cash disbursed for operations			$698,000
Net cash flow from operating activities			$105,000

Indirect Method

Net Income		$120,000	
Adjustments to reconcile net income to net cash flow from operating activities:			
Depreciation		90,000	
Amortization	20,000		
Increase in accounts receivable		(30,000)	
Increase in inventories		(40,000)	
Decrease in prepaid expenses		4,000	
Increase in interest receivable		(2,000)	
Decrease in accrued interest payable	(3,000)		
Decrease in accounts payable		(49,000)	
Gain on sale of marketable securities		(10,000)	
Increase in deferred income taxes	5,000		
Net cash flow from operating activities			$105,000

ILLUSTRATION II
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Schedule of noncash investing and financing activities:

Investing Activities:		
Acquisition of land		$ 60,000
Assumption of long-term debt		40,000
Cash disbursement for land	20,000	
Financing Activities:		
Issuance of common stock for retirement of 10% bonds		$100,000

ILLUSTRATION III
Z COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 19xx

* Net cash flow from operating activities:

Cash collected from customers		$715,000	
Interest received		60,000	
Dividends received		20,000	
Cash proceeds from settlement of lawsuit	8,000		
Cash provided by operations			$803,000
Payments to suppliers		$340,000	
Payments to employees		260,000	
Interest paid		35,000	
Taxes paid		63,000	
Cash disbursed for operations			$698,000
Net cash flow from operating activities			$105,000

Cash flows from investing activities:		
Proceeds from sale of marketable securities	$ 28,000	
Proceeds from sale of equipment	12,000	
Purchases of equipment	(87,000)	
Loans made	(8,000)	
Collection of loans	4,000	
Purchase of securities for long-term investment	(18,000)	
Purchase of land	(20,000)	
Net cash received (used) by investing activities		(89,000)

Cash flows from financing activities:			
Line of credit (net)		$ 7,000	
Proceeds from new long-term debt	15,000		
Dividends paid		(6,000)	
Payments of short-term debt	(5,000)		
Sale of common stock		10,000	
Repayment of long-term debt		(19,000)	
Net cash provided (used) by financing activities			2,000
Net increase (decrease) in cash and cashequivalents		$18,000	
Cash and cash equivalents January 1, 19xx		4,000	
Cash and cash equivalents December 31, 19xx $		$22,000	

* The detail of net cash flow from operating activities as reported by the indirect method in Illustration I may be reported as a part of the body of the statement of cash flows or in a supporting schedule.

ILLUSTRATION IV
RECONCILIATION OF NET INCOME TO CASH PROVIDED BY OPERATIONS

Net Income			$120,000
Adjustments to net income:			
Depreciation		$ 90,000	
Amortization	20,000		
Increase in accounts receivable		(30,000)	
Increase in inventories		(40,000)	
Decrease in prepaid expense	4,000		
Increase in interest receivable		(2,000)	
Decrease in accrued interest payable	(3,000)		
Decrease in accounts payable		(49,000)	
Gain on sale of marketable securities		(10,000)	
Increase in deferred income taxes	5,000		
Total adjustments			(15,000)
Net cash flow from operating activities			$105,000

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BUILDING THE BUSINESS MISSION STATEMENT
A COUNSELING TOOL FOR SMALL BUSINESS OWNERS

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ABSTRACT
The mission statement of an organization captures the dreams and directs the energies of those people who make up the organization. The process of developing a mission statement can help the small business owner make critical decisions about the management and marketing of the firm. Using right brain counseling techniques a mission statement can be readily constructed providing the small business owner with a valuable tool for guiding the business into the future. This paper outlines an approach for the creation of a meaningful statement of the business purpose.

THE MISSION STATEMENT
The "mission statement", "business purpose statement", or "business vision" are concepts that are often used interchangeably to describe the statement of an organization's "reason to be". They answer the question "What business are we in?" Although, there are subtle differences between "vision" and "mission"; the application of the concepts in business planning and management is intended to achieve the same result.

The mission statement is intended to paint a "word picture" of the relationships between a business, the people who are the business, and the customers of the business. Constructed with care, a mission statement captures the dreams and directs the energies of those people who are the business. It serves many important functions. These include:

1) It describes the organization's relationship to the customer, answering the question:

"What do we give our customers?" or
"How is our customer involved in this business?"

2) It serves as a yardstick against which all activities of the organization are measured for appropriateness and effectiveness, addressing the question:

"Is this activity consistent with our mission?"

3) It embodies (in fact is often created by) a process through which the individual's self-interests of those in the organization are transformed and combined to grow an organization which is greater than the sum of those self-interests. This answers the question:

"What am I doing today to accomplish our mission?"

4) As an often poetic expression of the organization's history and "corporate culture: it can serve as a rallying cry for the organization's members and customers. This addresses the question:

"Who are we?"

The mission statement is used in many very successful organizations to define the organizational culture. "Define" is somewhat misleading since the business purpose statement is often quite vague. There are many reasons for this not the least of which is that vagueness encourages flexibility. However, as Amar Bhide points out in the September 1986 issue of Harvard Business Review vagueness is not a vice:

A vision differs from competitive strategy. In a vision, vagueness is not a vice. It is wide
enough to allow individual hustlers the right amount of latitude in finding opportunities...
A vision doesn't require exhaustive analysis. It is sketched, over time, from the deep
knowledge of the organization's internal capabilities, traditions, and values. (1)

The Right Brain Side of Business

The business purpose statement describes relationships between: 1) the business concept, 2) the people of the business and 3) the customers.

Analyzing relationships between these elements of the business requires a different kind of approach than say, analyzing the financial statements. (Granted financial statements can be just as vague as relationships, but that's another subject.)

Thus, when analyzing these relationships objective analysis must yield to more subjective kinds of exercises. Currently, much is being made of the use of "right brain" techniques to tap our creative side. No longer are just the proponents of the human potential movement using visualization exercises as a means of tapping reservoirs of insight and energy within ourselves.

Athletes, business executives, assembly line workers (you name it) are engaging in quiet self exploration to reduce stress, and maximize performance. Visual-oriented brainstorming has been used for decades in the marketing and advertising trade. These creative techniques have been refined by many practitioners and are now being used to help organizations focus on the heart of the matter, i.e. the reasons for the organization being in business at all.

Many of the major companies have spent a lot of time and energy in canonizing their lead. Consider the following examples:

> "Human life is sacred. There is meaning in suffering and death. Christ loves the poor." - Sisters of Providence Hospitals.

> "The purpose of the Kollmorgen Corporation is to fulfill its responsibilities to Kollmorgen shareholders and employees by creating and supporting an organization.... where a spirit of freedom, equality, mutual trust, respect and even love prevails, and whose members strive toward an exciting vision of economic, technical and social greatness."
> - Kollmorgen Corporation

> "To help girls grow and reach their own great potential"
> - Girls Scouts of America

> "We help build the best run businesses in America"
> - Oregon Small Business Development Center Network

These statements have been created to let the employee, stockholder, and the customers see more than just a product or service. They are created to inspire a culture of excellence in the organization. This idea is so well articulated by Frances Hesselbein, national executive director of the Girl Scouts of America:

We don't strive for superior or excellent management. We strive to manage for the mission: We never lose sight of the fact that we are in this business to help girls grow. Having such a strong mission increases our managerial productivity-people "buy into" what we do and thus motivation is increases. We work very hard, all of us, to remember why we are working (2).

A mission statement is a very practical thing to have. Decisions ranging from the most mundane, such as office decor to major decisions about new product lines are made much easier when made under the guidance of a well constructed statement of purpose.

The Mission Statement and Small Business
Mission statements are not just for the large organizations. They can be effective management tools for the small business. Since the mission statement describes relationships it is a very useful concept in counseling small business people.

The entrepreneur tends to have a very personal relationship with his or her business concept. The business, whether it is a dream or a going concern is literally "their baby". The entrepreneur is, quite naturally, very subjective and often emotional when it comes to their perspectives on their businesses. This is especially true when talking about the entrepreneur's view of the customer.

The entrepreneur's view of the customer is most often molded by personal interactions rather than market studies and demographic analysis. This sometimes works to the entrepreneur's detriment in evaluating the business concept and determining marketing strategies if their perspective of the customer is at odds with the customer's world view.

Therefore, a counseling process that helps the entrepreneur create a mission statement helps the client define their perspectives on the relationships between the owners, their employees, and their customers.

A Counseling Process for Creating a Mission Statement

At our Small Business Development center we have developed a mission statement creation exercise which has helped many clients put their relationship with their business into perspective. We use a combination of procedures developed by successful group process trainers such as Bruce Borquist, former SBDC director at Clackamas Community College, and exercises which have grown out of the experience of doing mission-based counseling. We don't use it with everybody. Usually, only those people who have decided to do a comprehensive business plan are serious enough to try the exercise.

Our counseling process is like a mission statement itself, i.e. somewhat vague and variable in its form and application. This seems to be necessary when trying to help the client answer such elusive questions as "What business am I really in?"

Rapport with the client, the client's comfort level with right brain exercises, and the counselor's own style are all variables which make the process hard to canonize. We think it should be that way. This, at the minimum, relieves us from the pressure to structure the process any further for purposes of scientific replication. We will leave that to others.

The process uses right brain techniques to illicit information from the client in a rapid-fire, brainstorm fashion. The secret to the process is summarized by the question: "What is the question?" Each client-each business-is unique. Therefore, in order for the process to work-we must ask questions which illicit responses which "click" with the individual entrepreneur. The key to the success of the process seems to be in how to phrase the leading questions. Sounds kind of vague doesn't it?

For example, our exercises are "Customer-centered". The customer is a constant companion in the counseling session. We use visualization exercises in which the client is asked to become the customer. The leading question then is: "You are the customer, you have just received service from your business-how do you feel."

We recommend using questions which try and get the client to respond emotionally-(How do you feel?). The words and phrases generated seem to be more meaningful when they describe emotions. This is consistent with current marketing theory which pleads for businesses to get in tune with the emotional needs of their customers.

Warning: it may not work. The client may not respond comfortably to such hypothetical and emotion oriented questions. In that instance the counselor may wish to phrase the leading question in more non-emotional terms such as: "You have just received service from your business-you walk out on the street and are approached by a friend. He asks you what you thought about the business. What are the first words that come to mind."

Because the process is customer-centered it is also very marketing oriented. Images, words, and phrases which are generated through the intensive brainstorming can be used for marketing material such as slogans, logos, advertising fodder, speech material, etc.
The process is a simple one but has many potential variations. It usually takes about an hour for the first session. Many times it is not complete at that time. It's somewhat of a mysterious process in that sometimes it works right away and sometimes it doesn't.

The exercises always generate a lot of good information and clarify the entrepreneur's relationship to the business and the customer. Yet, it doesn't always generate that transformational-all encompassing-"socko" kind of statement. But sometimes it does-and when it does eyes get bright and wide and people say "Ahah!!!!" and leave the office with a new sense of purpose.

Most of the time the mission statement does not fall together in a cloudburst of sympathetic vibrations. Often, the product is "close but no cigar" and the client takes the material home to sleep on it. It is usually finished in the next session after the client has lived with it for a while.

For some of our clients the mission statement has changed a number of times since the original was created. It should change. In new or growing businesses change is a constant and the mission statement may, like the business, go through a number of evolutions. It must if it is going to easily roll off the tongue when someone asks the question; "What business are you in?"

The Mission Creation Process: The Theme and Some Variations
The following is an approximate step-by-step description of the counseling exercises.

1) Ask the client to relax-eyes closed or half-closed, hands comfortably at their sides-or
whatever seems appropriate. Narrate a mental journey for them. Make up your own. Here's a variation of ours:

> "Imagine being in your very favorite place-a meadow, a garden wherever you like to go to enjoy yourself in moments of quiet. A warm mist envelopes you and the place. After a while you see something coming out of the mist-it is your business. Describe it."

OR

> "You walk downtown-into your vision comes your business its just as you always dreame d of it-its complete. You walk in the door. Describe what you see. Record on chalkboard.

2) We then place the client in the role of the customer. Here are a few variations:

> "Now imagine yourself as a customer. You have just walked into the business, received the service and walked out. How do you feel? List words describing these emotions."

AND/OR

> "Giving a customer a product or service is a kind or gift-giving, even though they pay for it. What are you giving your customer-what is the real gift? Describe it." Record on chalkboard.

3) Now ask the client to take the chalk or pen and circle the (Three, four, five) most important elements on the list that best describe the "essence" of their business. The number of selections will depend upon the number of words and images they have come-up with. They may beg for more if they have a number which are really important to them. That's o.k., be flexible. Give the client a few minutes to do this, leave the office, get coffee, do work-let them alone.

4) Now we will make our first cut at creating a business vision statement. Be sure that all the words have been copied down and then rewrite the selected words or phrases on a clean board. Now ask the client to help you create a description of the business-a vision-it could also be a mission statement-but it doesn't have to be yet.

Ask the client to use the words on the board to create (three or four) statements that answer the question:

"At (business name), we give our customers"...OR

"At (business name), we sell"...OR

"At (business name), we"...

The counselor is welcome to throw in their own renditions to be part of the process and to give examples of how the statements might be created. Our experience is that very seldom are any of the words or phrases suggested by the counselor used when the final statements are constructed; so don't worry about influencing the client.

5) Discuss the statements generated. Many times significant relationships between the client and his business idea will reveal themselves. The client's personality, attitudes towards the products, and many other things will come up. It is up to the counselor to decide what is important to discuss.

The statements may express a number of different perspectives on the business purpose. Some may be very technical, some very poetic. It's a good opportunity for the client and counselor to explore what is most important to the entrepreneur.

6) Now ask the client to pick a favorite vision statement or circle no more than (three or four) phrases out of each statement. Again give them some time. Rewrite the phrases on one side of the board leaving the old ones on the other. If you have created some really good stuff this step may be unnecessary and you can skip to the next step.

7) This step is what we call the "wordsmithing" phase. Using the words and phrases construct a mission statement answering the question:
"At (name of business) we..." OR

"(name of business), the place where..." OR

"At (name of business), our purpose is..." OR ????

The Rules Are: The mission statement must be 15 words or less. No 'adds', 'bys', 'therefores', or commas.

The rules will drive people crazy and you may have to give in somewhere down the line-but hold firm for awhile. By enforcing the rules initially, it forces one to be very careful and succinct-picking only the most important words or phrases to construct the statement.

Once the most important words and phrases are put together, the counselor can be a little more flexible about total allowable words, commas and the like. But be careful; you may end up writing an essay that no-one will read and you certainly can't put on a business card. This is the hard work part of the creative process-the editing-the creation of poetry.

Construct as many options as arise. Often times only one option will come up. Sometimes there may be enough material to create two or three. The discussion that ensues as part of the "wordsmithing" is also very important to the exploration.

This is the point in the process where you know whether the statement is really going to click. The combination of words will fall together in a number of tries or they will strain, and cough, and sputter with a number of false starts. If you are in the false start mode, it may be useful to come up with a statement that everyone agrees is "almost there" and let the client go home and work on it with others in the business or family.

We encourage the entrepreneur to get help in reviewing the statement from employees or even go through the process with the employees before the statement is finalized. In this manner the process can serve as a team building exercise.

CONCLUSION

For all the things that a good mission statement can do for an entrepreneur and an organization it will do little if it is a living statement. The mission statement becomes nothing more than a slogan if it is not constantly used as a guideline for decision making and interactions between all people involved in the business.

The mission statement needs to be "revisited" if the business, its principals, or the market has changed significantly. The mission statement is called that because it carries the power of the organization's overarching purpose-it is the statement of culture. If people begin to feel dulled or uncomfortable when invoking it to guide a decision-it probably needs to be revisited and renewed.

All cultures change as does the environment in which they flourish. Not to change with the environs is not to flourish. This is true in business as well, no matter what the mission or the market. The mission statement can be a guide for making the necessary link between the business culture and the customer.

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A DOZEN HAZARDS COMMON TO SMALL BUSINESS RECRUITING AND HIRING

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ABSTRACT
This paper is designed to help the small business owner/manager pinpoint and highlight common recruiting hazards. The approach involves two parts. First, a dozen common recruiting hazards are cited and discussed. The basic assumption is that recognition of these hazards can help the small businessperson avoid them. Second, a proposition designed to help the small businessperson avoid or minimize each hazard is stated.

INTRODUCTION
Small business owners and managers often find the employee recruiting and hiring process frustrating and painful. Few small businesses can afford the luxury of a full time personnel officer or some other individual who is primarily responsible for the recruiting process. Consequently, the responsibility for recruiting and hiring generally falls to the owner/manager or a responsible subordinate, neither of whom may have the needed aptitude, experience, or inclination. As a result, recruiting may often be approached with little enthusiasm and less preparation, thereby generating a recruiting program that can lack the continuity and consistency needed for success.

This manuscript is therefore designed to help the small business owner/manager by pinpointing and highlighting common recruiting hazards. Our approach involves two parts. First, a dozen common recruiting hazards are cited and discussed. The basic assumption is that recognition of these hazards can help the small businessperson avoid them. Second, a proposition designed to help the small businessperson avoid or minimize each hazard is stated.

HAZARD #1: Flying By the Seat of Your Pants
"Flying by the seat of your pants" involves failing to formalize the recruiting and hiring process. Almost all unplanned processes in business generate less than satisfactory results and, sometimes, disaster. An informal recruiting process often results in a hodgepodge of randomly successful and unsuccessful results. Similar to any other aspect of business, recruiting also must be planned.

The recruiting process should start well before a position becomes vacant. Specifically, a job description should be prepared for each position. The tasks performed by the current job holder and an analysis of other similar positions can form the basis for this endeavor.

A formalized procedure for the search and selection process should also be developed. Recruitment planning involves translation of likely job vacancies and information about the nature of the job into a set of objectives that specify the numbers and types of potential applicants to be contacted. For example, recruitment planning includes defining recruitment goals, policies, and procedures.

Recruitment goals are the part of the long-run strategic planning of the organization. These goals address such key matters as career opportunities for employees, equal employment opportunity and affirmative action, and whether salaries and benefits will be competitive with the other organizations of similar size in the same industry. Recruitment polices are broad written guidelines that address various recruitment subjects like career advancement and other ones included in goal statements. Recruitment procedures are detailed instructions specifying how recruitment activities will be conducted.

This potential hazard leads to the following proposition: Proposition 1: The first step in the recruitment process is to formalize the game plan for filling a vacant position.

HAZARD #2: Writers Cramp Complex

The "Writers Cramp Complex" involves not establishing the range of acceptable skills for each position in the business. This hazard often leads to the attracting and hiring of either under-qualified or over-qualified employees. Under-qualified employees simply cannot perform the job, while over-qualified employees often encounter motivation problems which consequently lead to retention problems for the small business.

Establishing the (written) minimum and ideal requirements for each position is based on the formal job description discussed above. Without these formalized, written requirements, the recruiter may not have a realistic idea of what qualifications and skills are required. The minimum requirements should be exactly that, the minimum skill level required to perform the job at its lowest acceptable level. The range of acceptable skills helps the recruiter identify individuals that are within the bounds of acceptance, while keeping a watchful eye out for even better suited individuals.

Note that establishing the minimum requirements can help the screening process in other ways. Some recruitment methods, such as newspaper advertisements and job postings, screen potential applicants by describing job specifications and job tasks. Applicants review the job pecifications and job tasks perform a self-assessment to determine if they are interested in the job and are qualified for it. This self-assessment is a preliminary and inexpensive selection method that saves employers the expense of interviewing applicants of obviously unqualified or disinterested applicants. In addition, applicants are spared investing their time and money in applying for a position for which they are neither qualified nor interested.

The following proposition can help the small businessperson overcome the "Writers Cramp Complex:"
PROPOSITION 2: Establish the written range of acceptable skills, both minimum and ideal requirements, for the position.

HAZARD #3: The Mary Poppins Syndrome
The "Mary Poppins Syndrome" involves not interviewing a range of potential candidates who possess the minimum requirements for the job. An excellent candidate may be ignored if the first person with the minimum requirements is hired.

Organizations that lack confidence regarding attracting qualified candidates and a self assurance that the position has value to the potential candidates often hire the first person who possesses the minimum requirements. This syndrome generally leads the small businessperson to ignore other potentially better qualified applicants. Essentially, hiring the first applicant who possesses the minimum requirements may be expeditious, but will likely cost the form in the long run.

Avoiding the "Mary Poppins Syndrome" involves pursuing the following proposition: PROPOSITION 3: Investigate the entire market or pool and interview all potential candidates that meet the minimum requirements.

Interview all promising applicants. Be sure to ask specific questions and refer to the specific requirements for the job. Form a clear picture of the type of person needed to fill the job. When filling a key position, it is often wise to have someone else in the company interview the prospect.

HAZARD #4: Freud Frolicking
"Freud Frolicking" involves over-reliance on psychological, intelligence, or other types of tests. Some individuals have the ability to do well on standardized tests, regardless of how well qualified they might be for a particular position. Conversely, individuals who are well qualified for a position might not score well on a standardized test.
Testing is a tool to be used only to help evaluate a candidate's personality traits or provide an indication of mental capabilities. However, personality tests are notoriously poor predictors of future performance and intelligence tests cannot measure the motivation necessary for good performance. Testing should therefore be kept in proper perspective. Testing is but one of a multitude of evaluative criteria that can be used in the recruiting process and is not a panacea for employee selection.

Test should be reliable and validated. A test taker or job holder may perform differently on one occasion than on another for any number of reasons. He or she may try harder, be more fatigued, more anxious, or simply more familiar with the content of questions on one test form than another. For these reasons a person's performance will not be perfectly consistent from one occasion to the next.

The following proposition can help avoid the "Freud Frollicking" error: PROPOSITION 4: Use testing as one of many tools for evaluating potential employees, but not as the selection tool.

HAZARD #5: The Clone Complex
The "Clone Complex" involves hiring candidates "in your own image." Successful managers may actually be more prone to fall into this trap than unsuccessful ones. They may look for candidates that possess traits and skills similar to themselves because of the assumption that they will also be successful. Such managers overlook the need to hire for a specific position, which may call for traits and qualifications that are very different from those possessed by the manager.

Although a certain amount of overlap in traits and skills is certainly desirable, most firms need a diversity of skills and individual characteristics. This diversity can often help generate new ideas and news ways of dealing with old problems. Consequently, the manager should not let his or her ego get in the way of good hiring practices. Each person has unique strengths and weaknesses. One may be long on education but short on experience, while another may be creative but not efficient at detailed work. Selection techniques can sometimes detect the characteristics desired in an employee, provided they have been specified. The requirements should come from the job specification developed as part of the job analysis process. Basically, the selection criteria should list the characteristics of present employees who have performed well in the position to be filled. If the list of characteristics is too long, it may not be possible to select anyone, with no list of criteria, the wrong prospects are likely to be selected.
PROPOSITION 5: Hire people to fill specific positions, not to feed an ego.

HAZARD #6: Rubber Stamp Mania
"Rubber Stamp Mania" involves the searching only for "confirming" information – information that confirms the hiring decision. Traditionally, employers look for applicants who stand first in their class are president of all extracurricular activities, have Johnny Carson's ability to charm, are good looking, have ten years of experience (at age 21), and are willing to work long hours for almost no money.

This approach short circuits the system by overlooking the idea that positive information can be found for just about everyone. Failure to uncover negative information can obviously lead to hiring mistakes.

The small businessperson would actually be better off taking the opposite -- looking for information to confirm the reject or don't hire decision. This approach involves searching for both positive and negative information. Particular attention should be devoted to finding out "how bad" is the negative information and evaluating whether the "bad" is bad enough to reject the candidate.

The following proposition can help avoid "Rubber Stamp Mania": PROPOSITION 6: Look for information that will confirm the "do not hire" decision.

HAZARD #7: I'm O.K. -- You're O.K. Syndrome
The "I'm O.K. -- You're O.K. Syndrome" is closely related to "Rubber Stamp Mania." It involves checking only the references provided by the applicant, thereby allowing a candidate to tinker with the confirmation process.

Most candidates will naturally provide a list of carefully chosen references. These references will very seldom offer unflattering comments about the applicant. In fact, most references choose to offer no comment rather than making derogatory comments. This problem can be neutralized somewhat by placing constraints on the applicants, such as instructing the applicant to list only those references who have known the applicant for at least a set period of time, such as one or two years, and have direct knowledge of the applicants qualifications as they relate to the job specifications.

Many small business employers apparently believe that records and reference checks are not permissible under the law. This is not true. It is also legal to ask the supplied references for the names of other associates with whom that candidates has worked. Co-workers may be able to provide valuable information, both pro and con, about the candidate. Essentially, employers can seek information about applicants, interpret and use that information for selection purposes, and share the results with other employers.

Recruiters, however, should also be sensitive to ethical issues. For example, although it is legally permissible to contact present and former co-workers without the applicants approval, the applicant may feel this action to be unethical. In addition, the applicant may simply not want present co-workers and superiors to know he or she is pursuing another job opportunity.

The following proposition can help avoid this hazard: PROPOSITION 7: Check beyond the given references, such as with co-workers and others who would know the candidate.

HAZARD #8: The Joe Girard Complex
The "Joe Girard Complex" involves overselling-the position to the applicant. Overselling occurs when the recruiter emphasizes only the positive aspects of the job while glossing over or ignoring the potential negative aspects. The hazard of this approach involves creating expectations that cannot be delivered, thereby sowing the seed for later dissatisfaction.

A realistic description of the position and a thorough review of the job requirements provides the applicant with a solid overview and a perspective that is more likely to match reality. Remember that negative aspects of the job can be presented in a positive light. The key to avoiding later employee dissatisfaction is to create realistic expectations, which can result in higher levels of job satisfaction among new recruits and reduced turnover during the crucial first few months of employment.

The following proposition can help the small businessperson avoid the "Joe Girard Complex":
PROPOSITION 8: Portray all aspects of the job to the candidate as accurately as possible.

HAZARD #9: The I-Me-Us Phobia
The "I-Me-Us Phobia" involves not allowing the candidate to interview or ask questions about the firm, the job, and other employees. This phobia often arises when the recruiter

feels that he or she must "pull out all stops" in an effort to persuade the applicant that the job is wonderful. This can cause the candidate to develop a feeling of distrust.

The candidate has the right to learn more about the company. Consequently, an interview should be "divided" into segments -- one designed to provide information to candidate and the other to provide information to the recruiter. The following proposition can be a very helpful guide:
PROPOSITION 9: Always allow the candidate ample time to query you about your firm and the job.

HAZARD #10: The Free Agent Draft
The "Free Agent Draft" involves getting into a bidding war for a particular candidate that consists of a series of offers and counteroffers. This hazard can lead to several specific problems. First, it can be expensive for the successful bidder. Second, although having multiple firms interested in their services makes most candidates feel good, many candidates may eventually wonder why the best offer was not made initially. This can lead to feelings of distrust or, at least, discontent.

Remember that more than one person will have the qualifications for your particular job. Develop your best offer for each candidate and be prepared to win some and lose some.
PROPOSITION 10: Avoid a bidding situation for a potential candidate by making a good faith offer and sticking with it.

HAZARD #11: EEOC Can't See Us
Some small business people believe that their small size effectively "hides" them from federal agencies. No business, regardless of size, can afford to ignore the EEOC and its sister agencies.

Legal considerations, obligations, and requirements play a critical role in the recruitment of most American companies. Although much of the legal framework facing managers is directed at employment decisions, such as hiring, firing, health and safety, and compensation, it essentially begins with the organization's search for job applicants, whether conducted inside the organization or outside. Determining an organization's specific equal employment obligation is made complex by an extensive web of federal acts, federal and state constitutions, state and local legislation, court decisions, executive orders, guidelines, quasi-judicial bodies - such as the Equal Employment Opportunity Commission (EEOC) and the Office of federal Contract compliance Program (OFCCP)- and state equal employment opportunity (EEO) or civil rights agencies. Large dollar losses can be avoided by effective and valid recruitment, selection, and placement procedures.
PROPOSITION 11: Keep abreast of and comply with relevant EEOC regulations.

HAZARD #12: The Right Person Will Find Us
Too many would-be recruiters put minimal effort into recruiting, assuming that someone will turn up, and then cry about "no one wants to work anymore." Recruiting takes more than a small "Help Wanted" ad.

Once it is known how many of what types of recruits are required, serious consideration can be given to the matters of (1) where to look, (2) how to look, and (3) when to carry out certain activities. Recruit where experience and circumstances dictate likely success. Recognizing this, many adopt an incremental strategy in which initial efforts are concentrated in regional or local markets and expanded only if these efforts fail to achieve the desired results. Don't limit choices among candidate sources and search methods. Consider both internal and external sources. The task is to determine which of the many alternative are most likely to turn up the desired number and types of potential candidates within a reasonable period of time at a reasonable cost.
PROPOSITION 12: Aggressively seek out qualified candidates, don't wait for them to find you.

SUMMARY AND CONCLUSION

This paper has focused on presenting and discussing a dozen of the most common employee recruiting hazards or pitfalls encountered by small business owners/managers. The twelve hazards are:

1. Flying By the Seat of Your Pants
2. Writers Cramp Complex
3. The Mary Poppins Syndrome
4. Freud Frollicking
5. The Clone Complex
6. Rubber Stamp Mania
7. I'm O.K. -- You're O.K. Syndrome
8. The Joe Girard Complex
9. The I-Me-Us Phobia
10. The Free Agent Draft
11. EEOC Can't See Us
12. The Right Person Will Find Us

To avoid these potential hazards, the small business owner/managers should develop and implement a logical step-by-step recruiting process. The basic steps of the recruiting include the following:

1. <u>Recruitment planning</u>. Recruitment planning includes defining recruitment goals, policies, procedure
2. <u>Assign recruitment responsibilities either full-time or part-time to one or more jobs</u>. Large organizations have full-time recruiters. Most other organizations have part-time recruiting tasks delegated to a job, usually a personnel or human resource director. In the smallest companies the recruiting activities are performed by the ownermanager. In any event, the person who is delegated recruitment responsibilities should be the focal point for recruitment within the organization.
3. <u>Develop recruitment resources</u>. Applicants can be obtained through both external and internal resources. Internal sources consist of existing employees. External sources that can be tapped include newspaper advertisements, employment agencies, and college recruitment.
4. <u>Consider special recruitment concerns</u>. Dual-career couples and employment of the handicapped. The dual-career couple represents a special recruitment problem for

employers because often a well-qualified applicant will accept a job offer on the condition that suitable employment is found for the spouse. There are federal, state, and local organizations that provide various services to aid the employment of the handicapped.

5. Analyze various recruitment questions such as the following:

a. What are the organization's major recruiting advantages?
b. Who are our recruits and who should they be?
c. How is our organization viewed and how should it be?
d. Where are we heading and where do we want to be?
e. What major advantage do we enjoy?
f. What are our disadvantages and which ones can we correct?

A LONGITUDINAL ANALYSIS OF A SUCCESSFUL INDUSTRIAL INCUBATOR

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ABSTRACT
Data were gathered from the nineteen tenants housed in the Akron/Summit incubator since its founding in April, 1983, through August, 1987. This study presents data regarding the progress of each tenant. A description of the economic and political cooperation that encouraged a consortium of the City of Akron, Summit County, The University of Akron, and the private sector to initiate an industrial incubator is also presented.

INTRODUCTION
The objectives of this research regarding a successful industrial incubator are two-fold. The first is to present data regarding the progress of each tenant of the Akron/Summit incubator from its founding in 1983 through August, 1987. The second is to describe the economic and political cooperation that encouraged a consortium of the City of Akron, Summit County, The University of Akron, and the private sector to initiate an incubator project.

The term "incubator," a relatively new concept, refers to providing a new business with special types of assistance during the crucial period of its initial start-up. Incubators provide an "enriched" environment that can include (1) low cost, short-term leases; (2) secretarial and word processing services; (3) a support network of professional and consulting services; and (4) access to financing.(1) The recent estimate of the number of incubators there are in the United States is 180, (2) and this number is rapidly growing. A 1984 study estimated that most incubators are publicly owned and have been in existence for one year or less.(3)

PREVIOUS RESEARCH
Federal, county, and governmental agencies, chambers of commerce, private corporations, universities, and community groups are among the organizations that are establishing incubators. A widely cited private corporation starting incubators is Control Data, which operated sixteen such centers in various locations. One of its facilities is in an old cigar factory in Charleston, South Carolina.(4) Two important characteristics of Control Data's incubators are (1) they offer new businesses a place to operate and (2) they are viewed as a way of renovating old buildings and revitalizing depressed areas.

The Small Business Administration has been taking a role in the development of incubators through a networking role. In a Market Area Plan pioneered by SBA Region V., the S.B.A. has been instrumental in founding a number of incubators.(5)

Broome County, New York has been a county government that has founded an incubator.(6) The goals have been to provide technical expertise and advice to newly founded businesses. The results of the efforts of the county in its incubating activities have not yet been published.

Rensselaer Polytechnic Institute, also in New York, is an example of a university founding an incubator.(7) Like the one in Broome County, its activities have included providing housing and advice. In addition, RPI has also supplied venture capital.

Allen and Dougherty reported in a recent study that 117 incubator respondents reported an average of seven graduated firms since the incubator opened. However, 50 percent of the facilities had one or no graduates.(8)

Private incubators are the oldest incubators with a median starting date of March, 1983. They are followed closely by university facilities which have a median starting date of July, 1983. Private facilities generally have more tenants; their median is 21. They are followed by university facilities, with a median of 14, and public facilities, with a median of 7.8.

Consequently, private facilities are much larger. Their median size is 154,000 square feet compared with a medium size of 57,000 square feet for universities, and 36,000 square feet for public facilities.(9)

HISTORY OF THE AKRON-SUMMIT INCUBATOR

The Beginning

On December 1, 1982, the City of Akron, County of Summit, and The University of Akron cosponsored a $352,000 renovation of a 42,000 square foot building into Northeast Ohio's first business incubator facility. The objective of the incubator was to assist entrepreneurship, fledging businesses, and high growth potential firms in the economically depressed city of Akron. This facility was located adjacent to The University of Akron's campus, and was leased by the university, and was subleased to the city for seven years at the cost of insurance and taxes. This site was selected following an extensive search that included an examination of twenty-six other vacant or underutilized facilities within the city. The search was funded as part of the federal government's Economic Development Administration's Auto Community Adjustment Program (ACAP) grant received by the city in 1980-81.

Rehabilitation-Maintenance Funding Phase

The rehabilitation of the facility began immediately and was funded by a rehabilitation budget that consisted of Summit County Capital Improvement Program funds of $140,000 (CIP) that were generated from the sale of county owned property and Community Development Block Grant (CDBG) funds from the City of Akron for the identical amount of $140,000. These funds were expended on eight major contracts, which included roofing, painting, doors/windows, electrical, heating, plumbing, elevators, and a sprinkler system. Private Industry Council (P.I.C.) funds totaling $72,000 were applied toward a Building Maintenance Program (BMP) that permitted student workers to gain on-the-job training through maintenance jobs in the facility. P.I.C. funds were provided under a Comprehensive Employment and Training Act (CETA) program. The incubator's tenants hiring needs were supported in part through the Job Training Partnership Act (JTPA) provided by the U.S. Department of Labor and administered by the local P.I.C.

Selection of Tenants
Potential tenants for the incubator were screened by a Board of Governors composed of city, county, university, and P.I.C. representatives. The following eligibility categories were used as a screening process for potential tenants:

-- manufacturing or assembly operation;
-- area-wide distribution of product or services;
-- research and development operation; or
-- job generating (i.e., high job growth potential).

The potential tenants were also limited by the following criteria:

-- the operation could not be excessively noisy (i.e., heavy stamping) or excessively dirty or dusty (i.e., painting or sanding); and
-- the operation must meet common power and utility requirements.

The staff resources of the city, county, and university were used to market the program and identify potential tenants who were then required to complete a thorough application (including a business plan) that was reviewed by the Board of Governors. The Board also screened the applicants for the interviewing phase. The city, county, and Akron Regional Development Board (ARDB--Chamber of Commerce) also had Industrial Call Programs (I.C.P.) that were utilized to identify potential tenants.

Lease and Management Assistance Agreement
The incubator provided lease space for up to a three year period with each lease negotiated on an individual tenant basis. The lease required a six month review process by the Board of Governors to determine if each tenant was meeting the growth projection reported in the original business plan. Tenants meeting or exceeding their growth projections were encouraged by the Board, with aid from the city, county, ARDB, and university resources, to relocate to more appropriate facilities. Tenants falling short of their projections were directed by the Board to drop from the program and relocate with, again, the resources of the city, county, ARDB, and university to aid in this process.

As part of their lease, tenants were committed to a first source hiring agreement with P.I.C. for all conventional entry level jobs. P.I.C. was responsible for placement of job training program participants where possible, offering On-the-Job Training (OJT) contracts were appropriate and assisting with customized training and performance-based contract programs.

Annual rent was set at $1.00 per square foot plus utilities, compared with area rates of $3.00 to $7.00 in 1983. This rate came to $1.77 per square foot in 1985. Use of a conference room and custodial services were included in the rent.

Management assistance was provided to the tenants from the following sources:

-- Service Corps of Retired Executives (SCORE),
-- Small Business Enterprise Center (SBEC), and
-- Student counselors from The University of Akron's College of Business Administration's Small Business Institute and the Community and Technical College.

Additionally, clerical, bookkeeping, telephone answering, and word and data processing services were also available on a preferred rate fee basis. Access to the machinery and equipment and lease-hold construction assistance was also made available to the tenants.

Management of the Incubator
City Venture Corporation was awarded the contract to manage the incubator facility. This contract was funded by the initial $243,000 grant.

DESCRIPTION AND PERFORMANCE OF TENANTS TO DATE
By April, 1984, four months following the December, 1983 dedication and one year following the April, 1983 opening of the Akron-Summit incubator, nine firms were contracted as tenants. Six were light manufacturing firms, of which three were in the "high tech" category and three were service type firms. The following is a historical performance of the original nine firms (starting month and year in parentheses):

-- Allied Electronic Services, Inc. (4/83), a manufacturer of electronics circuitry; successful, relocated to larger facilities in May, 1984;

-- Akrobotics International, Inc. (4/84), an industrial robot maker; failed to obtain finding for the production phase; disbanded in July, 1985;

-- Didado Energy Systems, Inc. (4/84), an energy and process control firm; successful, continues as a tenant;

-- Tabor Enterprises (4/84), a diversified sports distribution firm; voluntarily disbanded in October, 1985 due to lack of growth and therefore left the incubator;

-- Kranker King (4/84), a manufacturer of a patented orthopedic and bowling glove; continues as a tenant;

-- Western Reserve Furniture (6/83), a quality handcrafted hardwood furniture maker; successful, relocated to a larger facility in May, 1895;

-- P.T.S. Services, Inc. (4/84), an office and clerical firm; successful, continues as a tenant;

-- Composite Systems, Inc. (4/84), a manufacturer of composite material, non-asbestos brake pads for racing vehicles and off-the-road construction vehicles; successful, continues as a tenant; and

-- Quality Assembly (3/84), an assembler of electronic harness boards of related electronic circuitry; successful, relocated to larger facility in November, 1986.

As described above, of the original nine tenants, two have relocated due to their successful growth (Allied Electronics and Western Reserve Furniture); two have failed due to separate and distinct reasons such as financial (Akrobotics) and lack of growth (Tabor). Five of the original nine are growing at an acceptable rate and continue to lease in the incubator.

In addition to the nine original tenants, the incubator included eight additional tenants. The "new" tenants were:

-- Dataq, since April, 1984, designs and manufactures computerized data acquisition systems; successful, moved to larger facility in February, 1987;

-- Gioia Couture, Inc., since April, 1985, manufacturer of men's and women's handcrafted knitwear; successful, purchased by a conglomerate in September 1986;

-- J.S. Enterprises, since June, 1984, technical and mechanical assembly, continues as a tenant;

-- Publigraph Systems, Inc., since May, 1984, computerized, data based information service; disbanded February, 1987 due to illness;

-- Minor Assembly & Design, since December, 1984, printed circuit board assembly and design and production of new electronic equipment, continues as a tenant;

-- Mid-Corporation, since spring, 1985, provides industrial tools and supplies to regional firms, continues as a tenant;

-- American Analytical Laboratories, Inc., since November, 1984, provides chemical analysis of samples from the environmental industrial hygiene, quality control/assurance, and polymer industries, continues as a tenant;

-- The Halley's Comet Company since November, 1985, manufacturer of polymer-based toys; continues as a tenant.

Therefore, the A/S incubator, in nearly a four and one-half year existence, has graduated four successful firms, has seen four fail, and continues to house nine tenants. This result is certainly better than the 50% of the incubators that had one or no graduates since their opening as reported by the Allen and Dougherty study.

NOTES:

(1) David Gumpert, "New Help for Start-Ups," Working Women, 10, 7(July, 1985), 31.

(2) David N. Allen and Mary Ann Dougherty, "The Business Incubator Industry in 1987," Proceedings U.S.A.S.B.E., Milwaukee, October, 1987, p. 2.

(3) Candace Campbell, Robert C. Kendrick, and Don S. Samulson, "Stalking the Latent Entrepreneur: Business Incubators and Economic Development," Economic Development Review, 3, 2(Summer, 1985), 44.

(4) Sharon Nelton, "Incubators for Baby Businesses," Nation's Business, 72, 11(November, 1984), 42.

(5) Richard Durkin, "Successful Strategies for Small Business Development," Economic Development Review, 2, 2(Summer, 1984), 17.

(6) Francine Gissy, "Incubator Industrial Buildings: A Case Study," Economic Development Review, 2, 2(Summer, 1984), 50.

(7) Richard Phalon, "University as Venture Capitalists," Forbes, 19 December 1983, p. 84.

(8) Allen and Dougherty, op. cit., p. 10.

(9) David Allen, "Small Business Incubators and Enterprise Development," U.S. Department Of Commerce Study, 1985, p. 20.

BERKSHIRE BUSINESS VENTURES, INC.: A STUDY OF THE ESTABLISHMENT OF A SMALL BUSINESS INCUBATOR

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ABSTRACT
The following is a partial case study of the establishment of a small business incubator. The incubator being studied is not yet operational. The study will describe the work accomplished to date and the tentative plans to bring the project to completion.

INITIAL CONCEPT
While Massachusetts as a whole has shown economic growth with the development of the high technology industry, Berkshire County has lagged behind. In the Berkshires, old industry is leaving and no new industry is moving in to take their place. In Pittsfield, General Electric Company is closing its power transformer operation and the County is losing seven hundred blue collar manufacturing jobs. There is wide spread concern as to the future economic vitality of the County. Pittsfield is the largest city and the loss of the General Electric operation was viewed as a serious setback. State Representative, Sherwood Guernsey, was not only concerned about the loss of jobs, but he was determined to do something about it. Representative Guernsey is a member of the House Committee on Industry and Commerce. The Committee has been studying small business incubators for the past two years and is interested in them as an economic development tool. During the Fall, 1986, the Committee drafted legislation titled, "An Act Creating A Small Business Incubator Program". and this was introduced into the legislative process in the Spring, 1987. This legislation seeks to accomplish several important purposes.

The Act will provide a source of start-up funds for new incubator facilities. There will be two sources of funds provided through this Act. The Incubator Program Fund will establish a business capital fund for the small business incubator and will establish a revolving loan fund to provide grants and loans to small firms that are tenants in the incubator facility. The amounts and the percentage contributed by the incubators are still being negotiated in Committee. In addition, the Land Bank will provide support for the development of up to four small business incubator projects located within different regions of the state. The State is encouraging incubators to locate their facilities on state owned property where such property is available. The State is committed to this program and Representative Guernsey is committed to bringing one of the four incubators to the Pittsfield area. Incubators can address conditions of unemployment and economic distress by encouraging the creation of new businesses and by improving their ability to survive and grow in a nuturing environment.

START UP
By May, 1987, Sherwood had identified a retired industrialist, Mr. Samuel Boxer, as the person to head the drive to establish an incubator facility. He and Sam became the incorporators of Berkshire Business Ventures, Inc. They then selected eleven others to form the Board of Directors from leaders in the Pittsfield community. They choose a lawyer, the President of the Chamber of Commerce, bankers, an accountant, the President

of Score and some local businessmen. Next they established a General Board of thirty local businesspersons and established working committees in six areas: Fund Raising, Marketing, Site Selection, Budget, Needs Assessment, and Operating Policies Committees. A meeting was held in May and all Committees were given their charge and the process began. The primary resource for these groups was the Small Business Administration publication "Small Business Incubator Handbook: A Guide for Start-Up and Management".

COMMITTEES

Three of the Committees: Budget, Needs Analysis, and Site Selection had immediate tasks to accomplish. The Site Selection Committee, which was composed of bankers and realtors examined every available building and land site located within the Pittsfield area. By the end of August, they had compiled a complete description of every property and an analysis of its usefulness as an incubator site. They have recommended that no existing building be purchased. They have narrowed the choice down to three different land sites where a new facility would be constructed.

The Budget Committee was composed of accountants and bankers, and they were charged with the task of trying to generate a proposed budget for the construction and operation of the facility. After the initial financial plan was developed and reviewed by the Board of Directors, they decided to hire a professional consultant to write the formal business plan for the incubator. This plan will be completed by December, 1987, and will be voted on by the entire Board at that time.

The Needs Assessment Committee was also very busy over the summer, trying to assess local interest in the proposed facility. They have gotten articles written for and published in the Berkshire Business Journal, and in the Berkshire Eagle. In addition, this committee is charged with identifying and defining the needs of local firms and of local individuals that could be prospective tenants for the facility. They are to identify these tenants and determine the nature of the proposed businesses and try to identify what they want the proposed small business incubator to provide them in the way of facilities and service. To this end they developed a survey instrument that we could use in a variety of ways to help reach these prospective tenants. The first survey was run in the Berkshire Business Journal. This is a monthly business newspaper that is sent to all businesses located within Berkshire County as well as to members of the Chambers of Commerce, local Public officials, and to members of developmental groups. The entire newspaper is devoted to news about firms and industries located within Berkshire County as well as articles on topics of interest to business managers and business owners. They hoped to reach the owners of local firms that were thinking of spinning off a new venture and managers who want to start a firm of their own. In order to gain their attention, the survey was preceded by a story about small business incubators and the work of Berkshire Business Ventures, Inc. and its efforts to found an incubator facility for new small business operations. Five firms responded to this article and completed the survey. All five firms were then contacted by members of the committee to develop more information about their future plans and business needs.

The second survey was a mailing sent to individuals who already had or were planning to establish home based businesses. The committee believed that a home based business could grow to a size where they would need more room than a home operation could provide and that an incubator faciliy could solve their growth problems. The list was obtained from the Berkshire County Extension Service. The County Extension Service had been running programs to assist home based businesses for the past two years. They were planning a workshop for people who had or who wanted to have a home based business or to work as a self employed craftsperson. This workshop was designed to assist these individuals in developing a business plan that was geared to their needs. We felt that this would help us in getting a response to our survey as we had made clear in the article that a business plan was required of any firm that desired to locate within the incubator. Along with the survey we had permission from the Berkshire Business Journal to include a reprint of the article on Berkshire Business Ventures, Inc. This mailing went out in September. The Committee believed that by targeting a specific group that already had a small business or who were in the process of establishing a small business, we could be able to identify some good prospective tenants. Unfortunately, there were no responses to this survey. The Chairman of the Needs Assessment Committee spoke before the Pittsfield Rotary Club in August, 1987 and used the same survey instrument for the 90 - 100 members present. These individuals were asked to identify not only the needs of their business, but to identify any goods or services that they were presently purchasing out of state or out of the County that they would be willing to purchase locally, if a reliable, quality source were available. Twelve of the members present returned completed surveys. The Committee also analyzed the local economy and identified the types of existing firms that have been started in recent years.

Using the data collected from the various sources used, this Committee will meet and identify the types of firms that will most likely be prospective tenants for the new facility. A second survey will be done six months prior to the opening of the incubator facility.

The Operating Policies Committee has also been at work and they have made several decisions. Some of these were, in fact, dictated by the language of the proposed legislation. The incubator facility will have a full time director who will run the incubator and serve as a resource to the tenant firms. All firms must have a business plan when they apply for admittance. No retail or warehousing operations will be considered as tenants. Exit from the incubator by the tenant firms will be at the end of five years. To be accepted as a tenant, the firm must show that it has growth potential and the ability to generate jobs in the future. All of these policies will be formalized in a written document and adopted by the full Board before the incubator opens.

The Fund Raising Committee has committed itself to raising $250,000 from the local community. The Chamber of Commerce is committed to the project and will make a commitment in kind. The Economic Development Administration has applied for a one million dollar grant and those funds would go into the incubator project if the grant is received. A group of local banks are also discussing the possibility of setting up a pool of funds to compose a revolving, low interest loan pool for incubator tenants.

The Marketing Committee has been waiting until the other groups have completed their work. It is their responsibility to promote the incubator once the incubator plans have been finalized. Members on this committee are all marketing specialists from local firms.

BOARD OF DIRECTORS

The Board of Directors has been active and has collected data from its Committees and has made some decisions. Berkshire Business Ventures, Inc. will become a reality whether or not the state chooses Pittsfield as an incubator site. They have already received a grant of $125,000 from the General Electric Company to be used in this project as long as the incubator is located in Pittsfield, and the money will help to generate new jobs. They have also made decisions as to the design of the facility and the types of services that will be offered. Members of the Board have traveled to three incubators located at R.P.I., Bennington, Vermont, and in Chicopee, Massachusetts. One idea that this group accepted seems to be rather unique among the incubators that were studied. They felt that the anchor firm or a tenant firm for the incubator should be a child care operation. They believed that this would help bring a needed facility to the community and would prove to be a real draw in attracting new firms into locating in the facility. In addition, the state of Massachusetts has a program called the Corporate Child Care Program. This program was established by the State of Massachusetts in order to meet the needs of all of its citizens to share in the current economic growth enjoyed by the state. The Executive Office of Economic Affairs oversees this program. This office views good child care programs as the key to continued growth of a healthy economy. Time's June 22, 1987 cover story, "Who's Bringing Up Baby", contains a discussion of the child care issue. Less than one fifth of American families now fit the traditional model of a father at work, and a mother at home. This is down from one third fifteen years ago. Today, more than 60% of mothers with children that are under fourteen are in the labor force. About half of these women return to the work force before their child's first birthday. There has also been a significant increase of single parents of young children working. Since 1970, the female workforce has doubled in numbers nationwide. In 1986, over nine million preschoolers spent their days without the presence of either parent and were instead in the care of someone other than a parent. This trend is increasing. (1)

The state of Massachusetts is aware of the trend and of the problems faced by both business and parents in arranging for quality child care so the parents are free to work. Through the Massachusetts Industrial Finance Agency, the state has established a loan fund for businesses that wish to start a child care center. This fund provides a low-interest, long-term fund geared toward increasing the amount of child care facilities available within the state. The Massachusetts Office of Economic Affairs is the only such program in the country that is directly involved in assisting business with its child care needs. Berkshire Business Ventures, Inc. is exploring this as a source of start-up funds for the child care facility that would be located within the incubator. Both General Electric and the United Way are very supportive of a child care facility being associated with the Incubator facility.

FUTURE PLANS
Berkshire Business Ventures, Inc. is well along in its planning and is committed to see this project through to a successful conclusion. Once the Board has formally adopted its business plan, it must then work to put it into effect. There are several important decisions that must be made, such as the selection of the site and the design of the building. At the moment these are waiting on outside events, the passage of the state law to establish incubators with financial assistance from the state; the possible award of the grant to the Pittsfield E.D.A.,and the final decision from the Chamber of Commerce as to their contribution.

Once the site is selected, Berkshire Business Ventures, Inc., must complete environmental impact studies and comply with all Massachusetts laws that govern new construction. The time line appears to be a ground breaking in late 1988 or early 1989. Once construction starts, they have estimated four to six month until (1) Wallis, Claudia, "Who's Bringing Up Baby", Time, June 22, 1986, p. 59. the facility is ready to be occupied. B.B.V. hopes that by careful planning and by the development of a detailed but flexible business plan for B.B.V. that the incubator will get off to a successful start with strong community backing. B.B.V. should serve as an effective tool to encourage development within the County.

EXHIBIT # 1- SURVEY INSTRUMENT

INCUBATOR FEASIBILITY STUDY

Name of Firm:______________________Contact Person:_________________
Address:_________________________Phone:____________________________
City/Town:__________________________
_____ Currently in Business _____ Planning to Start a Business
Type of Operation:________Manufacturing________Retail
________Distribution ________Service
________Warehouse ________Other (Specify)

If currently in business are you interested in:
________moving from your present facility to a different facility.
________spin off of a new operation from your present operation.
________purchasing products/services locally, presently being purchased out of the County.
________other (specify)

If you are not currently in business, but are interested in a start up, so you:

Have the following	Need help with	
________________	_______________	idea for a product/service to produce
________________	_______________	business plan
________________	_______________	funds to finance part or all of start up
________________	_______________	desire to start a firm, but lack a marketable idea

Would you be interested in locating in an incubator facility:
__________yes __________no

Can we contact you in the future regarding plans for the incubator?
__________yes __________no

Mail To: Raymond B. Kavey, Jr., TRAID Training & Development Berkshire Common Pittsfield, MA 01201

EXHIBIT # 2 - ARTICLE FROM THE BERKSHIRE BUSINESS JOURNAL

Incubator

Berkshire Business Ventures, Inc. has begun work to develop the first small business incubator for Berkshire County. The idea for the Corporation and the primary driving force came from Rep. Sherwood Guernsey who with Sam Boxer were the initial incorporators. There is a great deal of entrepreneurial spirit in the county as evidenced by the number of new start-up firms that come into being every week. Most of the new growth in business and in job generation within the county has come from small firms. An examination of the plastic moldmaking and molding industry will show that these firms came into being as start-ups or as spinoffs from existing firms. Another group of small businesses were started to sell products or services to existing firms in the county such as General Electric. Since growth seems to come from small businesses, it makes sense to encourage small business start-ups, and one way to do this is with the formation of business incubators which help small businesses get off to a good start.

Berkshire County is going to have its first small business incubator and Berkshire Business Ventures, Inc. is going to develop it. Starting with a grant from General Electric, Berkshire Business Ventures, Inc. is now at work designing and later establishing the facility. To do that we need your help. To be effective the incubator must meet the needs of Berkshire County firms. The incubator must develop a facility that will be able to nurture new firms from their inception until they are ready to go out on their own. Berkshire Business Ventures, Inc. will provide both the physical facility and the needed services to help new firms survive.

Berkshire Business Ventures, Inc. has formed several committees which are in the process of designing the incubator, and the services that will be offered. An incubator facility can be started in either a remodeled existing building or in a newly constructed facility. In either case the final structure must meet the needs of the tenants for physical space. The needs of prospective tenants must be clearly identified before decisions on structure can be made. What does an incubator facility offer to its tenants?

It offers more than a physical location for the firm. A small business incubator is designed to meet the needs of start up firms by providing physical facilities at a reasonable and affordable cost to the firm and at the same time, the space provided must be flexible and expandable to meet the changing needs of the firm as it starts to grow.

This ability to expand from smaller to larger space needs is something that is now usually possible in commercial rental properties. The incubator also provides some common areas where specific needs of the firms can be satisfied. Special facilities such as a common reception area, lunch room, loading dock, rest rooms, and copy centers. The incubator can also provide for a reasonable fee some business services such as secretarial, bookkeeping, data processing, custodial, and physical security personnel. No start-up firm can afford to hire all of these services on a full-time basis, but they can access these specialists on an as-needed basis for a reasonable fee. The types of services offered will again depend on the needs of the prospective tenants. Another service than can be provided is to create access for the firm to professional consultants in a variety of areas such as legal, accounting, financial, marketing or advertising on an as needed basis.

What the entrepreneur lacks in personal expertise, he can access through the incubator facility. The sometimes unexpected and free benefit for the entrepreneur that can be derived from locating in an incubator facility is the support of the co-tenants. The whole becomes greater than the sum of the parts. Being an entrepreneur is a risky and sometimes frightening experience and being able to share your ideas and fears with others can help. The businesses also seem to become suppliers and customers to each other. Incubators can be designed to include a combination of firms that will complement and energize each other. The final element in the design of the incubator facility is the creation of a revolving pool of funds that can be used to provide loans to start up firms. All of these elements are presently under study by the various committees and the end result will be a design that will be customized to fit the needs of Berkshire County firms.

Before final decisions can be made as to the type of physical facility and the types of services needed, Berkshire Business Ventures, Inc. must first define what firms, whether existing or prospective firms are interested in occupying the incubator facility. To do this, we need your help. We need to develop data banks of information in two different, but related areas.

In order to develop these data bases, we need your help. If you would take the time to complete the following survey and send it to us, we will follow up with personal conferences to make sure that we understand exactly what you need to make your idea into a new firm. For the proposed incubator to really meet the needs of local firms it must be designed with those needs in mind and to do that your input is vital.

Completed questionnaires should be sent to: Berkshire Venture, Inc, P0 Box 2397, Pittsfield, MA 01202.

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AUTONOMY AS A MOTIVATIONAL FORCE IN SMALL BUSINESS AND ENTREPRENEURSHIP

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H. Keith Hunt, Brigham Young University

ABSTRACT
Although past research has indicated that the concepts of achievement and autonomy are both related to small business and entrepreneurship, there has been no empirical research describing the relationship between the two concepts, in particular the use of achievement as a useful concept in dealing with autonomous workers in small businesses. This study used a measure of achievement to distinguish between groups of autonomous and nonautonomous workers in small business. Twenty-two subjects were divided into autonomous and nonautonomous groups by a group of independent judges. Their scores on the Ray-Lynn "AO" achievement scale showed a significant difference between the groups indicating that the two concepts are closely related and that achievement may be used as an indicator of autonomy. Further research into the relationship between the two concepts is indicated.

INTRODUCTION
Past research on the topic of autonomy supports the idea that autonomy is an important motivational force in the area of entrepreneurship and small business ownership. Early work by Hornaday and Aboud (1971) used two measures of independence based on subscales of more extensive psychological instruments. The Edwards Personal Preference Survey independence scale was not significant while the Gordon Survey of Interpersonal Values (SIV) independence scale was significant. Although not dealing directly with autonomy, these independence scales are closely related to autonomy. The SIV independence scale correlated with the autonomy scale at .49 (Gordon 1963). Sexton and Bowman (1983, 1984, 1985) found a significant difference in desires for autonomy in a variety of student and non-student groups using the Jackson Personality Inventory, Personality Research Form-E. These studies used instruments specifically designed to measure independence or autonomy. What is not indicated is the relationship of these instruments to other concepts such as achievement.

Autonomy has long been used as an indicator of entrepreneurship along with the implications that concept holds for independence and control. What has not been studied is the use of achievement in measuring the autonomy or desire for autonomy in the work place along with the implications that concept holds for structuring the work environment in order to facilitate motivation on the job.

This study was specifically designed to test the hypothesis that people working in autonomous work environments will indeed score higher on measures of need for achievement than people who experience relatively little autonomy in their work, thus establishing an empirical relationship between work related autonomy and the achievement motive. Although this study is exploratory in nature, it does provide a solid support for the importance of autonomy as a contributing motivational factor in entrepreneurship and small business as well as provide a foundation for future research.

BACKGROUND

Since the introduction of the concept of need for achievement (nAch) by McClelland in the 1950's and 60's nAch has been considered one of the primary characteristics of entrepreneurs. For McClelland and others, the root of the achievement motive lies with the Weberian concept of the protestant work ethic. McClelland (1961) proposed that the need for achievement was a psychological motive derived from a particular type of familial socialization intervening between ideological values, the protestant work ethic or value, and entrepreneurial behaviors. The particular socialization patterns which McClelland described as leading to the development of a high need for achievement consisted of child-rearing practices stressing standards of excellent, material warmth, self-reliance, and low paternal dominance.

In addition to this initial description of the need for achievement theorists have also identified other characteristics associated with the achievement motive. Taylor (1985) identified five personality characteristics associated with need for achievement including: (1) high levels of self confidence, (2) the ability to set clear and challenging goals, (3) an understanding of risktaking, (4) a strong internal locus of control, and (5) problem solving ability. Palmer citing French's (1956) empirical work identified the following characteristics of people with high need for achievement: (1) preferring tasks involving some objective risks, (2) working harder at tasks requiring mental manipulation, (3) wanting to operate in a situation which provides a sense of personal achievement, (4) not being heavily influenced by monetary rewards, (5) working better under conditions in which positive concrete feedback is available, and (6) tending to think in terms of long-range perspective.

There are several other conceptualizations in the characteristics of the achievement motive based on empirical or theoretical research. The core concepts described in all the research are very similar, consisting of (1) moderate risk taking, (2) internal locus of control, a feeling that individual efforts have an impact on outcomes similar to Albert Bandura's (1982) concept of self-efficacy, (3) the importance of an intrinsic reward system, (4) mental manipulation in problem solving, and (5) a positive self-image (high self-esteem and perceived capability). While these concepts are the basis for most Psychological theories specifically concerned with entrepreneurship, they can also be used to describe persons who enjoy and are stimulated by a high degree of autonomy in their work environments. This includes entrepreneurs, but also includes other small business firm managers, executives, professionals, teachers, and leaders in government education and industry.

In his early work, McClelland used a wide variety of subjects in validating his hypotheses. In one of the studies (Brockhaus 1982) McClelland used salesmen (not over the counter), management consultants, fund raisers, and officers in large companies as well as business owners. These occupations do not fit a strict definition of entrepreneur, but they do have at least one characteristic in common: they all experience a relatively large degree of autonomy in their work. It is not surprising, therefore, to find that the "entrepreneurs" he identified and used a subjects did indeed have high need for achievement according to his own definition.

METHOD

Subjects

The subjects were selected based on the amount of perceived autonomy they experienced on the job. Subjects were divided into two groups based on their occupational autonomy as assessed by a group of independent judges. The autonomous group consisted of 11 subjects in occupations including doctors, lawyers, other professional people, small business owners and managers, college professors, and entrepreneurs. The nonautonomous groups consisted of 11 blue collar workers in government and industry. Several of the nonautonomous subjects were college students working their way through school. The use of these students may artificially raise the group mean due to the fact that they perceive their situation as temporary (while they are in school) and may actually be planning on a career which will afford them more autonomy.

Instrument.

The Ray-Lynn "AO" Scale developed by John J. Ray (1980) was used as a measure of achievement motivation. The scale was developed and validated in Australia and the United Kingdom and has better criterion validity than most other objective measures with correlations ranging from .17 to .58 on different criteria directly related to the achievement motive, and .36 on criteria combining a variety of indicators. The scale consisted of 29 items and was modified to fit a six point Likert type scale. Two items were dropped because they were deemed culturally irrelevant to the sample used in this study. The scoring of the instrument consisted of a simple summation with several of the items being reversed to account for the reverse polarity of the particular item.

RESULTS

The mean of the autonomous group was 127.73 and the mean of the nonautonomous group was 108.73. There was a significant difference between the two groups ($t=3.249$, $p<.005$).

DISCUSSION

There has been relatively little empirical research on the relationship between achievement and autonomy as they relate to small business and entrepreneurship. Most references in the literature dealing with autonomy have been theoretical in nature (Hornaday 1982) or peripheral to the central topic of independence. No research has been conducted to describe the relationship between autonomy and achievement. This paper represents a first empirical step in that direction. It was not intended as a refutation of achievement or of autonomy as useful constructs in the study of entrepreneurship and small business, but as a step toward improving our understanding of autonomous workers in small businesses.

The research cited in the background section indicated that autonomy has long been used in the measurement of entrepreneurship and is related to concepts such as independence, control, and need for affiliation. Entrepreneurs are often depicted as individuals having a relatively low need for succorance and conformity.

Many small businesses consist of positions that provide a great deal of autonomy. By establishing an empirical link between autonomy and achievement we can better understand the motivational requirement of individuals who work in and prefer autonomous work environments and yet may not be entrepreneurs in the traditional sense of starting an organization or being innovative within their existing jobs. In this case we can begin to generalize the attributes of achievement oriented people to individuals who seek and enjoy autonomy in work settings. Motivation for these individuals should include concepts borrowed from achievement theory such as: (1) providing moderate risk taking, (2) providing some control over the situation to maintain feelings of self-efficacy, (3) using intrinsic reward systems, (4) providing opportunities for problem solving through mental as well as physical manipulation, and (5) providing opportunities to build a positive self-image (high self-esteem and perceived capability) through job related growth and learning experiences. Not all these achievement related concepts will be appropriate for a given job. However, in theory, the use of these types of approaches to understanding autonomous workers will increase job related motivation.

Tight control in the design and implementation of the study contributed to the significant findings, even with a relatively small sample size. This research also lends empirical support to past research and folk wisdom in entrepreneurial motivation which implies that a desire for autonomy is a major motivational force for entrepreneurship and small business ownership. This motivation influences both the decision to become an entrepreneur and the reluctance many feel in leaving a career as a small business owner and working for someone else.

Future research in this area is wide open. Several research projects are suggested from the present research. First is an expansion of this methodology to include a larger sample size and other measures of achievement. Second is the correlation of achievement scales with scales of independence and autonomy. Third is the development of an independence scale specifically designed for use in small business and entrepreneurship. Fourth is the investigation of the influence that autonomy has on career decisions, both in beginning a small business venture and in leaving an owner/manager career. Of specific interest is the amount of job related autonomy left at the beginning of an entrepreneurial career and the amount of job related autonomy one moves on to at the conclusion of an entrepreneurial career. Finally is the influence of achievement-related concepts on the management and motivation of autonomous workers.

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THE ENTREPRENEURIAL ECOSYSTEM: TOWARD A THEORY OF NEW BUSINESS FORMATION

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ABSTRACT
This paper proposes a theoretical framework for understanding new business formation. The theoretical framework is an adaptation of an ecosystems model which explains human behavior as a result of the interaction between the individual and his/her environment. The entrepreneurial ecosystem model or framework is then used to explore the relationship of new business formations to the economic environment. Several hypotheses are generated in the exploratory study. The results are promising and further research is indicated.

INTRODUCTION
An ecosystem refers to the complex of organisms and their environment interacting as a unit. Organisms -- human and otherwise -- are affected by their environments. The systematic study of environments is rooted in the biological sciences where the term ecology is most commonly applied to the natural habitats of animals. Human ecology is a more recent term extending to the domain of geographers and sociologists who are interested in the distributions of human populations. The term social ecology has evolved mainly from the efforts of behavioral scientists to direct their inquiries toward a more complete view of man interacting with his physical and social environment (Moos and Insul, 1974).

An ecosystem approach to the study of human behavior posits a framework for viewing the interactions that occur between individuals and their environment.

This research uses an ecosystem framework to gain insight into one dimension of entrepreneurship -- the new business start-up. Specifically, the relationship between the would be entrepreneur and the economic environment will be examined utilizing an ecosystem framework.

The ecosystem framework for viewing the formation or start-up of new businesses contains two dynamic elements: the entrepreneur (or more accurately, the would-be entrepreneur) and the entrepreneurial environment. A discussion of both of these elements follows.

The Entrepreneur
The entrepreneur has been defined variously as a "risk taker" by the nineteenth century British economist J.S. Mill, and as an "innovator" by the early twentieth century economist J.A. Schumpter. The disagreement with respect to the definition of entrepreneur continues in contemporary literature (Long, 1983). In this research we will adopt Brockhaus' (1987) definition of entrepreneur as anyone who starts a business. This definition, while perhaps overly simplified, is congruent with the primary focus of this research to understand the new business start-up phenomenon. The definition also avoids

involving our discussion in another continuing controversy over distinctions between the entrepreneur and the small business owner-operator (Carland, et al., 1984).

The would-be entrepreneur is a complex individual with certain characteristics of education, attitudes toward risk, alertness to opportunities, assets, etc. What triggers the entrepreneurial response in an individual? There is a substantial body of literature that addresses the issue of entrepreneurial characteristics. The reader may wish to consult Solomon (1985) who has undertaken a rather comprehensive review of the literature. In summary, the entrepreneurial decision or response is determined by how individuals with certain characteristics generally act in the face of a given set of circumstances. This "set of circumstances" is what constitutes the entrepreneurial environment.

The Entrepreneurial Environment

The concept of entrepreneurial environment is rich and complex. The would-be entrepreneur, like other individuals do not make decisions in a vacuum. Simon (1954) hypothesizes that "rational behavior is contingent upon the structure of the environment". Entrepreneurs – and especially would-be entrepreneurs – are responsive to opportunities. The structure of the environment in which individuals find themselves impinges directly and indirectly as a complex and significant set of influences. The environment in which the would-be entrepreneur finds himself contains an array of factors which may impede or enhance entrepreneurial vigor (Kirzner, 1973).

One can move away from the entrepreneur and his/her characteristics to focus on the environment in its own right. This examination requires a well-defined notion of environment and a delineation of those attributes that render it conducive to entrepreneurship. A number of researchers have approached this task by identifying a set of factors that constitute the environment for entrepreneurship. Bruno and Tybjee (1982) have summarized many of these factors which constitute the environment for entrepreneurship. The most frequently cited environmental factors are:

Venture capital availability
Presence of experienced entrepreneurs
Technically skilled labor force
Accessibility of suppliers
Accessibility of customers
Favorable governmental policies
Proximity of universities
Availability of land or facilities
Accessibility to transportation
Receptive population
Availability of supporting services
Attractive living conditions

The list of environmental factors identified above reflects the environment as a pool of resources which the entrepreneur selects and acquires to establish the new venture. This view of the environment is associated with Pfeffer and Salancik (1978), and Evan (1976).

The environment is also a set of influences which may negatively or positively impact on entrepreneurial choice (Hannan and Freeman, 1977; Meyer, 1978; Aldrich, 1979). Described another way, the entrepreneur's choices are molded by the market -- or more specifically market conditions. New businesses are typically oriented to local or regional markets. It is reasonable to expect that the decision to start a new business is especially sensitive to local and regional conditions (Chinitz, 1976). Market conditions that influence the new business start-up may either be industry specific factors (micro-environment) or broad economic factors (macro-environment). Industry specific conditions include aspects of the industry that a new business is joining -- e.g., number of competitors, potential market share, maturity of industry. Market conditions affecting new business birth rates may include broad economic factors -- e.g., unemployment rates, financial conditions, business failure rates, consumer spending.

Market conditions may affect the entrepreneurial decision in several ways. Draheim (1972), Susbauer (1972), Gilad and Lavine (1986), and Shapero (1975) utilize the "push" and the "pull" theories of entrepreneurial motivation to explain environmental effects on new business formations. The "push" theory argues that individuals are pushed into entrepreneurship by negative environmental factors such as dissatisfaction with existing employment, loss of employment, etc. These negative events tend to activate latent entrepreneurial talent and push individuals into business activities. The alternative, the "pull" theory postulates that the existence of an attractive environment or situation will "pull" alert individuals into entrepreneurial activity. The "pull" theory suggests that environmental characteristics of an expanding economy induce alert individuals into new business formation.

From our discussion of the entrepreneurial ecosystem above a model for conceptualizing the formation of new businesses emerges. This ecosystem framework is summarized in the figure below.

New Business Formation
An Ecosystem Model

Environmental Characteristics	+	Personal Characteristics	=	Outcome

<u>Resources</u>
Capital
Land
Facilities
Suppliers |
Etc. \|/

The
Would-be ----> New Business
Entrepreneur

<u>Market Influences</u>

Micro- /|\
No. of competitors |
Etc.

Macro-
Economic conditions

Study-Design
The research reported herein focuses on one dimension of the model -- namely, the interrelationship between the entrepreneur and the economic conditions of the environment (the macro-environment). While the greatest body of research on entrepreneurial choice focuses on individual characteristics of the entrepreneur, there is a dearth of research on the environmental characteristics that impact entrepreneurial choice. Consequently, this research investigates the impact of the economic environment on the formation of new businesses. Very little attention has been given to the systematic study of environments and their impact on new business formation. Bruno and Tybjee (1982) conclude that "most of the literature (on entrepreneurial environments) is wisdom-based and observational. This tendency reflects a lack of theoretical perspective and a host of methodological difficulties associated with research in this area. Future research must be guided by more sophisticated theory and by a greatly expanded data base" (pg. 307).

Recognizing this deficiency, this study has posited an ecosystem model for explaining the formation of new businesses. Utilizing this model (or theory), one can logically move to the next step - - the development of appropriate hypotheses. This study is consequently exploratory in design, seeking to generate hypotheses, not test them.

How do changes in the economic environment of would-be entrepreneurs effect the incidence of entrepreneurship? The question is a significant one. It is a question that needs to be answered by those who develop public policy regarding entrepreneurship. At present, a significant amount of attention is being devoted to entrepreneurship as policy makers attempt to renew the sources of innovation and small business formation in the U.S. economy. Similar efforts are ongoing at regional and urban levels. Governmental and private efforts to intervene with support for entrepreneurship need to apply that constructive intervention at appropriate times and in appropriate ways.

Methodology

This study seeks to account for the interactions between economic environmental characteristics and the entrepreneurial decision. Specifically, what elements in the economic environment of the would-be entrepreneur are more likely to trigger the entrepreneurial response? An econometric framework was developed to analyze the probability of entrepreneurship occurring as a function of the economic environment (see McFadden, 1973; Bearse, et.al., 1980). A micro- as opposed to a macro-analysis was selected since the former permits more precision and since the entrepreneurial response is typically triggered by conditions in the local environment Chinitz, 1976). Consequently, the focus of the study was the urban rather than the national economic environment.

A variety of measures were selected to represent the structure of the economic environment in which potential entrepreneurs find themselves. Initially, twenty-four "urban" economic indicators were reviewed for possible inclusion in the study. In order to reduce the number of indicators to a more parsimonious and manageable number, a panel of four judges was engaged to develop a taxonomy by grouping the variables into homogeneous categories or factors. The panel consisted of two economists and two small business professors. A consensus among the panelists was required prior to finalizing the taxonomy and the assignment of variables to categories or factors. Table 1 shows the result of this effort. The taxonomy with the assigned variables includes five categories or factors which are broadly representative of the economic environment. Factor one includes a broad range of construction economic indicators such as number of building permits issued, housing starts, valuation of construction, utility meters connected, telephones connected. Factor two includes those economic indicators associated with general trade such as automobile sales, sales taxes collected, wholesale trade, dollar value of purchases made by the local government entity. Factor three includes those economic indicators related to employment such as total civilian employment, unemployment rate, number of unemployment claims. Factor four includes those economic indicators associated with finance such as prime interest rate, amount of commercial loans, bank deposits. Factor five includes those economic indicators associated with business conditions such as business failure rates (Chapter 11), enplanements, absorption of office space. In conclusion, the taxonomy with the assigned variables provides a conceptual framework for defining a manageable number of economic indicators to reflect the environment.

The dependent variable in this study is the level of entrepreneurial activity for an urban area as measured by business starts. Specifically, the business start-up rate was measured by the number of registrations or filings recorded at the appropriate County Assumed Name office. It was felt that this particular variable was more reflective of entrepreneurial activity than the number of incorporations, since registrations at the Assumed Name Office include all business starts regardless of legal form (e.g. proprietorship, corporation, partnership).

Data for the study were collected from three large metropolitan statistical areas in the Southwestern United States. Monthly data were collected for a ten year period beginning in 1977 and ending in 1986.

A two step analysis was undertaken to examine the relationship of the economic indicators with the incidence of entrepreneurship. First, the independent relationship of each of the twenty-four economic indicators to the incidence of entrepreneurship was undertaken utilizing the Pearson correlation technique. The single economic indicator with the largest correlation coefficient for each factor was selected to represent that particular factor within the economic environment. Consequently, the number of building permits issued was selected to represent construction activity in a particular area. The unemployment rate for a particular area was selected to represent employment conditions. The bankruptcy rate (filings for chapter 11) was selected to represent the business conditions factor. The amount of bank deposits was selected to represent the finance factor. Finally, the amount of city sales tax collected was selected to represent the volume of trade occurring in the area. Second, the relationship of the five representative economic indicators with the level of entrepreneurial activity was examined utilizing multiple regression analysis.

Results

Table 1 presents the Pearson correlation coefficients between the twenty-four economic indicators and the business formation rate for the areas studied. This initial analysis permitted the selection of five representative economic indicators which were utilized in the regression model. Table 2 presents the means, standard deviations, and intercorrelations for the independent variables utilized in the regression model. Table 3 presents the results of the multiple regression analysis. For the model as a whole, the findings lend reasonably strong support to the idea that the economic environment accounts significantly for new business formation. The five independent variables explained 87 percent of the variance in the dependent variable. The number of building permits and the unemployment rate together accounted for fully 52 percent of the variance.

Discussion
The regression analysis performed indicated rather strong relationships between the independent variables -- the various representative economic indicators, and the dependent variable –the number of business starts or entrepreneurial activity. Specifically, the regression analysis indicates the following:

1. Entrepreneurial activity increased with an increase in the number of building permits issued in the metropolitan statistical areas studied.

2. Entrepreneurial activity increased with an increase in the unemployment rate.

3. Entrepreneurial activity increased with a decrease in the number of bankruptcies recorded.

4. Entrepreneurial activity increased with an increase in bank deposits.

5. Entrepreneurial activity increased with an increase in the amount of sales taxes collected.

As indicated previously, this research is classified as exploratory and therefore hypotheses generating. From the results reported, at least several hypotheses emerge:

1. Entrepreneurs are generally opportunity responsive when they initiate new businesses during times of economic prosperity.

The data reported in this research reveal that the strongest predictor of new business formation in the urban areas studied is a growing construction industry -- as characterized by increases in the issuance of building permits. Would-be entrepreneurs apparently recognize opportunities for new ventures in an economic environment that has an expanding construction industry. It might be proposed that, these entrepreneurs are pulled into new business ventures. Economic prosperity is also indicated by increases in the amount of sales taxes collected, and increases in bank deposits. Conversely, increasing business failures indicate poor business conditions and consequently dampen new business formation.

2. Entrepreneurs are generally opportunity creative when they react to adverse economic conditions.

The results of the regression analysis presented above indicates that the unemployment rate has the second strongest relationship to new business formations. It appears that some would-be entrepreneurs seek opportunities for new ventures when pushed into entrepreneurship by unemployment conditions or adverse economic conditions.

Summary and Conclusions
A new wave of attention is being focused on entrepreneurship as policy makers try to reassess and renew the sources of innovation, small business formation and dynamism in

the U.S. economy. Similar concerns are very much in evidence at regional and urban levels.

Many programs designed to foster entrepreneurship may be ineffective if they are not able to understand the underlying variables which condition entrepreneurial choice. The design of policy could be improved by the ability to identify those types of economic environments that influence entrepreneurial choice.

Potential entrepreneurs, like other individuals, do not make decisions in a vacuum. New businesses are usually oriented to local or regional markets. One can logically expect that a decision to bear the risk of entrepreneurship is sensitive to local and regional economic conditions. The study reported herein has utilized an ecosystem approach to explore how some of these economic environmental factors influence the decision to initiate a new business venture. The use of this approach certainly appears promising. It is through an understanding of the relationship between the entrepreneur and his/her environment that a more complete understanding of the entrepreneur can emerge. The research needs to be further expanded and replicated.

TABLE 1
TAXONOMY OF ECONOMIC INDICATORS AND RESULTS OF ASSIGNMENT OF THE ECONOMIC INDICATORS TO FACTORS/CATEGORIES BY JUDGES

(Pearson Correlation Coefficients Between Economic Indicators and Business Formation Rate Are Listed in Parentheses)

1. <u>Construction</u>

A. (.32*)	Total number of building permits
B. (.22)	Total number of residential building permits
C. (.31**)	Total number of commercial building permits
D. (.29**)	Valuation of new construction
E. (.25)	Number of consummated home sales
F. (.25)	Utility meter connected
G. (.30)	Telephones connected

2. Trade

A. (.35*)	Sales taxes collected
B. (.15)	Number of automobile sales
C. (.31*)	Value of wholesale trade
D. (.19)	Dollar value of purchases made by local government

3. Employment Conditions

A. (.14)	Total civilian labor force
B. (.10)	Total employed
C. (.34**)	Total unemployed
D. (.43*)	Unemployment rate
E. (.35**)	Number of unemployment claims

4. Finance

A. (-30*)	Prime interest rate
B. (.35**)	Amount of commercial loans
C. (.40**)	Amount of bank deposits
D. (.20)	Amount of consumer loans

5. Business Conditions

A. (-.34*)	Bankruptcy Rate (Chapter 11)
B. (.20)	Airport Enplanement
C. (.30*)	Absorption of office space
D. (.21*)	Conventions held

* Significant at < .05
** Significant at < .01

TABLE 2
MEANS, STANDARD DEVIATIONS, AND INTERCORRELATIONS FOR INDEPENDENT VARIABLES ***

Variables	Means	Standard Deviations	1	2	3	4
1. Number of Building Permits	1460.76	270.67				
2. Unemployment Rate	6.18	1.23	-.38**			
3. Bankruptcy Rate	11.11	6.02	-.37**	.49*		
4. Amount of Bank Deposits	5,976,350	853,740	.19	-.09	-.08	
5. Sales Tax Collected	4,504	1,795	.13	.06	.15	.23

*** N = 120
** Significant at P < .05
* Significant at P < .01

TABLE 3
RESULTS OF
STEPWISE MULTIPLE REGRESSION OF
BUSINESS STARTS ON REPRESENTATIVE ECONOMIC INDICATORS

Variable	R(2)	R(2) Change	Betas
Number of Building Permits	.32	.32	.40
Unemployment Rate	.52	.20	.21
Bankruptcy Rate	.71	.19	-.20
Amount of Bank Deposits	.82	.11	.98
Sales Tax Collections	.87	.05	.76

Note: R(2) values are cumulative

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ELECTRONIC MARKETING: NEW CHALLENGES FOR SMALL RETAILERS

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INTRODUCTION

The purpose of this paper is to explore the newest method of retailing, electronic marketing, and assess its potential as well as its possible impact on small retail firms. Electronic marketing consists of a variety of methods including in-home, in-store, cable TV, phone, computer techniques and information aids. Two of the electric methods of marketing goods and services predominate. One method is Videotex which makes use of a personal computer in the home or office. The other is television shopping which utilizes the television set and a telephone.

VIDEOTEX

Videotex is an in-home interactive electronic shopping information system. Telephone and cable lines are used to transmit information on goods and services in the form of text and graphics which is displayed on television or computer screens. Videotex permits interaction between information transmitters and subscribers. This method of retailing was pioneered in Great Britain in the early 1970's and led to the development of the British Post Office's Prestel service in 1979. (1) To enable consumers to access the information and place orders, a dedicated terminal was supplied which was hooked up to a television screen. Subsequently videotext services employing dedicated terminals were initiated in some other European countries and in Japan. West Germany's postal and telecommunication administration invested $233 million in its Bildschirmtext videotex network. France spent $280 million on its system. In Japan, the Nippon Telegraph and Telephone Public Corporation organized the Captain Videotex Network. (2) With the exception of Minitel the videotex services offset at least part of the cost of the dedicated terminals by selling or leasing them to consumers. Minitel installed its terminals without cost to the consumer. (3)

Consumer videotex services have been attempted in the United States but without much success. A well-publicized service, Viewtron, was introduced in the Miami, Florida area in 1983, by the Knight-Ridder Newspaper organization. Knight-Ridder invested more than $26 million to research and build the Viewtron system. Subscribers paid membership fees as well as purchasing or leasing the dedicated terminals. (4) In return, Viewtron subscribers could monitor bank accounts, transfer funds, pay bills and shop for goods and services. Gateway, a videotex service similar to Viewtron was established in Los Angeles in 1984. Neither services was able to attract a sufficient number of subscribers to warrant its continuation. Other embryo networks including Keycom in Chicago and Centel Communications also bailed out of the videotex venture.

One major obstacle to the success of the videotex ventures in the United States appears to have been the need of a dedicated terminal by consumers in order to interact with firms which retailed goods and services on a network. The terminal enables consumers to "call up" both text and graphics on a television screen. Since terminals are relatively expensive, networks were forced to require that consumers purchase or lease them. An alternative to the dedicated terminal is the home computer. Consumers owning home computers need only to purchase relatively inexpensive modem to interact with a computer shopping information system. However, the computer, unless modified, can display only text information received from a shopping service. Effective promotion of a seller's goods or services is therefore more limited than with a dedicated terminal. On the other hand, the number of subscribers to text-only services is much greater than the number who were willing to acquire a dedicated terminal. Two information services for computer users. Dow Jones News/Retrieval and Compuserve Inc., have over 150,000 subscribers each, compared to a few thousand videotext subscribers. Thus, a service which could combine text and graphics utilizing home computers might realize the potential hoped for by the pioneer videotex networks.

TELEVISION SHOPPING

In contrast with videotex, television shopping requires only a telephone, credit card and, usually, cable TV service. Whereas videotex networks link retail and service firms with consumers, the television shopping organizations assume the role of middlemen by buying merchandise which they resell to consumers. The typical format employs a "host" who displays and describes the products and services on a network devoted exclusively to home shopping. Viewers phone in orders.

The pioneer of television shopping is the Home Shopping Network which began on television in 1982. Sales were $165.3 million in the second quarter of fiscal 1987. (5) Other major networks include Cable Value Network, QVC Network, and Shop Television Network. Sales forecasts for these networks and other, part-time channels, range from $2-$10 billion for 1987. Even the most conservation forecast represents a substantial increase over the $450 million attained in 1986. (6) Optimism about the future of television shopping has been fueled by the interest shown in the format by some of the largest retail organizations in the U.S. Sears, & Roebuck & Company has joined QVC Network. In contrast to the typical television retailing arrangement, QVC Network serves as an agent, rather than a merchant middleman. Its compensation is received from Sears instead of from the sale of the merchandise. Another major retailer who has entered television shopping is Dayton Hudson. Billed as the first on-air department store, Dayton's home shopping show began on March 30, 1987 in 16 markets. (7) Perhaps most significantly, J.C. Penney has joined the television shopping movement. The importance of the advent of J.C. Penney into the television shopping arena is in its use of advanced technology. A major limitation of television shopping has been the inability of the viewer to select the information to be presented on the screen. A viewer wishing to obtain information on a particular product or service is compelled to watch a particular network or program until the product is shown, if ever. To retain audience interest, "hosts" converse on-air with call-in customers and hold drawings for prizes. Even so, there are indications that viewers are losing their interest in watching the shopping shows for long periods of time. (8) In an attempt to accommodate viewers who are interested in particular types of products, some shopping networks have begun segmenting their offerings. The viewer can then refer to a program guide to determine the time of day or week in which certain categories of products will be featured. Although this represents an improvement over the alternative format it still does not allow the viewer to select the products she wishes to see on demand.

Telaction, a new concept introduced by J.C. Penney is a $40 million wholly owned service which permits the viewer to call up directories of products and, within the directories, particular products. Commands are placed through a regular touch-tone telephone. Telaction is expected to be operable in 29 major markets within two years and 60 markets by 1992. (9) To introduce Telaction, Penney plans to spend $2 million on an advertising campaign, which will include advertising by other retailers on the system, to encourage people to sign up for basic cable television. (10) Other retailers signed up to sell through Telaction include Marshall Field, Spiegel, and Kinney Shoe. (11) It appears that Telaction will combine the strength of the videotex (viewer control of product offerings) with that of television shopping (product demonstrations).

The result may be the most effective alternative to in-store shopping yet developed. Consumers can shop at home at their leisure. There is some evidence that people tend to buy more when they are at home and relaxed. Studies by Retail Planning Associates indicate that consumers who had just eaten a meal were 25 percent more likely to buy clothing than hungry shoppers. (12) John Naisbitt, in his Trend Letter states that any business that presently sells products by mail should consider selling them on television call-in programs. (13)

Even before the development of television shopping, there were prognosticators, such as Rosenberg and Hirschman who foresaw the possible extinction of the retail store in great areas of retailing because of what they termed the "telecommunications revolution." (14) Although this possibility is neither certain nor imminent, it cannot be taken lightly. Television shopping may be most appealing to an attractive segment of the market. In a 1983 study of the potential market for videotex Talarzyk and Wilding found the videotex consumer to be relatively young (25-44) and upscale (higher than average income, job position, and level of education). (15) Two tests conducted in Coral Gables, Florida by View-data in 1980 and 1981 discovered that the profile of the potential videotext audience in that area consisted primarily of adult men living in households where there were two working adults whose combined income was at least $35,000 per year. (16) In 1984, the average subscriber to Compuserve was a 35 year old married male with a $40,000 annual income. (17) A Media Buying Associates survey conducted in the fourth quarter of 1986 showed that the typical at-home teleshopper is more educated and affluent than the average American. (18) Although it may be premature to categorize the young and affluent as the potential market for television shopping, the networks have begun to appeal to a more upscale audience than previously. Bargain basement and distress merchandise, the early staples of television shopping, are being replaced by more expensive goods and services. Home Shopping Network is now selling $3,000 diamond-studded watches and $1,800 Baldwin organs. During eight minutes in early November, 1986, the network took orders for 102 diamond bracelets at $1,875 each. (19) The president of Home Shopping Network believes that U.S. love affair with fast service, convenience and leisure time is leading to a total shop-at-home environment. (20)

IMPLICATIONS FOR SMALL RETAILERS

Electronic marketing has been cited by the American Marketing Association AMA as one of its "Great Marketing" ideas in the "Decade of Marketing". The AMA considers electronic marketing as the use of interactive voice, data and image communications via TV, telephone, and personal computer equipment for the retail marketing of consumer goods and services. Changes in electronic in-home, in-store, cable-TV, phone, and home computer shopping technologies, videotex, video merchandising and video-cassette "infomercials" will all impact on retailing. The convenience of television shopping is likely to be especially appealing to small-town and rural consumers who will be able to select from a variety of products otherwise available only in urban areas and from catalogs. This will further intensify competition for small town business firms. Small retailers in urban communities will also be affected. Large retailers, such as Sears and J.C. Penney will achieve increased household penetration most likely at the expense of small firms.

Not all retail stores will be adversely affected by the advent of television shopping, assuming that it becomes an important channel of distribution. The firms which will be most affected are those whose markets are composed largely of videotex-prone consumers. However, this assumption must be qualified by the types of products which are sold by these firms in competition with the offerings of television retailers. Small retailers which are able to adjust their product offerings accordingly will be among the least vulnerable to competition from the shopping networks. These firms include the following:

1. Firms marketing goods or services for which immediate delivery is vital. Emergency goods or services and highly perishable products would fall into this category. (However, it should be noted that Telaction does offer meat, product, and branded package goods delivered within 48 hours after the order has been placed. The success of this venture has not yet been established.)

2. Firms whose products are subject to price negotiation at the point-of-sale. These goods or services include those which involve a trade-in and those for which price haggling customarily takes place.

3. Firms whose products are customized to the specifications of the consumer. When there are many options from which the consumer must make a choice and which require that the consumer try the items on or try them out, the traditional retail outlet will likely be preferred over television shopping.

4. Firms whose product assortment consists primarily of their own private brands. Membership in a franchise organization is the most probable method by which small retailers can offer private label goods or services.

5. Firms marketing goods or services which require extensive promotion at the point-of-sale.

Some products cannot be effectively sold without a demonstration of the actual products and/or a personal selling effort.

6. Large ticket shoppers often want to touch and see the merchandise the "kick the tires" or "squeeze the tomatoes" syndrome impacts on many products.

7. Firms which stress personal service and prompt exchange of unsatisfactory merchandise.

Adaptation of product assortments, with an emphasis on service, may enable small retailers to more effectively withstand the competition of television shopping. Small retailers should also appraise the ambience of their establishments. In-store shopping can serve as a form of recreation in which consumers leisurely browse and evaluate various offerings. A pleasurable atmosphere in the retail store can appeal to more senses than a television screen. Furthermore, despite the growth and popularity of high tech many people still fear and or mistrust machines. Personalized service and attention to individual customer needs is not likely go out of style.

CONCLUSIONS

Television shopping looms as a possible major form of competition for many small retail firms. Problems with technology which plagued the videotex entrepreneurs have been surmounted in large measure by the television shopping networks, especially Telaction. However, it is unlikely that television shopping will pose an insurmountable problem to many small retail firms. By careful selection of product assortments and by creation of a desirable ambience, many small firms will not only survive but prosper in the new technological age.

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BUSINESS-LEVEL STRATEGIC CHOICE IN THE RETAIL SECTOR: NEGATING AN UNCERTAIN FUTURE

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ABSTRACT
Strategic planners have conducted many studies that relate those factors believed to be responsible for the success of a firm, to some measure of performance. Unfortunately these studies often deal with a surrogate of financial performance or deal with some facet of an organization that does not apply to small businesses. This paper deals with those variables believed to be a factor of success in several types of small businesses in relation to actual financial performance.

INTRODUCTION
It is currently estimated that there are over 11 million business firms of all sizes in the United States, excluding small independent farmers (37, p. 3). Almost 30 percent of these firms are in the retail sector. Ninety-nine percent of these 3.3 million firms are classified as small. Clearly, small businesses are a major factor in the economic base of every community and state in the nation. In spite of these contributions, however, not all of these businesses succeed to fulfill the expectations and dreams of those who began them. Dunn and Bradstreet reports that approximately 85% of all retail businesses fail within 10 years of inception. Further, they report that of all businesses that failed, an astounding 92.2% failed because they bad exhibited either a lack of line experience, unbalanced experience or incompetence. Whatever the genesis of ultimate failure, a lack of sales revenue can be said to result from management's ability to correctly position the firm with respect to the competition within the industry, in short, a lack of effective planning.

While the majority of businesses do in fact fail, almost one-fifth survive to become a thriving entity contributing to the economic base and stability of the community. A question arises as to how does a certain group, albeit a minority, survive and prosper while others fail? Management has the responsibility to achieve the keystone of basic survival, the generation of profits in sufficient quantity to ensure continued operation. The question then becomes one of how a firm can promote and enhance its own continued viability in the market place?

It is clear that in order to promote and enhance its own viability, management must identify those elements of its business that are directly related to profitability (i.e., performance). Currently, the concept of strategies planning is being used expressly for that purpose. Hatten, Schendel and Cooper offer a two-tier definition of strategic management that states briefly: corporate strategy relates the goals and objectives the firm wishes to achieve to the products it is to offer, the markets it will serve, and the environment in which it exists. Business strategy is more focused. It defines how the fire, will deploy its resources in given product/ market area to (1) satisfy the constraints of the corporate level strategy and (2) concurrently exploit the opportunities and avoid the threats emanating from the environment (9, p. 592).

Shollhammer and Kuriloff extend the definition of business level strategic planning and state in part that " ... as an uncomplicated approach to planning that business managers should start with identifying those strategic factors that are hindering their firm from reaching its potential. Every firm has its particular set; in one case it may be customer service, in another the ability to raise short term capital. Once these factors are identified, the next step is to search for ways to overcome these problems" (36, p. 186-189).

The purpose of this study was to empirically investigate the applicability of planning theory to small retail organizations. The objective was to identify significant strategic variables or sets of variables with respect to a measure of performance, in small retail firms, in order to facilitate the development of effective business-level strategies.

Model of the Proposed Relationships

It is the contention of several authors, including Glueck, that in a small firm, the corporate and business strategies are inseparable, and serve the whole business as one integrated unit (31, p. 10).

Consistent with the facts presented by Dunn and Bradstreet, most small firms face a corporate strategy of merely surviving. After the choice of what type business to enter most small businessmen have very little control over the environment in which they operate, but instead are forced to react to external pressures (i.e., social, legal, governmental, technological, etc.). If the goal of the firm is to survive, then exploitation of those variables within the control of the firm becomes the only method by which a competitive advantage may be obtained.

LITERATURE REVIEW

Contingency Theory

In the last few years, the idea of contingency relationships has come into its own as a critical issue of strategic planning. Kast and Rosenzwieg have synthesized a "definition" based on these earlier research efforts of the Woodward (39), Chandler (27) and Gouldner (32). They contend that "the contingency view seeks to understand the interrelationships within and among subsystems as well as between the organization and its environment and to define patterns of relationships or configurations of variables... "Contingency views are ultimately directed toward suggesting organizational designs and managerial practices most appropriate for specific situations." (34, p. ix). Fred Louthans elaborates by stating that if certain environmental conditions exist, then certain management concepts and techniques are more effective than others for goal attainment" (35, p. 29).

Child recognized that "a problem inherent in this type research lies in the fact that industries are not completely homogeneous. Therefore, the type of environment facing a particular company is not necessarily precisely represented by a figure aggregated for the industry as a whole."

This idea of homogeneity is an intuitively obvious argument. Recent works by Hatten and

Schendel (9, p. 592-610), like Child, show that partitioning or pooling the groups increases the explanatory power of models. Charles Hofer has proposed a contingency theory of business that implicitly deals with the homogeneity problem. Concentrating on business level strategies, Hofer states "that the development of a theory of business strategy would require a smaller, less complex set of variables than would the development of a theory of corporate strategy, and equally important, it is believed that over the long run a firm could not achieve success at a corporate level unless it knew how to achieve success at a business level" (11, p. 786). His research attempts to show, consistent with the above statement, to identify the lowest common denominator with respect to strategic variables and their impact on performance. Hofer concludes by stating the importance of "classifying those variables that will significantly influence the content of business strategies and to specify the values of each of these variables which are strategically important."

In summary, a contingency theory is felt to relate to a specific situation and that some organizational designs and managerial practices are more appropriate than others. Some authors have been attempting to narrow the possible alternative situations by using more homogeneous samples upon which to conduct research.

Strategic Planning
Glueck defines strategy as "a unified, comprehensive, and integrated plan designed to assume that the basic objections of the enterprise are achieved" (31, p. 6-9). He defines strategic planning as "that set of decisions and actions which lead to the development of an effective strategy."

The concept of strategy has emerged as central to the field of management. The development of management theory has grown to encompass an expanded concept of "planning." This role has been broadened to encompass not only the traditional functional responsibilities, but now involves decision making that affects the future direction(s) of the firm. In other words, the center of the planning activity has been shifted to the entire organization rather than simply a department or unit.

If we subscribe to the ideas of Hatten, Schendel and Cooper as presented earlier, that strategic planning is composed of corporate strategy, (the product/market choice) and business strategy (competitive posture); and Hofer, that the development of a "small, less complex set of variables could enhance the performance of firms especially at the business level," then clearly, small firm business level strategy requires a study of the "total enterprise." For obvious reasons, this unit of study poses an awesome array of research methodology problems. Kirchoff states that strategic management "is the study of all factors that contribute to organizational effectiveness; effectiveness being the measurement of organizational performance relative to goals, and the environment influences both policy decisions and determinants of effectiveness" (14, P. 35).

Strategic Variables in Selected Small Retail Firms
In order to identify potential "strategic" variables for subsequent analysis with regard to effective strategies of selected small retail firms, a review of past retailing studies was

necessary. They are reviewed briefly in eight categories: Hobby/ Toy/ Crafts; Gifts/ Novelty/ Souvenirs; Books; Jewelry; Food and Food Service; Men's and Boy's Clothing; Women's Clothing; and Shoe Stores.

Milton Grey (1968), past president of the Hobby Industry Association, says that a Hobby/ Toy/Craft store should have four attributes: experienced management with at least fundamental business skills; high volume traffic location; promotion and adequate working capital in order to stock up for the major selling season between August and January. Darden, Miller and Carlson (1981) in a study of sex-role orientation and patronage preferences, found that with respect to toys, that women, especially from higher income groups, are more likely to patronize this type of store.

The price/ value relationship, store specialization, quality of merchandise and services available, are listed as the top four determinants of patronage in a Gift/ Novelty/ Souvenir store by Jolson and Spath (1973). Like Hobby stores, Darden, et al. (1981), found that women were significantly more influential in store choice than were men. In this same vein, Gentry (1980) profiles the typical Gift shop consumer as female, 25 to 50 years of age, and in the upper income groups. He found the typical Novelty/ Souvenir consumer to be female, between 19 and 25 years old, single, and in the lower income groups.

The American Booksellers Association (1978) reports that "There is surprisingly little difference in gross margin between profitable and unprofitable stores. "It is precisely this profit margin (or lack of it) that makes the role of the management so critical. In a market survey for the American Booksellers Association, the accounting firm of Ernst and Ernst (1968) report that the successful criteria for bookselling is (again): sound management, location, customer service and lease/ rental rates.

In the Jewelers Circular Keystone (1977), a trade magazine, it is reported that image in a jewelry store is the most critical issue related to success. Jolson and Spath (1973) find that image is a three-way proposition, that the price/ value relationship, store specialization (i.e., deep assortment, lack of congestion, personal identification, etc.) and quality of the merchandise are the most pertinent aspects of image. Darden, et al. (l98l) also found that the sex of the shopper was inversely related to the type of item purchased, that women were more influential in purchases for men, and vice versa.

Woodside (1973) examined the patronage motives for purchasing products at a particular restaurant location. His purpose was to identify possible changes that could be made in the store marketing strategy. He found that after food quality, location was the primary reason for patronage, followed by advertising (image) and service. Lastly, he found that price perceptions were highly correlated to patronage. The notion of location is consistent with Fauld and Gruenewald's (1981) finding that within the location dimension that accessibility, visibility, proximity to residence or place of work or other frequently visited establishments, along with cleanliness, all contribute significantly to performance. Tigert and Arnold (1981) also found that location, price and courteous service were consistently the most important characteristics of patronage in restaurants.

Darden, Miller and Carlson (1981) in their study of influence on patronage preferences found that women were more influential in the choice for both children's and adult male clothing purchases. Tigert and Arnold (1981) found that when choosing a fashion outlet, the top determinant attributes are: value and assortment, quality, location/ convenience and service. James, Durand and Dreves (1976) have done the most extensive analysis of men's clothing stores. They identified six attributes that had significant impact on whether a consumer would choose one store over another. They were: service, personnel, quality, assortment, price and atmosphere.

Not surprisingly, those factors inherent in patronage choice for men's clothing, are also present in the patronage choice for women's clothing. Again, Tigert and Arnold (1981), give the attributes of preferred fashion outlet as value and assortment, quality, location, convenience and service. Claxton and Ritchie (1979), found that women choose a retail fashion outlet because of the sales staff, merchandise selection and in-store conveniences such as the availability of credit. Credit availability was also shown by Smith (1981) to be a prime factor in patronage in his study of purchases in women's departments of large department stores. Jolson and Spath (1973) however, have done the most extensive work on the factors of patronage specifically with respect to women's apparel shops. They were able to rank order the most important factors of patronage as: price/ value relationships, assortment and variety, quality of the merchandise, service and location.

According to the National Shoe Retailing Association (1977) over 22% of all shoe sales are purchased using credit of some description. The availability of credit as a reason for patronage is consistent with the findings of Claxton and Ritchie (1979). They investigated the consumer purchase decisions and found that in women's shoes, in-store conveniences were second only to the quality of the merchandise as a decision criteria for shopping in a particular store. Phillip Kotler (1973) found that for shoes, variety, in-store promotion, assortment and aesthetics are the most important reasons for shopping in a particular store. Jolson and Spath (1973) reinforce these findings in a study that showed that retailers prime considerations are with variety and assortment, and location. They also found that consumers had the same order of priorities, selection and location. Lastly, Miller and Gentry (1981) found that men and women overwhelmingly preferred and purchased from specialty shoe stores. They felt that a specialty store would be in a better position, and thus more likely to provide the service and quality demanded by the consumer.

In summary, current retailing theory and patronage theory classifies performance in selected retail firms as being a function of several "strategic" variables.

Methodology

Sample- The sample used in this study were those small retail firms located in eleven shopping centers in a large southern metropolitan area of approximately 400,000 persons. These centers house 320 retail firms. Major multi-department retailers such as Sears, Penney's, Rich's and Belks were excluded. The resulting sample consisted primarily of locally owned single-store operations and locally owned multi-store operations. Regional and national chain stores were included to the extent that they were single-product in scope(i.e. franchises).

Variables- The dependent variable in the study was the adjusted sales per square foot. This control was necessary to establish a standard performance effectiveness basis by which to compare firms. Independent variables are listed below in Table 1. In order to try and capture and measure potential "strategic" variables for effective retailing as suggested from the literature review, multiple measures were employed where possible.

Table 1
Independent Variables

Location: Distance consumer lives from store (miles and minutes); Parking spaces per store; Number of perceived competitors
Traffic: Traffic count
Lease Rates: Base lease or rental rate
Marketing: Advertising dollars (media and in-store); Percent of sales used for advertising; Contribution to merchants association; Hours open per week
Financial Position: How often financial data received; Change in net assets per year; Number of months operated before showing profit; Total sales; Average paying customers daily; Average sale per customer
Personnel: Number of employees
Consumer: Percent of consumers who shop this store for Service; Convenience; Specialization; Quality; Price/ Value; Credit Availability; Other Consumer
Demographics: Age; Sex; Marital Status; Income
Management: Age of the owner/ manager; Sex; Years of experience; Years of education; Hours per week devoted to business the first year of operation; Hours per week devoted to business presently; Years owned present business
Planning: Number involved in the planning process; Number in the planning that make decisions; Future planning before opening business in months; Number of months ahead planning done presently; Number of trade journal subscriptions; Number of man days planning per month

Data Collection- Data collection was done in three phases. Phase I was a questionnaire guided interview of consumers at each shopping center location that sought responses to the consumer related variables listed in Table1. Questions included were concerned with the consumer demographics, frequency of shopping in a particular store(s) and store(s) shopped, and the reasons for shopping at that store(s). Interviews were conducted on each shopping day of the week over a six-week period. Interviews were conducted on Monday the first week, Tuesday the second, and so forth. There were 6,251 responses gathered.

Phase II was a questionnaire given to individual store owners of the manager of each firm in the sample. The questions dealt with the characteristics of the owner/ manager as well as the financial, marketing, operational, competitive and planning aspects of the firm identified in Table 2 as Potential"strategic" variables. There were 139 usable responses received.

Phase III of the data collection was completed by the researchers. Data dealing with traffic flows, square footage and lease or rental rates, was gathered from the highway department and from the respective mall/ center management offices.

Analysis- The analysis used stepwise regression. Inclusion of variables was continued until the adjusted R(2) value began to decline or the ratio of observations to included independent variables reached three to one.

Results

According to the literature, location, marketing, financial soundness, managerial abilities and sex of the consumer were thought to be the most influential variables with respect to performance in Hobby/ Craft/ Novelty stores. Table 2 below shows the results of the analysis.

Table 2
Hobby/ Toy/ Craft Stores

R(2) = .98 F = 175.79** N = 7

Variables in the Equation	F
Ave. Age of Owner	277.33**
Hrs/Wk devoted to business in lst year	88.17**

**Significant at p < .

With a large amount of the variation in the dependent variable explained, the explanatory variables are consistent with what Milton Grey, the past president of the Hobby industry said was the first most important attribute of a store of this type, "Experienced management with at least fundamental business skills."

Gift/ Novelty/ Souvenir stores performance was thought to be most related to service, convenience, quality, price/ value, specialization, management expertise and the sex of the consumer. The results of the regression are given below in Table 3.

Table 3
Gift/ Souvenir/ Novelty

R(2) = .91 F = 19.12** N = 9

Variables in the equation	F
Consumers with incomes 5-1OK/yr	27.22**
Consumers with incomes 20-25K/yr	27.08**
Consumer looking for specific product	16.93**

**significant at P < .01

NOTE: Seven of the nine responses in this sample were of the 'novelty' store variety.

Again a large portion of the variation in the dependent variable is accounted for by factors consistent with predicted variables. First, Gentry said that the shoppers in Novelty/ Souvenir stores were predominantly female, younger, single and in the lower income groups. Secondly, specialization was reported by Jolson and Spath as being of primary importance with respect to performance.

In Book Stores, performance was expected to be related most to location, lease/ rental rates, marketing, service, price, credit and managerial skills. The results are shown below in Table 4.

Table 4
Book Stores

R(2) = .99	P = 199.70**	N = 6

<u>Variables in the equation</u>	p
Parking Spaces per store	205.03*
# involved in decision making process	98.49**

**significant at < .01

A high degree of variation in the dependent variable is accounted for by the independent variables. Those included variables indicate location and managerial expertise, especially planning, is directly related to performance in book stores.

In Jewelry stores, specialization, quality, price/ value, image, and the sex of the consumers are expected to be the prime determinants of performance. The results are shown below in Table 5.

Table 5
Jewelry Stores

R(2) = .80	F = 8.19**	N = 10

<u>Variables in the equation</u>	F
years owned present business	3.47(1)
years experience as manager/ owner	11.53**
% consumers who shop for quality	2.42

**significant at p < .01
(1) significant at < .10

Even though a large proportion of the variance is the dependent variable is accounted for by the model, the variables in the equation, while consistent with the prevailing theory, have signs that indicate the influence to be the opposite of what would be ultimately expected from the literature.

In Food and Food Service, location, traffic count, marketing, service, quality, price, management and image are all expected to affect performance levels. The results are given in Table 6 below.

Table 6
Food and Food Service

$R(2) = .85$	$F = 15.27$**	$N = 12$

Variables in the Equation	F
hrs/ wk devoted to business by manager	13.29**
# involved in decision making	7.50**
planning horizon-months	3.59(1)

**significant at $p < .01$
(1) significant at $p < .10$

NOTE: 11 of the 12 responses were from fast food/ snack type firms.

All of the variables in the equation relate to management's willingness to put in long hours and plan for the future of the business.

In Men's and Boy's Clothing, location, personnel, service, specialization, quality, the consumer and the atmosphere are all expected to impact on performance. The results are given below in Table 7.

Table 7
Men's and Boy's Clothing

$R(2) = .84$	$F = 12.55$**	$N = 14$

Variables in the equation	F
# months planning prior to opening	16.76**
# major days planning/month	17.99**
% consumers shopping for convenience	5.19**
% consumer with income over 25K/ yr	3.75**

With 84% of the variance accounted for by the model and a significant overall equation, critical variables have been identified. Two of the variables center on managements ability to plan, one with location and one with the income levels of consumers. All of the variables are consistent with the expectations expressed in the literature.

In women's clothing, similar to men's and boy's clothing, location, store personnel, service, convenience, specialization, quality, price and the availability of credit are all, expected to impact on performance. The results are shown below in Table 8.

Table 8
Women's Apparel

R(2) = .76	F - 4.45**	N = 18

Variables in the equation	F
sex of owner/ manager	13.64**
% consumers who shop for personal attention	13.52**
Traffic count	10.70**
Hrs devoted to business 1st year	6.97**
% consumers with income 15-20K/ yr	3.69*
% consumers with income 10-15K/ yr	4.05*

**significant at p < .01
* significant at p < .05

Variables in the equation that are "strategic" in women's clothing shops include service, location, personnel and specialization, as predicted. Also consumers in the upper income brackets (expected in specialty stores) and the sex of the Manager/ Owner (again consistent with women specialty shops) also contribute to higher performance.

In Shoe stores, location, marketing, convenience, specialization quality, credit availability, sex of the consumer, atmosphere and the size or number of outlets are expected to be related to performance. The results are shown below in Table 9.

Table 9
Shoe Stores

R(2) = .76	F = 4.45**	N = 18

Variables in the equation	F
% female shoppers	9.5**
% consumers who shop for service	14.6**
% consumer who shop for quality	6.9**
% consumers with income 5-1OK/ yr	4.2**
distance traveled to store in mile	8.4**

**significant at p < .01

The actual variables that enter the equation are consistent with what is expected. Sex of the consumer and customers who shop for quality and service are positively related to performance. Location (distance in miles traveled by the consumer) and lower income groups of consumers were both inversely related to performance.

Discussion
Perhaps the overriding question of this research was whether or not the identification of variables, or sets of variables, that influence performance can, in fact, be accomplished in order to facilitate planning in small retail firms. The research results lead to the

conclusion that a significant portion of the sales performance can be attributed to certain variables that are controllable by management.

Space prohibits a discussion of all eight categories but shoe stores and Jewelry stores offer two of the most interesting profiles in this research. Female shoppers, as expected, exert the most influence on store patronage for shoes. The primary enticements come in the form of services offered by the individual store and the quality (perceived or otherwise) of the merchandise. Location is a prime influence as the shorter the distance traveled to a store (i.e., the more dense the trade area), the higher are sales in shoe stores. Lastly, shoe stores, at least in shopping center locations, do not appeal to lower income groups.

Jewelry stores are the only group in the study that offers results contrary to that proposed in the literature. While the statistical significance of the predictors are themselves suspect, the equation is significant and explained variance is high (R(2) = .80). The first and second predictors were concerned with the experience of the manager/ owner and years the he/ she owned the business. The final predictor was the number of consumers that shopped for quality. Each of these predictors however were inversely related to performance. According to the literature, the perception of quality is a prime factor in the consumers patronage choices. Given the cost of jewelry, price may in fact be the prime consideration, with the lower cost being paramount in the minds of the consumer. It is evident also that the experience of the manager/ owner does not necessarily have to have been years in the making. A skill in marketing merchandising and/ or the projection of a youthful image may be more of an advantage than the ability to repair watches or create jewelry. Half of the sample were well established older firms while the other half were less than five years old and in the researchers opinion, were of the high-volume variety. It is conceivable that a shift in the strategic emphasis of jewelry stores from highquality-high profit-low volume to lower-quality-lower profit- high volume is beginning to occur.

CONCLUSIONS

A review of the analysis has given rise to two primary issues. First, the regression models suggest that a universal formula for "success" in "small" firms does not exist. The homogeneous grouping among like firms clearly establishes the differences between each group. The more finely partitioned the managerial versus environmental variables, the better able contingency management will be able to handle any situation. This idea was applied to small retail firms, not on a management versus environment criteria, but just with the firms in order to isolate those forces that most affect sales. By virtue of the fact that manager/ owner characteristics most affect Hobby/ Toys/ Craft Stores versus Gift/ Novelty/ Souvenir which are most affected by the consumer characteristics, points up the need for small firm owners to be acutely aware of exactly those criteria that affect success.

Lastly, one should note the relative simplicity of the predictions of performance in small firms relative to larger ones. This is important because strategic planning is not done in small firms by an elite group of top level management. Frequently the small firms management is the same at the top and bottom. Additionally, small retail firms often do not have to contend with all of the functional areas that are present in large firms. Subsequently, the key to success might hinge on the exploitation of one functional area over another. By comparison to large firms, it appears that small firm strategic planning should be concerned with (1) a simple uncomplicated approach to planning; (2) a functional integration of controllable variables rather than trying to affect long-term, non-controllable variables; and (3) planning primarily for the short term in order to maintain as close a "touch" as possible on the pulse of the consumer in order to change the direction of the firm when necessary.

From a practical standpoint, this research has made several statements. First, all small firms are not alike. A success formula for one firm will not automatically work for another firm-type. Secondly, it was also evident that even within the same classification of firms, diversities exist. It may be that further refinement of a particular firm type may disclose that two firms of the same type have different sets of success characteristics. This would explain, for example, why two service stations of the same national distributor can be successful, even when across the street from each other. Research into smaller firms can no longer be of a "generic" nature. It is imperative that homogeneity of firm-types be a consideration. Lastly, those crucial variables for success are relatively simple contrast to the large manufacturer. The research has shown that the identification of two or three critical variables could focus the efforts of the small firm's limited resources to enable that firm to establish competitive advantages that would facilitate viability in the marketplace.

Recommendations for Future Study

The primary limitation of this study concerns the sample sizes. Only one area, apparel was thought to have had adequate observations. Obviously, the larger the sample size, the more confidence one would have in making generalizations to the entire population.

Clearly, the more observations in the sample, the better the results of any such model would be applicable in the general sense. However, this is part and parcel of the critical problem of doing strategic management research. The unit of study, the entire firm, requires detailed information from all functional areas. For many small firms this data may not exist or may not be readily available from large numbers of respondents.

References available upon request.

WHY RESEARCH PLANNING IN SMALL BUSINESSES PRODUCES VARIED RESULTS

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ABSTRACT
Planning should be critical for small businesses. However, references were cited which were contradictory. The confusion appears to rest in two major problems, definitions of what is a small business and very little consistency in definitions of strategic management or strategic planning. A model is presented to formulate a common definition of what consists a small business and recommends some factors for inclusion so that future research can be more informative and productive.

WHY RESEARCH ON STRATEGIC PLANNING IN SMALL BUSINESSES PRODUCES VARIED RESULTS BACKGROUND

Picture a group of owners of small businesses seated at a seminar organized for their benefit. The title of the seminar is "Strategic Planning for Small Businesses." Each of the owners, considering himself progressive, flexible, open-minded, and interested in doing what's best for his business, has come expecting to hear reasons why he or she should consider strategic planning or to garner tips on its implementation.

Then, imagine their disappointment when each of the four scheduled speakers, in his opening remarks, makes one of the following comments:

"(My) most important finding is that the extent of long-range planning was unrelated to company performance, whether assessed by sales growth or return on assets." (7,19)

"(P)lanning firms are more successful. They should serve as models for non-planning firms desiring improved results." (5, 18)

"...the performance of small banks engaging in formal planning is not significantly better than nonformal small bank planners." (8,202)

"(S)trategic planning can help firms to survive and prosper." (9,15)

What's wrong with this picture? To answer this question, one must delve beyond the declaratory statements and into the research which prompted these conclusions. Each of the small business owners present at a seminar similar to the one in the previous scenario would probably be shocked and confused when presented with the many varied and contradictory results of today's research on strategic planning in small businesses. Each owner knows that, particularly in a small business such as his, time is valuable, and strategic planning, if not beneficial, is an unnecessary waste of time. So, the business owners are interested in whether or not this type of planning produces noticeable results in financial performance; i.e. will it help my firm prosper? The results of research, if not consistent, prove of little value to the small, independent business owner. But, the fault may not lie with the results as much as with the assumptions on which the research was based.

THREE BASIC ASSUMPTIONS FOR ALL RESEARCH

All research performed to determine whether strategic planning is beneficial for small businesses is based on three assumptions which the good researcher must define before he even begins to consider the methodology which will be used in his study. They are:

1. what is a small business?
2. what is strategic management?; and
3. what measure of performance indicates whether strategic planning is beneficial?

The assumptions take the form of definitions, and these, definitions are, or should be, evaluated and decided upon before any collection of data or performance of tests is begun. This is important since the assumptions should not be redefined in order to conform to the data or to the statistical tests which the researcher wishes to perform.

In order for results to be consistent between studies, these three assumptions/definitions must be consistent, particularly when the subject is small businesses. Research on large corporations has produced the same conclusion regardless of study: Strategic planning is beneficial, even necessary for survival. But, small businesses are not smaller versions of big businesses." (11, 8) Small businesses are not as homogenous as big businesses; they may be operated by one person or many, they may have access to large amounts of funds or access to little, or they may have one product or several. Most are new, or entrepreneurial in nature; witness the large number of small business failures each year. If operated by one person, they often close if that one person dies or becomes unable or unwilling to continue.

Given the differences in small businesses and the differences between small and large businesses, the three basic assumptions/definitions take on added significance.

What is a Small Business?

A survey of Hidalgo County Texas by this author reveals that small business are nearly all family owned and operated; with annual retail sales of less than $1 million employing either only family members or less than 10 employees. If a manufacturing enterprise, less than 50 employees, and in business for either less than two years or in business for over five years. (None surveyed fell within the over 2 but less than 5 category. This can be attributed to the Mexican devaluation of the peso in 1982 followed by the big freeze of 1983 which destroyed most of the citrus in the county.)

A review of the literature finds that most of the studies all used a different definition of small businesses. In the studies examined, the following definitions and populations were used:

1. Under 500 employees. (Henz) (4,29)
2. Annual sales of less than $5 million. (Bracker and Pearson) (1,503)

3. Up to 280 employees in mature industries. (Davig) (2,39)
4. Independent (either privately held, proprietorship, or partnership), sales of at least $100,000 but less than $25 million. (Shuman and Seegar) (11,9)
5. Independently owned and operated businesses in the central Texas region, around Waco. (Sexton and Van Auken) (9,8)
6. Federal-and state chartered commercial banks in South Carolina considered small by industry standards. (Robinson and Pearce) (8,198)
7. Owners attended a small business conference (no further data given). (Moyer) (7,17)
8. Dun and Bradstreet's Million Dollar Survey for Virginia. (Jones) (5,15)

There may have been additional criteria used by the researchers mentioned above, but none was stated in the articles. Notice that many of the definitions used only the number of employees as their major criteria, or only the dollar amount of sales, or only a published source of "small businesses" for a particular region. Notice also that none used the Small Business Administration's definition which varies according to industry, such as:

- under 500 employees for manufacturing firms, or
- less than $7 million average sales per year over a three year period for retailing firms.

Other factors not always considered in these definitions might include the following:

1. The firms' position on their business life cycle.

The positioning of the business on its life cycle would help determine the length of time the business has been in operation and its growth relative to other firms. It would also help to indicate the amount of strategic planning needed and what direction it should take. Since several of the studies used the amount of time spent on strategic planning by owners and top managers, the positioning of the firm on its business life cycle would help the researcher determine whether or not the stage of development was a factor in the results (see Figure 1 for the typical business life cycle).

FIGURE 1
TYPICAL BUSINESS LIFE CYCLE

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        | Phase 1      | Phase 2  | Phase 3     | Phase 4   |
        |              | Rapid    |             |           |
        | Pioneering   | Growth   | Maturity    | Decline   |
Sales   |              |          |             |   _____   |
and     |              |          |             | / \       |
Profits |              |          |      ____/ \|
        |              |          |____/---     |           |
        |              | ____/--- |             |
        |        __/---|          |             |
        |    ____/---  |          |             |           |
        |  __/         |          |             |           |
        | /____________|__________|_____________|___________|
                                  Time
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Source: "In Search for Excellence--The Lesson for Small Business", Sam Advanced Management Journal. (4,33)

2. <u>The years in business</u>.

Since the majority of small businesses fail within the first two years of operation, in any one year, most of the small businesses are new. The owner of a small business in its first year of operation may be more worried about immediate cash flow problems or may simply be adjusting to the environment, and may have little or no time for strategic planning. Sales for the first year are highly unpredictable and strategic planning is difficult to perform if there is no historical information. Therefore, to compare a firm which has been in business for thirty years with one in its first year is like comparing peaches and turnips. The business owner in business for thirty years has not been able to remain in business without at least a minimally acceptable financial return. The business is stable and that owner has more trusted employees with whom he can leave the operations of the business while he is doing his strategic planning. Whereas, the owner of the new business is running at full speed just to arrive at a point where he can slow down.

3. <u>Private or publicly held</u>.

Whether a firm is privately or publicly held determines, in a large measure, its financial resources. A survey of local small business by this author reveals over 90% of small businesses in Hidalgo County Texas are family owned and operated. Publicly held firms have the option to sell stock if additional capital is needed and credit institutions are more likely to lend if the company falls under the regulations imposed by the SEC on all publicly held companies. Source of funds must be considered when a firm is performing strategic planning. If a firm is limited in its ability to borrow or must rely upon the owner(s) for additional contributions or earnings for continued operations, that firm's strategic options are limited. Therefore, the alternatives to be considered are fewer and the time spent in strategic planning is less.

4. Type of Business.

Whether a firm is a retail, service, or manufacturing firm is more important for a small business than for big business. Since a small concern is more likely to rely upon one or few products or services for its success, the business itself is more likely to revolve around these. A large retailing corporation, Macy's for instance, and a large manufacturing corporation such as IBM are similar in many ways, from their functional/divisional separations to their use of corporate planners. But, a small retail operation with one outlet and a hand-work leather manufacturing firm may differ in many respects: personnel and management resources, functional departments (if any), financial resources, or dependency upon suppliers or customers. To compare firms whose entire structure is centered around one operation and this operation varies between firms, is difficult and often better left not done.

5. Number of top management personnel.

Although the exact number may vary, "large" businesses have a lot of top management personnel, many of them highly educated and specialized. A small business may have one person running the organization or a small number of top management personnel. Most likely it will be a "family affair." If one person runs the firm, he may be educated, sophisticated in strategic planning techniques, and able to delegate duties to subordinates, or most likely he may be none of these. He may be a risk taker or not. Comparing firms with one person management will be extremely difficult, but to compare a one person management to a many person management team is harder. If there are many in top management, at least some will be educated, sophisticated, or risk averse, and these characteristics will impact the strategic planning of the firm by making it more stable from year to year. More time can be devoted to the task if there are more people to do it, and more alternatives can be formulated. All of this may have a direct bearing on the amount of time spent on strategic planning and its ultimate success.

Needless to say, there are probably many other factors in small businesses which should be considered before a researcher establishes the definition which he will use in his study. Many of these factors may be considered insignificant if a study on strategic planning in large businesses is planned.

The studies examined used between one and three of the possible seven factors presented here in their determination of a definition of small businesses (see Figure 2 for significant distinguishing factors in small businesses). And even if the same factors were used between studies, the criteria for these factors varied.

Consistency with regard to the definition of a small business would help to make the results of the studies more consistent.

What is Strategic Management?
Strategic management is the process of decision-making and the actions necessary to perform strategic planning. A good generic definition of strategic planning might be: The forming of strategic plans which outline the actions necessary to achieve long term goals (see Figure 3 for the elements of strategic management).

FIGURE 3
SIGNIFICANT DISTINGUISHING FACTORS IN SMALL BUSINESS

```
NUMBER OF              YEARLY                     POSITION ON
EMPLOYEES        \     SALES             /        BUSINESS LIFE CYCLE
                  \      |              /
YEARS              \     A             /          TYPE
IN          ------------ SMALL ----------         OF
BUSINESS           /   BUSINESS        \          BUSINESS
                  /                     \
PRIVATELY OR     /                       \        NUMBER OF
PUBLICLY HELD                                     TOP MANAGEMENT
```

FIGURE 3
ELEMENTS OF STRATEGIC MOVEMENT

```
STRATEGIC
PLANNERS ----
            |
OPERATIONS  |
PLANS    ---|    STRATEGIC         LONG RANGE
            |----- PLANS       ----- GOALS
INVESTMENT  |
PLANS    ---|
            |
COMPETITIVE |
STRATEGIES---
```

The studies examined displayed little consistency in their definitions of strategic management or strategic planning. A sampling of some of the definitions of strategic plans, or the planners themselves, follows:

1. Formal planners versus informal planners. (Bracker and Pearson) (1,507) These planners were divided into subcategories according to four types of plans:

- Structured strategic plans (SSP). Formalized, written, long-range plans.
- Structured operational plans (SOP). Written, short-range operation budgets and plans.
- Intuitive plans (IP). Plans developed on intuition and experience of the owner. They are not written.
- Unstructured plans (UP). No measurable structured planning.

2. Competitive strategic plans. (Davig) (2,39) These plans include four types of competitive strategies:
- Defender strategy. Locate and maintain a secure niche in a relatively stable product or area.
- Prospector strategy. Broad product range, with an interest in being "first" with a product.
- Analyzer strategy. Maintain a stable, limited product line and following the leaders.
- Reactor strategy. Respond only when competitive pressures threaten existence.

3. Working plans versus investment plans. (Fry and Stoner) (3,2) The working plan provides information and guidance for making operational decisions while the investment plan focuses on financial issues.

4. Small scale planners versus large scale planners. (Moyer) (6,12) A small scale planner uses operating plans to improve present operations. A large scale planner rejects self-imposed limitations and pursues new options.

5. Five levels of strategic planning. (Sexton and Van Auken) (9,12) They include:
- SL0 (Strategic Planning Level 0). No knowledge of next year's sales, profitability, or profit implementation plans.
- SL1 (Strategic Planning Level 1). Knowledge only of next's year's sales.
- SL2 (Strategic Planning Level 2). Knowledge of next year's company and industry sales.
- SL3 (Strategic Planning Level 3). Knowledge of company and industry sales and anticipated profit.
- SL4 (Strategic Planning Level 4). All of the above plus profit implementation plans.

Notice that some of the studies used one year as their strategic planning horizon while others used a longer period of time. Some differentiated between types of strategic plans or used a specific area of strategic planning. A common feature in many of the studies was a question regarding whether the plans were formal or informal (written versus unwritten).

One study produced no definite conclusions regarding the amount of time spent in strategic planning, but gave specific characteristics of planners, such as:

* Planners generally view the environment as more restrictive.
* Planners view the environment as less threatening.
* Planners are more likely to engage in group discussions.
* Planners are older and more educated.
* Planners use more techniques to search for opportunities. (5,15)

Aside from the obvious, that strategic planning is "planning", the researchers did not agree on a definition for this assumption.

Consistency with regard to what is being measured is a definite requirement for producing consistent results between studies.

FIGURE 4
SIMPLE FORM,
LEAN STAFF PERFORMANCE MATRIX

```
                  100 ---------------------------------------------
                      | LESS THAN       |        GOOD      |
SALES                 | STANDARD        |                  |
PER                   |---------------- |----------------- |
EMPLOYEE              |      POOR       |  LESS THAN       |
(THOUSANDS)         60|                 |  STANDARD        |
                      |_________________|__________________|
                      0                   10 20

                      RETURN ON FIXED ASSETS, %
```

Source: "In Search of Excellence--The Lesson for Small Businesses", SAM Advanced Management Journal. (4,33)

Performance Measures
Most of the studies reviewed used a different performance measure to determine if their definition of strategic planning was beneficial to the financial performance of their uniquely defined "small business". Among the performance measures were:

1. Revenue growth (Orpen) (7,19)
2. Annual sales (Sexton and Van Auken) (10,24)
3. Sales per employee and return on fixed assets (Henz) (4,35) (see Figure 4 for matrix used)
4. Companies going out of business (Sexton and Van Auken) (9,12)
5. Loan growth (Robinson and Pearce) (8,200)
6. Return on equity (Robinson and Pearce) (8,200)
7. Profit margin (Robinson and Pearce) (8,200)
8. Entrepreneurial compensation growth (Bracker and Pearson) (1,510)
9. Labor expense/revenue ratio growth (Bracker and Pearson) (1,510)

Although there is enormous flexibility in performance measures which may be used, a certain consistency between studies should be encouraged. The use of different standards allows the measurement of many areas of performance, but the use of only one or two performance measures which have not been used in other studies may hide important information. As an example:

Firm A believes that it is not performing as well as it could be. They hire a large staff of strategic planners who spend all of their time planning, and as a result, the sales of the firm triples in three years. If revenue growth, annual sales, sales per employee, or entrepreneurial compensation growth is used as the performance measure, this firm is doing extremely well. The amount of time spent in strategic planning is highly correlated with the financial performance. But, this may not be the actual case. The strategic planners may cost the firm so much in wages that the profit margin, the return on assets and equity, and the loan growth all indicate that the firm is actually performing worse than before the planners were hired. If a consistent correlation is to be found between strategic planning and financial performance, at least some of the same measures of performance must be used. Different measures may be used, but they must reflect similar, comparable statistics.

Other Factors Affecting Results

Besides the three basic assumptions, stated in the introduction above, there are other factors that should be mentioned which affect the results of the various studies. Granted, these factors affect the results of all types of research regardless of topic. But, they are not insignificant enough to ignore.

1. Methods of data collection.

Examples of different methods used include:

- Questionnaires. (1,509) Questionnaires fusing questions designed to imply particular characteristics of planners or the amount of time spent on strategic planning.
- Self reporting. (2,40) A description by the owner of a small business of his various duties and the amount of time spent on each was collected.
- Estimate of time spent on strategic management performed by independent judges. (7,18) Owners were asked to keep a diary and from this, judges estimated which duties of the owner constituted strategic planning.
- Interviews. (9,8) Interviews were held with owners over a two year period.
- Self ranking. (5,15) Owners were asked to rate themselves on Likert type scales.

2. Accuracy of performance measures. If the company is publicly held, measures of performance are available through published sources. But, as in most cases, if the company is privately held, the reliability of this data may be questioned due to the natural inclination of people to distort data so that it appears more favorable.

These factors are difficult to control and should be assumed to exist in all studies. The point to be made is that the reader should always approach a study with a healthy degree of skepticism.

CONCLUSION/RECOMMENDATION

To be used by our small business owners at our hypothetical seminar, the results of studies on the benefit of strategic planning to small businesses should be consistent. This means that researchers must approach the subject in a manner which a small business owner would understand rather than in a manner which awards the researcher critical acclaim for his originality or his unique approach. If research is actually performed to benefit the small business owner, in planning, then researchers should follow at least three general guidelines:

1. Define "small businesses" consistently. Due to the uniqueness of small businesses, number of employees and upper and lower limits on sales should be constrained to a much smaller range. Additionally, care should be exercised that the firms chosen for study are comparable in the following areas:

a. Years in business;
b. Privately or publicly held;
c. Type of business; and
d. Number of top management personnel (specify whether top management personnel are predominately family members who own the majority of the company).

2. Define strategic planning consistently. A consistent definition of strategic planning should be used both within studies and between studies. This is an area where, in order to make his research more acceptable, the researcher must make an attempt to conform to previous studies rather than to set out on his own. There may be a temptation to fit the definition to the data, but this should be avoided. A review of literature, necessary for most studies, should give the researcher a plausible definition of strategic planning.

3. Use at least some performance measures which have been used before. This is not to say that all performance measures should be consistent from study to study, but that certain measures are more "telling", let alone comparable, than other measures.

One method of ensuring comparable, maybe consistent, results is for one researcher to use the same assumptions as a previous researcher, perhaps varying his population.

Without a measure of consistency in the results of studies, they are useless to small business owners. The theory looks nice but there is no proof that strategic planning actually improves the financial performance of a small business. Intuitively, it sounds as if it should, but without adequate research to support it, the idea remains a theory.

Since one set of assumptions do not conveniently fit all small businesses, further research should be constrained within one of the following two sets of assumptions:

Assumption Set I
1. Sales from 0 to $1 million.
2. Less than 50 employees.
3. In business for more than one year.
4. Privately held.
5. An even mix of retailing, manufacturing, and service firms. (Specialized research may be in any one area.)
6. Top management personnel are predominately family members who own the majority of the company.

Assumption Set II
1. Sales from $1 million to $10 million.
2. From 50 to 400 employees.

3. Privately held.
4. In business for more than one year.
5. An even mix of retailing, manufacturing, and service firms.
6. Top management personnel are predominately family members who own the majority of the company.

Once sufficient research has been performed within the constraints of one of the two assumption sets, further research can vary one of the assumptions within a particular set. This will enable the researcher to then compare the results of his study to an established group of results from previous studies.

All studies should use a definition of strategic planning which will not vary between firms or studies. It is recommended that the following definition be used:

Strategic plans are those written, formalized plans for activities to be performed by the company which are directly related to goals not anticipated to be achieved within the next two years.

All studies should include as many performance measures as the researcher deems necessary, but must include at least one measure from each of the following two categories:

1. Performance measures:
- revenue growth Labor Expense/Revenue Growth
- sales growth per employee
- annual sales

2. Income measures:
- return on assets Profit Margin Leverage
- return on equity (Loan Growth)

As stated previously, after sufficient research has been performed using these assumptions, some may be dropped or added. The use of these recommendations will alleviate the problem of inconsistent results due to inconsistent assumptions.

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USE OF EXPERT SYSTEM TECHNIQUES TO COUNSEL: PAYOFFS, PITFALLS, AND POTENTIAL DEVELOPMENT PATHS

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ABSTRACT

The national officers of SBIDA recently appointed a task force to develop the prototype of a computer-based system to provide information to small businesses. Can such a system ultimately be upgraded to provide on-line expert counsel to business owners? This article evaluates the feasibility of using expert systems computer software to aid in the Small Business Institute counseling process.

INTRODUCTION

Expert systems software applications are a spin-off from ongoing research in the field of artificial intelligence. Some argue they have strong potential for reducing training cost, maintaining expert knowledge, improving productivity and improving the quality of decisions. (5, p.78) Others note that the recent focus on expert systems has been regarded as the major conceptual breakthrough in artificial intelligence in the past several years. (6, p.5) Businessmen see the potential payoffs. The typical first reaction of many pragmatic executives, which might have been "...that it sounded like something out of 'Star Wars,'" has been superseded by major investment in the development of expert system applications. (7, p.8)

Can expert systems be used to provide wise counsel to budding entrepreneurs and, for that matter, to students seeking to help these entrepreneurs? Should they be used? If so, how? This article first defines what expert systems are. Next it reviews twelve potential payoffs and fifteen pitfalls of expert systems in the SBI context. Seven elements of a good system are then described. The article concludes with a discussion of the implementation steps that would be necessary to create useful expert systems to support SBI programs and evaluates what development path makes sense. The concluding discussion specifies eight provisos necessary for a successful development path.

DEFINITION OF AN EXPERT SYSTEM

A good definition of what an expert system is has been provided by Edward Feigenbaum: ... an intelligent computer program that uses knowledge and inference procedures to solve problems that are difficult enough to require significant human expertise for their solution. Knowledge necessary to perform at such a level, plus the inference procedures used, can be thought of as a model of the expertise of the best practitioners of the field.

The knowledge of an expert system consists of facts and heuristics. The "facts" constitute a body of information that is widely shared, publicly available, and generally agreed upon by experts in a field. The "heuristics" are mostly private, little-discussed rules of good judgment (rules of plausible reasoning, rules of good guessing) that characterize expert-level decision making in the field. The performance level of an expert system is primarily a function of the size and the quality of a knowledge base it possesses. (6, p.5)

In short, the expert system employs both situational data and expert opinion to solve problems. The goal of an expert system is to document the experience of experts--to use their accumulated knowledge about how to handle difficult situations to provide "on-line" advice to others. For example, in the case of new business start-ups in a particular from successful entrepreneurs and other industry experts, and is incorporated into the computer program, the software could be used by beginners to evaluate start-up ideas. Given the high failure rate among start-ups, think of the value of developing an expert system that could sort good start-ups from bad, even if it only help entrepreneurs avoid falling in love with the worst of their start-up ideas! Taking the example further, imagine every SBI program having a top-level staff of 15 to 20 automated experts who are always available to answer questions and give advice about specialized problems the entrepreneurs and the student teams face! Consider how much the client and the students could learn by following the logic, step by step, of a truly expert system. These are the type of visions that have caused many to devote significant amounts of time and money to expert system development.

Figure 1depicts the elements of an expert system. Decision rules, facts, and data are collected from experts, reference works and primary research. This information makes up the knowledge base. Symbolic programming is used to link the knowledge base to an inference engine or reasoning mechanism which selects the most appropriate rule to meet system goals given the facts. The search for a solution is made more efficient by queries to the user concerning the specific situation. It is critical that the user and the computer understand each other. Considerable attention is thus given to the interface between the two.. The developer of the system is called a knowledge engineer. This individual is responsible for interviewing the experts, collecting other information, compiling the knowledge base, developing the inference engine, developing the natural language interface, testing and validating the system with the experts, and implementing the system. Truly an enormous job which is made easier in many instances by the use of an expert system shell. A shell normally consists of an inference engine, an empty knowledge base, a knowledge engineering development facility, a front end natural language interface for users and a workspace to keep track of how a problem is viewed by the system. (9, p.41)(3, p.175) Expert systems and system shells were once the exclusive province of mainframes, but several sophisticated shells are now available which run on IBM-PC ATs and compatibles.

Expert systems may remind one of decision support software like a spreadsheet or decision matrix, but there are differences. Jared and William Taylor point out, "expert systems solve similar problems that follow predictable rules .... In contrast, (decision support software) systems are used for solving problems that are not similar. They don't replace the expert; they merely help him do his job better." (10, p.311) Decision support systems do not..."set goals, think up alternatives, assign weights, or evaluate criteria. You have to do that... the numbers are a model of the real world, and if the model disagrees with the real world, the real world wins." (10, P.320). The promise of expert systems is that they can have such expertise built into them so that the novice user can employ a better model of the real world. However, "like human experts, these systems do not excel on tasks that are poorly defined. Nor do they work well when outcomes cannot be evaluated." (6, p.198)

POTENTIAL PAYOFFS

Advocates of expert systems stress twelve payoffs from the implementation of a good expert system which seem applicable to the use of expert systems for SBI counseling. The underlying theme of these claimed payoffs is that success in the business world depends heavily on the use of human expertise to produce goods and services. Expert systems can economically document this expertise in a way that facilitates transfer to business owners, their employees and student teams. Specific payoffs are:

1. Permanency- Experts may not be available to provide advice and training on a reliable and continuing basis, but an expert system, once created with expert input, can be.

2. Economical use of scarce expertise- Experts are expensive, but once their ideas are incorporated in an expert system, the cost of the knowledge can be spread among many users.

3. Speeds training- Considerable effort may be required to train those involved. Using an expert system can allow a user to make accurate decisions, with less diagnostic time required for issues and problems by SBI directors and other faculty.

Queries made of the system concerning decision rules applied can allow the user to see step-by-step why the experts recommend a particular solution. The system can analyze a student's weak areas and adjust the instruction accordingly.

4. Expands the usable body of knowledge-The expert system doesn't forget. It does not have to relearn solutions already discovered by -other experts in other parts of the country. The wheel is not recreated.

5. The expert system is consistent- It does not fall in love with new prod ct ideas. Expert systems are not affected by such enthusiasms. They rationally query for adequate data to support decisions. They can force the user to be consistent in the weighing of alternatives. Expert systems do not display biased judgments, nor do they jump to conclusions and then seek to maintain those conclusions in the face of disconfirming evidence. They do not have 'bad days'; they always attend to details, and they always systematically consider all of the possible alternatives."(6, p.7)

6. Expert systems can identify gaps-During development experts can formally study and document needed data. They can find where they lack information. They can find references or define other means to collect the information required to solve the problem. During use the system can identify gaps and make queries of users. Oftentimes users may not know the answers and have to search for specific missing information to satisfy the expert system's need to know.

7. Developing the expert system clarifies methods currently being used- Experts are writing down what they do. The expert's thinking process is explored. Decision logic can be studied and documented. Faulty decision rules can be identified. The experts can develop improved, standardized decision rules. Critical variables that allow the expert to make decisions very quickly can be identified. The experts actually become more expert by being involved in system development. This can be exciting. "These systems will help experts define problems and determine what knowledge is available to solve problems in ways they have never considered before." (6,P.2)

8. Building the expert system is synergistic- Knowledge captured in an expert sys from one expert is added to knowledge of other experts thus compounding the value of the stored knowledge. Decisions simultaneously draw on the combined knowledge of multiple experts.

9. Has high return on investment Expert systems tend to have the highest return on investment in complex task environments where the user has limited learning time.(Both circumstances apply to the small business owner)

10. Quick thinking- Expert systems provide an effective tool for quickly assimilating large volumes of data into meaningful patterns of information and applying reasoning techniques to quickly arrive at the most likely solution to a problem.

11. Algorithms vs. Heuristics- Some 'problems like scheduling manufacturing cannot be adequately dealt with using mathematical algorithms. There is no way to solve some mathematically. But many such problems can be dealt with in an intelligent way. Expert system heuristics offer solutions when a mathematical solution cannot be found.

12. Expert systems allow experts to be experts- "As expert systems are built, experts will be freed to focus on the more difficult aspects of their specialty. This, in turn, will result in solutions to new problems, and the range of problems that experts can solve will widen." (6, P.2)

PITFALLS

Developing an expert system for use by SBIs across the nation would require the same level of dedication of resources expert time, money, and coordinative effort) as does the development, installation, and implementation of a major multi-user management information system. The potential pitfalls are the same. Plus expert systems have a few special pitfalls of their own. Some of the pitfalls that must be considered are:

1. Newness- "The technology is new and just beginning to be applied to tough commercial problems." (6, p.7)

2. Narrow scope of proven systems- Today's knowledge systems are confined to well-circumscribed tasks. They are not able to reason broadly over a field of expertise. They cannot reason from axioms or general theories.”... "They lack common sense, they cannot reason by analogy, and their performance deteriorates rapidly when problems extend beyond the narrow task they were designed .to perform." (6, p.7)

3. A lot of teaching is required up front- "They do not learn and, thus they are limited to using the specific facts and heuristics that they were "taught" by a human expert." (6, p.7)

4. Continuing maintenance is necessary-Expert systems fail without continuing system administration. They incorporate a large volume of information which can rapidly become obsolete. The rules themselves may have to be updated as new information is collected. For example, the problem environment for selection of a sign for a bakery may change completely if a new competitor opens a store on the opposite side of the street. The broader the rule, the more strategic it is, the more sensitive it is to environmental changes.

5. Conflicts among experts-There may be conflicts among experts concerning the right approach given a fact situation.

6. Risk assessment is a personal thing-If the expert system goes beyond relative risk statements to provide dos and don'ts, it may make recommendations contrary to the entrepreneur's risk preference.

7. No guarantees- Even an expert cannot guarantee optimum or even correct results.

8. System development burden-Many experts must be interviewed by qualified individuals with strong communication skills (SBIDA members?) Results must be entered into the system properly. The transfer of expert opinion to an expert system is an elusive goal.

The system development process requires skill and patience. The expert(s) must be cooperative and willing to take the time to explain their methods in expert system terms (verbal, step by step, without logical jumps or generalizations) so that interview results can be integrated into the expert system. Interviewers must avoid injecting their own biases and let the experts "own" the system. They must learn the expert's language and gain the expert's trust. For example if SBIDA members were interviewing experts, they will be likely to find that the experts sometimes do things oddly--not by the textbook. Which version will get into the system--the expert's or the textbooks?

9. Bounded rationality-Has the entire universe and all subproblems been mapped out? If not, the best solution may not even be considered.

10. Problem specific expertise- The experts selected may lack genuine expertise vis-à-vis the particular problem. For example, if an expert system was developed to evaluate start-ups in general, the experts may not know enough about a particular area or industry to evaluate start-ups. These start-ups may appear to have good or bad prospects; when, due to unique circumstances, the opposite is true.

11. Remember who the users are- The expert system developer can lose sight of the needs of the final user. An SBI director cannot require the client to learn a whole new vocabulary or to manipulate esoteric analysis tools. In one sense it is helpful if the client's job is made more "difficult" by the system requiring the collection of needed, relevant data. But the system should not make the client's analysis job more difficult by requiring the client to learn an irrelevant procedural language.

12. Trying to solve a whole array of problems with a single expert system’s suggested by pitfall 2 above, expert system modules work best when each module (See figure 1) focuses on a single problem. Linkage of modules is problematic and must be approached cautiously.

13. Solving the right problem-Problems have to have a specific solution that experts can articulate. The real problem may not be completely understood. Presently, for example an expert system could be developed that could evaluate the financial potential for a restaurant start-up in a specific market. The expert system, however cannot teach the new owner how to be a good restaurant owner (cook, personnel manager, etc.).

14. Systems integration,- Many expert system shells cannot be attached to traditional databases. Forethought must be given to desired linkages. The best time to figure out how the expert system will be "imbedded" into existing databases is before serious development work begins. It is far to costly to rebuild existing systems from the ground up. The best approach is to try to add a little intelligence to the system you already have. This is the kind of problem one would face, for example, if the goal was to integrate an expert system into the SBA answer desk concept.

15. Expecting too much return at first-Inflated, media driven expectations of what the technology can do can make system sponsors impatient. Time and money spent in the near term must be .realistically weighed against long term benefits. SBIDA is in a better position than most to address this problem, since the SBIs across the nation are not for-profit and the directors are familiar with the research process. Still the system needs to be cost effective and productive. Development needs to be monitored to insure that progress justifies the resources expended.

SEVEN ELEMENTS OF A GOOD SYSTEM

Given the nature of the problems faced by SBI clients, and the nature of expert, systems, the system that would work best would actually be a collection of problem-specific expert systems or modules. Specifically:

1. Each module of the system should be focused on a single problem. Example: Can a restaurant start-up in a specific neighborhood yield a specific profit goal within a specific time period?

2. A flexible modular approach should be used to permit new categories of information to be added later.

3. The system must "be able to do the things that human experts commonly do. For example, experts consult with others to help solve problems. Thus, most knowledge systems ask questions, explain their reasoning if asked, and justify their conclusions. Moreover, they typically do this in language that the user can easily understand. They allow the user to skip questions, and most can function even when the user provides

incomplete or uncertain data. In other words, knowledge systems interact with a user in pretty much the same way that a human consultant does."(6.p.5) Here lies the great potential strength of an expert system developed by SBIDA members--the large pool of experienced consultants that can develop interesting, useful modules. Developing a good expert system also requires, however, "...understanding human cognitive processes and modeling them on the computer so that the computer can solve the process the same way the human would do."(8, p.12) SBIDA members would likely need some help from experienced knowledge engineers concerning the technical aspects.

4. The system needs to be efficient-It should be intelligent in its search through its database. A control strategy must be selected to guide the search through the database. Rather than just cranking though all alternatives for each problem, it should automatically determine what information is necessary to narrow the search in order to meet the goals set for the system and prompt the user for input data required. This process, known as pattern directed inference, seeks not only to search more efficiently, but to minimize the number of inquiries to the user before a specific recommendation can be made. Again, development requires both practical expertise and technical skill.

5. Expert systems should be focused on tasks that such systems are good at solving. Michael Parks argues that these tasks should be primarily cognitive, that is successful performance should not be based on physical ability or common sense. Parks lists ten good applications for expert systems, three of which fit well with the goals of counseling provided by SBIs: Predicting--- infer probable outcomes from given situations, Instructing--provide problem simulation and decision checking and help individualize instruction by diagnosing learner weaknesses and prescribing remedial lessons, Planning--evaluate possible future actions to determine the most logical series of steps leading to a desired goal. (9, pp.40-41)

6. The user should be able to ask the system why a decision was made and be shown the rule path taken by the inference engine. A good expert system," should be able to explain how a decision was reached, i.e. list the set of relevant knowledge rules in the sequence in which they were 'fired' by the inference engine." (9, p.43)

7. Expert systems should be focused on problems that have the following characteristics in order to maximize benefits relative to developmental costs: a).There should be an extensive knowledge of facts, relationships and rules that are specific to the subject. b). A good solution must require consideration of complex, but definable (even physical) characteristics that can suggest many feasible, nondominate alternatives. 0. The selection process may have to accommodate multiple, possibly conflicting objectives. d). A shortage of experts

(Hard to contact and expensive when available).

Review of the above characteristics of a good expert system, makes it easy to understand why certain applications are on the forefront of expert system development. For example, MYCIN was one of the first successful medical diagnostic systems and led to the development of the EMYCIN expert system shell for use in other similar applications. Coopers and Lybrand created Expertax which was developed by tapping the expertise of dozens of senior partners, and which can dispatch updates quickly and unerringly through hundreds of Coopers and Lybrand offices (according to them). One employee was cited as observing, "the beauty of the system is that you don't have to know taxes to use it." (3, p.173). Alexander Hamilton Life Insurance Co., among others, is developing expert systems to screen simpler insurance applications and may one day automate the underwriting process for such applications. Valley National Bank (Phoenix) is developing a system which evaluates credit worthiness of borrowers and even suggests larger down payments or extended payment terms for marginal risks. (7) Author Anderson has developed the Financial Statement Analyzer for the SEC which is used to analyze and consolidate incoming financial statements. This system accommodates the relatively unstructured nature of financial statements by interpreting incomplete source data and by enabling accounting elements to "find" themselves in the data.(9,P.41) Such systems do not attempt to replace every decision maker in the world. Rather they try to avoid bad judgment in critical areas and free up the time of experts that now spend too much time repeatedly making relatively mundane decisions.

WHAT IMPLEMENTATION STRATEGY MAKES SENSE FOR THE SBI?

So far this article has defined expert systems and analyzed potential payoffs, pitfalls and system characteristics from the point of view of the SBI. Does it make sense to plan to ultimately upgrade SBIDA's plans for a computer-based information system to include modules which provide expert counsel to business owners?

One thing is for sure, there is no practical way for the typical small business owner, or individual considering starting a business, to set up even a simple expert system. Even if their business included highly repetitive tasks amendable to such an approach, the small business owner would not have the staff or the time to develop a system. This would be the case even if one of the better expert system shells were used to expedite the development process.

On the other hand there are a large number of problems faced by SBI clients that are novel to the business owner and student team members, but which actually are routine from the standpoint of the experienced SBI director. In such instances the availability of an expert system module on the subject would provide consistent, expert advice and allow the director to focus on tougher problems. The ones where the expert systems cannot generate solutions and displays on the screen, "Insufficient information, please discuss with SBI director."

Another consideration is that a large number of SBI programs are accumulating expertise concerning specific businesses and market areas. Far more than the individual director could ever hope to master. Electronic bulletin boards, electronic mail, and teleconferencing software are ways to create a forum for client problems. But what happens when an expert is on vacation or retires? Who answers the call for help then? Setting up expert system modules can document and preserve good advice. It is far easier to update the advice to match changing circumstances than to recreate the wheel each time a new client has the same problem. Such a system can be more assessable, dynamic and integrated than pamphlets or published counseling notes.

Certainly the availability of expert systems on-line would make solutions to problems more assessable to clients. In many cases such systems could give them accurate solutions, with the "why" explained, more quickly than SCORE or SBI.

As noted in previous sections, such considerations have caused pragmatic businessmen to invest in the development of expert systems. Vendors offer both system development services and expert system shells for organizations to use to speed system development. But is such an adventure practical for a loosely knit professional association like SBIDA? It is if, and only if, certain vital provisos are met:

1. Initial development efforts should be focused on documenting routine knowledge--not the type normally said to be the knowledge of an expert. Rather, the type that a business owner might look up in a procedures manual--if such a manual were available at an affordable price. Thus initial modules would be knowledge systems rather than expert systems. The modules would be designed to solve a vast array of small, irksome problems that seem to continually crop up. Elaborate problems should be reserved for a future time when participating SBI directors are well familiar with expert system tools, have developed proficiency in systematically gathering and analyzing expert input, and have reached a consensus as to which complex problems warrant a major, coordinated development effort.

2. SBIDA would have to select a standard expert system shell for universal use by all directors developing modules. The final selection from amongst capable shells such as GURU version 1.0, INSIGHT 2+, M.1 version 2.1, or PERSONAL CONSULTANT PLUS, version 2.01 must be based on three criterion: a). Ease of use--The idea that SBI directors can suddenly become expert system programmers will become a reality only if the tools are truly easy to use-. b). Upgradeability--The shell should have features which allow it to tackle more complex SBI problems as they are targeted for study. The technical knowledge gained by participants concerning how to handle simple problems should help them handle tougher problems without having to switch software and learn new procedural languages. If complex problems must be programmed in LISP, for example, the developmental tools used in the shell should employ LISP. If more complex systems must draw data from particular data bases, the menu shell chosen should be able to extract this data. 0. -Accessibility--The shell chosen must run on computers that are readily assessable by SBI directors, and for that matter by other experts, clients and students, at a reasonable price all across the country. It must be kept in mind simultaneous use by several module developers and users is a possibility.

3. Obtaining the right knowledge in a standard format for each problem.

4. Use of value analysis to insure proper prioritization of development of modules and to maintain adequate response time-This involves considerations such as whether immediate response is more important than elegant analysis).

5. Provide adequate explanations and documentation for all system variables. Each module must follow standard conventions so that those unfamiliar with a particular module can still use it immediately. This requirement is facilitated by the use of a standard shell, but complete documentation must be insisted upon to insure efficient use of each module.

6. Pay careful attention to the user interface. The standard selected should be user friendly to novices as well as to SBI directors. Relevant prompts in plain English will facilitate acceptance and encourage clients and students to use the system.

7. Set up intersystem communication (amongst SBIDA members and other experts) concerning modules under development or modules needing updating. Complementing the expert system with remote communication capability and a bulletin board would facilitate the exchange of ideas and speed module development and maintenance.

8. Specifically provide for periodic file maintenance and updating of modules. Changes will occur. A systematic procedure is needed to preserve the value of the system and to avoid decision failures. Responsibility needs to be assigned to specific individuals for such updates.

These provisos are not dissimilar from those recommended for the success of any computerized information system. The traditional arguments apply here. Total involvement of system designers and users in design and implementation phases is highly desirable, clear sets of objectives must be established, system procedures and guidelines must be established, prototypes must be constructed and evaluated, potential users of the system must be trained, and the system must be monitored on an ongoing basis to maintain its integrity and to improve it. Good arguments can be made that providing on-line expert counsel to SBI clients does indeed make sense.

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[Figure 1 omitted]

A PROGRAM TO HELP SMALLER BUSINESSES EXPORT

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ABSTRACT
This paper presents a synthesis of the interview responses of a convenience sample of senior managers of small businesses. Each firm served as a Small Business Institute export case during the period from 1984 through 1987. The interviews were conducted to determine what additional services and programs would assist these smaller businesses as they seek to increase the proportion of their total sales abroad.

INTRODUCTION
This paper is directed to Small Business Institute (SBI) Directors and others associated with universities and colleges who are interested in developing programs to assist smaller businesses export. The paper's findings and recommendations are based on personal interviews with managers of former SBI client firms.

The respondent companies had been assisted by an SBI student team during a semester period between 1984 and 1987. Students participating in the teams were enrolled in an International Marketing course offered in the School of Management at the University of Massachusetts at Amherst. Client firms were selected based on their interest in getting into or expanding their export operations. To date, student teams have worked with over seventy companies in this international area.

<u>Course Format</u>. At the beginning of a semester a student team is assigned to a client firm whose management has identified a new country export market that it is planning or considering to enter. The team undertakes research and develops a two-part consulting report for the client company and the instructor. This project represents the entire course. Part I of the report deals with the development of relevant environmental information about the specific market chosen by the client. This includes economic and cultural analyses as well as distribution systems, business customs and practices. Part II of the report details the elements of a business plan that the client firm should consider when initiating an export marketing program for the new country market. This section of the report builds on the findings of Part I and incorporates these along with marketing program recommendations to the client. Names and addresses of potential users, partners and agents/distributors are provided as well as important contacts in foreign trade groups, government, and industry-directed promotional media.

<u>Rationale of the Study</u>. Region I officials at the Small Business Administration, principals in the Massachusetts Department of Commerce and Development and the Director of the Commonwealth's Small Business Development Center agreed that an expanded international effort directed at smaller businesses in Massachusetts was desirable. To determine the most logical directions of such a program, a personal interview survey was conducted during August, 1987. Respondents represented twenty industrial and consumer manufacturing firms, all of which were former SBI case clients.

The field interviewing served two purposes: (1) to learn of the value and degree of implementation of the previously completed SBI report, and (2) to obtain practical suggestions as to what else small businesses need to do to become more successful exporters. Questioning, therefore, centered around the specific strengths and weaknesses of the student team effort, the extent to which the country market analyzed has been penetrated, other country markets under consideration, the entry option formats most logical to follow and, very importantly, what specifically is needed by the firm to help it become successful in marketing abroad. The responses to this last question form the basis for the program recommendations incorporated in this paper.

For the most part, clients viewed the SBI student team effort reports as very useful. In a few instances, analysis of the market chosen indicated that it was unrealistic for the client to attempt to achieve market entry. Aspects of the reports that proved most helpful entered around what it is like to do business in a particular country. In addition, many clients lauded the reports that included names and addresses to be followed up as contacts or as information resources. The most frequently mentioned report limitation was expressed by client firms that were not provided with specific foreign network contacts and middlemen that represent other small U.S. companies exporting complementary product lines. On the whole, clients were pleased with the quality of the prepared reports, their market information, and the listings of resource persons and organizations that could be probed relative to market trends, conditions, and so forth. The key is that most small businesses do not have the resources, person-power or time to conduct such studies. Being handed a good report provides a "shot in the arm" effort for these small businesses.

EXPORT PROGRAM RECOMMENDATIONS

As indicated above, the major purpose of the personal interviews was to determine the programmatic needs of small businesses interested in increasing their participation in international markets. What follows is a synthesis of the responses of these small business managers when asked what their respective companies needed in the way of technical assistance in the international area. These responses might form the basis of a post-SBI internationallyfocused program. This particular point was mentioned several times by respondents. As indicated above, the student reports had to be completed by a semester-end deadline. This means that some of the content of a finished report suggested a number of follow-up actions by the client. Since most small business managers wear many hats, they do not have the time to take all of the recommended actions (e.g., to develop a creative approach to introduce the company to import agents and distributors at a foreign trade fair). Therefore, if an SBI-type program exists at the institution, it is recommended that a post-SBI follow-up be created to implement and execute the suggestions offered in the student team consulting report. This could take the form, for example, of a semester research assistantship assigned by a Small Business Development Center.

A second recommendation by the interviewees relates to the importance of networking with knowledgeable export professionals who agree to cater in a specific way to smaller businesses. These include bankers, international lawyers, freight forwarders, and specialized export management company managers. International sales managers of medium-size firms should also be included because these are usually doing business in one or more country markets and have contacts in those markets that a small complementary product business should know about. Medium-size business managers should be enlisted as mentors and form a part of the data base of these informed resource experts. For the resource person, being listed and recommended represents an opportunity to market these services. For the small business in need of contacts and other types of information, it has a reservoir of experts to link into. This recommendation could be touted as an International Referencing or Mentor Program.

The interviewees responded that they need to turn to a source that will immediately provide answers to questions or suggestions as to how to resolve a problem. Thus, a third opportunity to aid small business in the international area is an Advocacy effort. This is similar to a "hot line" request of a small business that identifies a specific informational need. For example, does a particular directory exist that lists the company members of a specific trade group in the Federal Republic of Germany? Or, is there a source that will provide one with credit-worthiness information about a particular company in Brazil? The Advocate would respond to similar specific informational requests.

Three additional suggestions that might be included in an international assistance program emerged from the personal interviews. One is the need for a language translation service to assist exporters with packaging, sales brochures, trade show literature and correspondence. Language department faculty and students might be utilized easily if a translation center is not already in place on the campus.

A second opportunity may be referred to as an initial assessment service. A small business needs guidance to determine whether or not it has export potential. Helping that business sift through the information provided by the U.S. Department of Commerce and other sources to identify the most promising country markets is a research service that has substantial potential for small exporting businesses.

Finally, a third program would provide a selective number of seminars and workshops. Topical areas in an educational program should include international finance, business customs (by area), promotional media available in a specific country market or area, competitive intelligence sources and techniques, information sources, documentation, and license and joint-venture negotiations. By necessity, these seminars must be extremely practical and useful, be presented by experienced practitioners, be brief, and be offered at convenient times.

The hope, prior to the appointed interviews with small business managers, was to find out what they believed was necessary to help them expand their product sales abroad. For some, the problem is where to start. For others, the problem is how to be proactive and not simply reactive in the international trade area. And for still others, the problem is which country market to attempt to penetrate next. Regardless of their degree of development, this paper's recommendations are germane to most small businesses that need assistance in the export arena. Some combination of the above suggestions would make for a good beginning for an institution anxious to push its public service role.

DETERMINING NON-NATIVE AMERICAN OWNERS OF SMALL BUSINESS FIRMS: A DATA BASE FOR IMPROVING U.S. EXPORTS

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ABSTRACT
Small business owners are more likely to export if they have information about the foreign markets in which they are selling. Identifying non-native Americans who can provide information to small firms about these markets would be meaningful to exporters. This study investigates how the data about non-native Americans could be obtained. The results note that the concept of name identification has potential but at the present time the data are not available in the desired format without federal, state, and local government assistance.

INTRODUCTION
The U.S. merchandise trade deficit has been skyrocketing in recent years as its share of world exports has steadily dwindled--15.4 percent in 1970 to 11.4 percent in 1985. This loss of world markets is reflected in the fact that at the end of 1986, the balance of trade deficit (the difference between export earnings and import expenditures) had reached a record $149.2 billion, more than two and one-half times the $57.5 billion posted in 1983 (see Figure 1) (8).

Americans imported $365.8 billion in merchandise in 1986, up almost 6 percent from the previous year. Exports rose by 1.6 percent to $216.6 billion. The U.S. ran its largest deficit with Japan, a record $58.6 billion. The next largest deficit was with the 12-nation European Economic Community ($26.4 billion) followed by Canada ($23.3 billion), Taiwan ($13.0 billion), and OPEC ($10.7 billion).

The first trade deficit was posted in 1976. Since that time many groups have been quite vocal about narrowing the deficit. Shrinking the huge trade imbalance may be delayed, but it cannot be avoided. The longer the imbalances persist, the more potentially disruptive the adjustment process may be.

Three initiatives are often suggested as ways to correct the fundamental causes of the trade deficit:

1. Formulate U.S. government policies to accommodate an orderly decline of the dollar. Major industrial trading partners of the U.S. are being asked to coordinate closely their macroeconomic policies with those of the U.S. to prevent disorderly movements in currency exchange rates. In addition, the U.S. has (a) pushed for multilateral trade negotiations to improve the international trade environment and (b) negotiated bilateral trade arrangements to deter economic instability and preserve basic equity in trading relationships.
2. Enact legislation to establish import quotas and to protect American businesses.

3. Advance business firms to (a) increase and enhance export activities and (b) expand overseas markets for U.S. products.

FIGURE 1
FOREIGN TRADE OF THE UNITED STATES:
VALUE OF EXPORTS (EXCLUDING DEPARTMENT OF DEFENSE SHIPMENTS) AND IMPORTS-1970 TO 1986
(MILLIONS OFDOLLARS)

Year	Exports	Imports
1970	43,224.0	39,951.6
1971	44,192.9	45,562.7
1972	49,758.5	55,582.8
1973	71,338.8	69,475.7
1974	98,507.2	100,251.0
1975	108,050.4	96,569.7
1976	115,339.9	121,008.6
1977	121,212.3	147,685.0
1978	143,766.2	171,978.0
1979	182,024.7	206,255.8
1980	220,786.3	240,834.3
1981	233,739.1	261,304.9
1982	212,274.6	243,951.9
1983	200,537.7	258,047.8
1984	217,888.1	325,725.7
1985	213,146.1	345,275.5
1986	216,629.1	365,819.9

Source: U.S. Department of Commerce, Bureau of the Census

Sustained trade imbalances ultimately cause significant adjustment problems for both surplus and deficit countries, such imbalances generate countering political and economic forces that pose serious global trading risks. For example, protectionist actions could easily lead to trade wars that impair and jeopardize free trade. Because continuing large trade deficits in manufacturing cannot be offset by surpluses in other goods and services trade accounts, the U.S. must, over the longer term, export about the same value of manufactured goods as it imports to achieve a sustainable current account position (9).

A viable approach to follow for maximizing world trade is to develop new worldwide markets for American businesses and to dramatically change the prevailing attitude that makes American managers reluctant to export. The importance of exporting is essential not only for reducing the trade deficit, but also for the creation of new jobs. The Commerce Department estimates that for each $1 billion increase in exports, as many as

32,000 new jobs could be gained in the economy. On a macro basis, approximately 4.68 million jobs in the U.S. were related to merchandise exports in 1983.

THE EXPORT INITIATIVE BY SMALL BUSINESS

Of the nation's 7.4 million businesses, 7.2 million (or 98 percent) have under 100 employees (1). Traditionally, the two percent that are big businesses conduct virtually all of our nation's international trade. The Commerce Department estimates there are only 30,000 U.S. firms now exporting, of which only about 1,000 are responsible for roughly 60 percent of all merchandise exported. Within the U.S. 18,000 firms that are not currently involved in export sales are in a position to sell their products abroad, many of which are considered to be small companies (4).

A study prepared for the Missouri Department of Commerce found that nearly one-third of small businesses have considered exporting. This allergy to exporting was also noted by the Small Business Association of New England which found that more than 75 percent of nonexporting businesses have not bothered to attend even a simple seminar on the benefits of exporting (7).

Several responses surface as to why firms that have the potential to export are not involved. Possibly the key reasons are based on a lack of knowledge about foreign market opportunities (6) and false perceptions and premises to justify opposition to foreign market expansion. Managers generally do not have adequate information available about foreign markets to develop long-term strategic perspectives and a commitment to international business. Referring to the Missouri survey of small businesses not currently exporting, 67 percent had not been contacted by any group or agency trying to interest them in exporting. Providing information is one vital function that the government at both the state and local levels can perform.

Possibly a fear of the unknown is a big factor that restricts a firm from taking steps toward initiating necessary research and planning, conducting selective test marketing, or exploring possible shipping arrangements (5). Overcoming this fear and providing relevant information about doing business in the international arena have been difficult. Several local, state, and federal agencies, however, have taken steps to help small companies lacking internal management resources to implement exporting operations--overseeing distribution, product servicing, freight handling, export financing, licensing, transportation, and advertising (4). Many states, such as Texas, Minnesota, and Missouri, have been promoting exporting to the small business community. Trade missions have been led by states to link up small business owners with overseas buyers. City programs to promote exporting are also expanding. One such program known as the Export Hotline (Port of Los Angeles) allows a city to hook up to a central phone number that businesses can readily call for exporting information. Even with the current level of promotion and help, the mysticism and uneasiness of doing business in foreign markets remain.

A PROPOSED NEW EXPORT INITIATIVE

Informing and convincing small business firms to investigate the potential for overseas trade is an initial step in expanding exports. A second step is to provide the kind of information that is helpful in entering a foreign market after a decision has been made to trade internationally. This paper proposes that a great deal of information about doing business in specific countries that could be useful to small business firms can be obtained from other small U.S. firms that are owned and operated by people who are not native Americans. This group of people would be represented by foreigners working in the U.S. with proper documentation, people with permanent resident visas, and foreign-born people who have gained American citizenship. They could provide insights into the cultural, political, economic, and geographical parameters of doing business in specific foreign markets. Information could be shared on a one-on-one basis, as well as obtained and disseminated by educational institutions, chambers of commerce, or international trade clubs. This group of business people could discuss their insights and knowledge about doing business in their mother countries. They may know (1) how to best approach a particular foreign market, (2) contacts to make before arranging sales calls, and (3) how to best avoid catastrophic problems. A list of local or state-wide, foreign-born business firm owners by countries could provide a ready source of assistance and support on what to expect in a particular country and how to best market products internationally. This type of assistance could help reduce some of the fears and apprehensions of exporting.

DEVELOPMENT OF A DATA BASE

The purpose of this study is to determine the feasibility of obtaining a data base of business firms that are operated by people who are not native Americans. In other words, can the question be answered as to how many firms in a geographic area are operated by people who are German, Swiss, Japanese, Chinese, etc? Currently, these data do not exist. Current reporting methods for determining the number and location of business firms operated by people who do not have an American cultural background do not exist. There are, of course, lists of foreign firms operating in various states, but they do not extend beyond foreign-owned subsidiaries and foreign facilities doing business in those states. This study attempts to determine if information is available so that a data base could be developed of firms operated by people who have a cultural orientation that is traditionally non-native American. The listing of these firms and owners would then become the basis for research studies and assistance to American businesses to obtain insights into the cultural, political, economic, and geographical parameters of doing business in specific foreign markets.

Specifically, the intent of the study is (1) to investigate several optional plans (methodologies) as to how the data could be collected, (2) determine the feasibility and practicality of each plan, and (3) make recommendations as to which approach should be followed in developing the data base. The study does not involve implementing a procedure to collect the data.

METHOD AND SCOPE OF THE STUDY

The study investigates several data collection and reporting agencies at the national, state, and municipal levels. Municipal and state activities are confined to the state of Missouri. It was felt that specific national, state and local agencies could be identified as being the best sources from which to collect the information. Furthermore, the results of the study might identify an individual or specific institution or organization as being the most feasible way in which data should be collected.

The study required an analysis of state and federal laws that would restrict or prohibit the collection of certain kinds of information. The intent was to work with state and federal officials as to the type of data desired and the potential benefits that could ultimately be derived by having a data base where research and knowledge about foreign markets could be obtained.

RESULTS OF RESEARCH

Several levels of information were investigated and collected to determine a way of identifying non-native American owners of small business firms.

National Level

The 1984 County Business Patterns and the Census of Retail Trade were considered but neither provided information in the desired format. The Survey of Minority Owned Business is a useful document but it is highly limited in its current presentation of information. The survey has three major parts: (1) Blacks, women, and American Indians, (2) Asians, and (3) Spanish. The first part has extremely limited value other than for format. The second is useful if the data could be rearranged and specific countries could be obtained. For example, the broad category of Asian is of limited value since the term Asian comprises Asian Indians, Chinese, Japanese, Korean, and other Asians. Clearly, the cultural values between these groups are quite different and the country identification must be maintained. To compound the problem the term "other minorities" comprises Filipinos, Hawaiians, Alaskan natives, and other minorities. To identify Asians a mail canvass is conducted for those businesses identified in the Social Security records as owned by neither Whites nor Blacks. The businesses are then classified as owned by Americans of Chinese, Japanese, Filipino, Hawaiian, Indian, American Indian, or other minority ancestry.

The same is true for the Spanish part of the survey. In order to separately identify firms owned by persons of Spanish ancestry, the surnames of owners or shareholders not classified as Blackowned are matched against a list of Spanish surnames developed at the Census Bureau. These people are then contacted to determine their specific ancestry. The specific ancestral groups identified on the survey form are Mexican, Puerto Rican, Cuban, and other Central or South Americans. Since some Americans of Spanish ancestry have surnames not normally associated with their ancestry, a national sample has to be selected from the universe of all firms to estimate the number of firms owned by Americans of Spanish ancestry.

The Census Bureau has a reporting mechanism that allows for the identification of business ownership by ancestral origin. At the present time it is restricted to the categories of Asian and Spanish groups noted above, but it seems reasonable to assume that it could easily be expanded to include countries in Western and Eastern Europe, the near East, Africa, and various Communist nations. Without question, the summary type of information format reduces the utility of data as desired in this study. Unfortunately, individual names cannot be divulged. This is due to the confidentiality of data since the primary source of information in these reports is obtained from the Internal Revenue Service and the Social Security Administration. Thus, the data made available to the Census Bureau, under provisions of law and regulations, are held confidential and used only for statistical summaries.

The Immigration and Naturalization Service (INS) maintains a record of names, occupations, and addresses of all immigrants. Even for those persons who become citizens, a record is maintained as to their names, addresses, occupations, etc. The INS would seem to be a natural beginning for the collection of the desired data. Unfortunately, discussions with agency officials suggest that collecting the data is not possible and that the INS should not be viewed as a viable source in obtaining such information.

A private listing of foreign firms operating in the U.S. is the Directory of Foreign Firms Operating in the United States (2). The directory is arranged in three parts:

1. By country in which foreign firms are listed alphabetically and the American firm(s) owned by or affiliated with the foreign firms are listed across from them. Addresses, names of CEOs, and products/services are noted where available.

2. An alphabetical listing of all foreign firms in Part One.

3. An alphabetical listing of all American affiliates.

The Directory lists approximately 1,300 foreign business firms in 36 countries which own or have substantially invested in some 2,200 American firms. Although the information could be quite useful there is no way of knowing if the U.S. managers are non-native born Americans. A native American manager working in a foreign firm in the U.S. is not extremely knowledgeable in providing the kind of information sought in this study. For example, the R.T. French company plant in Springfield, Missouri, is owned by a British firm (Reckitt and Coleman, PLC) but the plant manager and staff are native born Americans who have little knowledge of doing business overseas.

Two additional private sources of names of business owners are: (1) National Minority Business Group in Minneapolis, Minnesota, which provides a list of all directors of minority-owned businesses and (2) the Business Research Service of Oak Brook, Illinois, which maintains a national directory of minorities and women. These sources are of limited value relative to the information desired in this study. They do show, however, that specific names of selected groups of business owners can be obtained if support is provided.

State Level

The state of Missouri provides a listing of foreign firms located in Missouri by county. These are firms registered with the Secretary of State as doing business in Missouri. Some of the firms are affiliates or subsidiaries while others are owned (or at least a portion of the stock is owned) by foreign interests. No names are provided in the listing which reduces its utility somewhat; however, addresses, employment levels, SIC numbers, and products manufactured or sold are noted. The listing is a very important beginning, however, it needs to be classified by major cities or MSAs; and with the assistance of the Missouri International Business Office, the names of operating officers along with their nationality or ancestral origins could easily be provided.

Local Level

The license system in municipalities registers business firms and specifies their responsibility to collect and pay sales taxes. The current system in Missouri cities, however, does not distinguish owners by national origin. Determining this type of information is not illegal, but rather it is just not collected in that manner. Providing the data through the licensing mechanism would be relatively inexpensive and highly efficient. City officials would have to be encouraged at the state level to collect the information if a data base is to be established.

The Hispanic Chamber of Commerce in Kansas City and other nationality-oriented organizations provide an excellent source of information for specified national groups. Unfortunately, these specialized groups are not sufficiently broad-based to establish a complete, listing of names. Viewed from a state level, however, if all of the organizations would provide their information to a state agency such as the Secretary of State, a fairly good start could be made in developing a viable list.

DISCUSSION OF FINDINGS

No data are available that pinpoint the exact nature of the desired information. The purpose of the study was well received by governmental personnel at the federal, state, and local levels; however, no one was inclined to accept the challenge of saying that the data should be collected in the desired format. At the national level, confidentiality laws and regulations create barriers that make the reporting of names of small business owners by national origin impossible. Obtaining the precise information is feasible at the state and local levels. At both of these levels, the cooperation of government officials is imperative since a change in government practices to collect the data as desired will need to come from within governments. For example, both federal and state personnel could do a great deal in presenting the need for such information to state and local governments which would then be followed by initiatives to collect it.

Two additional viable methods exist that could be utilized in collecting the information. First, the chambers of commerce throughout a region could collect the data from their members. Second, the questionnaire approach could be undertaken with names and addresses of business owners coming from Chamber of Commerce Membership Directories, firms licensed by a city to do business, and telephone directories.

U.S. goods find it extremely difficult to compete in world markets. One reason for this is that the flow of foreign currency into the U.S. for investment purposes creates a stronger U.S. dollar than is warranted in the trading of goods. A second is the inertia and lack of confidence to sell overseas by small business firms.

A great deal of U.S. governmental assistance is available to small business owners to begin thinking in terms of the international market. To a large extent, the work at the national level has a hard time filtering down to the local small business community. Consequently, more creative and locally-based initiatives need to be organized in supporting small firms venturing into, the international market. Obtaining information from other U.S. small business owners who have a strong cultural orientation in doing business in foreign markets because they are non-native Americans may help provide the confidence and challenge needed for the support.

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EXPORT MARKET DEVELOPMENT FOR SMALL BUSINESS IN A CHANGING WORLD

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This paper traces and discusses the role of exports, identifies the untapped export potential in the small business sector, and the benefits that can accrue to those firms who can successfully build an export business. The salient features and steps identified in the Export Market Development Model serve the small business exporter with an approach to formulate export strategy and make export decisions. Small Business Institute University and international trade agency, education and training programs along with available major sources of information and assistance can enhance small business export capability.

INTRODUCTION

In an earlier industrial era, Britain once reigned world commerce. Then, Americanization of world commerce displaced the British and other Europeans. In the past decade Japanization of world commerce took a rapid leap, only to be followed by strides made by smaller countries like South Korea, Taiwan, Singapore, and Hong Kong. In Asia alone, the demonstration export effect is rapidly progressing into China, India, Pakistan, Malaysia, Sri Lanka, Thailand, Philippines, and Indonesia. These countries have a rich human resource base of skilled labor accounting for nearly half the world population. These are also countries with moderate to high growth rates and expanding markets. Most of these smaller countries parallel small businesses compared to the large multi-national companies in the industrialized world.

Small business in these newly emerging countries plays a vital role in both domestic and international trade more conspicuously than in the United States. Small business agencies in these countries are also working hand in hand with small business entrepreneurs in providing export guidance, promotion and development. Small Business Institutes and university specialists in foreign trade in the U.S., can play a key role in generating a new awareness for export of goods, services, and profit from trading opportunities in the international marketplace. Small Business Development Centers/Institutes increasingly need to associate with other export promotion agencies to conduct education and training programs to enhance small business export capability.

The primary purpose of this paper is to discuss the role of exports and present a model for U.S. Small Business firms seeking to orient their activities to affect a successful and profitable transition from being strictly a domestic sales oriented concern to one that markets its products worldwide.

In the 1980's, approximately one-third of the top 100 U.S. multinational firms listed in Forbes and Fortune earned 50 percent or more of their profits from overseas business. Half of those firms listed derived at least 40 percent of their income from foreign business while twothirds of those firms listed earned nearly one-third of their profits from abroad (1).

When the product or service has a global market potential, the management of small business can use strategies as readily to go global as the nation's big business. In Japan, participation in small and medium sized companies is more broad based as seen in their activities in the world marketplace (2). Size is not a deterrent to successful operations abroad. Product or service, customer need, and management commitment are key elements.

Until recently, most Americans have been quite unaware of the importance of international trade to them personally. Americans have been less concerned about foreign trade than the people of other major industrial nations, such as Germany, Holland and Japan, who generally view exports as having a direct bearing on their jobs and their standard of living. Americans on the other hand, have tended to see exports as being of only marginal importance. Traditionally, the USA has been preoccupied with its own huge internal economy. Separated by oceans from most other major markets, historically self-reliant, and enjoying a resource-rich and broadly-based economy, Americans have simply not been accustomed to thinking of themselves as being dependent upon foreign trade to survive. This view is no longer valid if it ever was. American companies big or small and consumers alike are increasingly experiencing the integration of global financial, production, management and marketing systems. Import penetration of the US market affects domestic business firms as they find 80% of all consumer goods have a foreign competitor. Smaller firms are in need of education to determine costs of raw materials, component parts, labor, management and technology worldwide, in order to remain competitive both in domestic markets as well as international markets.

US TRADE FACTS
The United States is the world's largest economy, the largest market, the leading importer and, together with West Germany and Japan, leads the world in exports (3).

Merchandise Exports
* U.S. two-way trade totaled $604 billion in 1986, with exports of $217 billion and imports of $387 billion,and a deficit of $169 billion.

* The United States exported 5.1 percent of its gross national product in 1986 -- after a peak of 8.1 percent in 1980 and a decline to 5.3 percent in 1985. In 1985, West Germany exported 29.0 percent, Canada 26.0 percent, the United Kingdom 22.3 percent, and Japan 13.2 percent.

* Exports account for about 20 percent of both U.S. production of goods and of our agricultural output.

* Total U.S. merchandise exports are comprised of 78 percent manufactured goods, 12 percent agricultural commodities, and 10 percent primarily mineral fuels and crude materials.

* Total U.S. merchandise imports are comprised of 80 percent manufactured goods, 10 percent mineral fuels, and 10 percent agricultural commodities and other goods.

* On the average nearly 25,800 U.S. jobs resulted per $1 billion of U.S. merchandise exports in 1985.

* Merchandise export accounted for nearly 5.5 million jobs in the United States in 1985.

* About one in six U.S. jobs in manufacturing were due to exports in 1985.

* From 1891 through 1970, the United States had an unbroken string of trade surpluses. After 1970, it had deficits in every years except 1973 and 1975.

* The 1987 U.S. trade deficit is expected to shrink from the 1986 total of $169 billion.

* Canada was by far the United States' leading foreign market in 1986, followed by Japan, Mexico, the United Kingdom and West Germany. Japan was the United States' leading import supplier, followed closely by Canada, and then by West Germany, Mexico, Taiwan, and the United Kingdom.

* The capital goods sector leads U.S. exports, followed by industrial supplies and materials, foods, feeds, beverages, and automotive products.

* The Commerce Department estimates that about 2,000 U.S. companies account for over 70 percent of U.S. manufactures exports.

Business Services Exports

* Exports of U.S. business services are one-fifth as large as U.S. exports of goods.

* Exports and imports of business services totaled nearly $45 billion each in 1986.
* More than 90% of service companies in the U.S. are small businesses. These firms have an opportunity to participate in international trade.

* In 1986, U.S. exports of business services accounted for 1 percent of U.S. gross national product. Travel service receipts and related passenger fares accounted for one-third of that total.

Exports are considerably more important in terms of jobs, fighting inflation, and protecting the value of the dollar than most Americans realize. The U.S. is one of the world's largest exporters, currently selling about $217 billion in U.S. products abroad. About 14 percent, or one out of every $7, of all American goods produced are exported. This means that more than one out of every six Americans employed in manufacturing is producing goods which are exported. Moreover, exports also create and support employment in other areas such as transportation, insurance, and other ancillary service industries. Out of the approximately 300,000 manufacturing firms in the U.S., only about 8 percent are engaged in some form of exporting. Traditionally a few large American firms have accounted for an overwhelming proportion of total U.S. exports. For instance, 5 percent of this country's largest exporters account for 17 percent of all U.S. exports alone, 120 firms account for 53 percent, and only 850 firms account for more than 70 percent of our total exports (4). It would appear that there is ample opportunity for other firms including small business who are not exporting to enter this potentially lucrative field (5).

There is tremendous untapped export potential in the small business sector. Thousands of small firms could export but do not. International Trade Administration (ITA) is committed to helping these firms get involved in exporting for the following reasons (6):

* Small businesses produce more jobs per dollar of exports than larger firms. The diversity of the small business sector of the economy will help build a strong national export base.

* Small companies are flexible. Once successfully introduced into exporting, they can shift relatively greater shares of their production to export markets.

* Small companies have traditionally been the source of innovation in the US economy.
* Small companies comprise a disproportionately large share of advanced technology industries in which the United States is judged to be most competitive.

* The level of participation in exporting by small US firms, as measured by percent of production exported, is less than half that of firms in other comparable nations.

WHY SHOULD SMALL BUSINESS ENTERPRISES EXPORT?
Actually, for many companies, exporting is merely an extension of their domestic marketing effort. It may be something that evolves as a result of long range corporate planning, or it could be something that just happens. In either event, it is one of the many options of which management should be aware and to explore when engaged in strategic planning and researching areas for potential growth and for increasing profits. In this regard, exporting should be considered as an "essential" option. Furthermore, it should not be considered as an isolated or separate corporate function, because, not only can exports stimulate corporate growth through increased sales to new market areas, but it also can provide some degree of stability to the total sales pattern of the company. Exporting can compensate for, or at least help, to smooth out seasonal or cyclical conditions experienced by most firms.

During recessionary periods, many firms would not be able to survive if it were not for their export business. Furthermore, additional sales volume derived from exports usually is translated into lower unit costs and higher profits through the economies of scale. In this way, firms are better able to utilize their investment in capital equipment. Because the overseas markets for a product are often active long after the domestic demand has declined, companies are able to extend their period of production and thus able to amortize the cost of their equipment and designs over a longer period of time.

WHAT IS INVOLVED IN DEVELOPING AN EXPORT PROGRAM?
Today, with corporate profits endangered by rising operational costs and increasing competition, the safety factor for many US companies is to begin exporting. At what point should a firm consider entering the export field?

Many firms are already exporting without really recognizing it. If goods are exported from Kansas to Missouri, or to California, or to New York, it is comparable to exporting internationally since states are the same size as many countries throughout the world. Exporting to another state versus exporting out of the United States is very similar. The only major differences are environment, language, the monetary unit employed, and perhaps the overall documentation requirements. Cargo is usually shipped or mailed to buyers or customers outside of immediate manufacturing areas. In some instances, sight drafts or letters of credit are utilized as a means of payment.

A firm's initial venture into exporting probably comes as a result of an inquiry from a foreign firm in response to an advertisement in some magazine or listing in a directory, or it may come as a result of exhibits in a domestic trade show where foreign buyers are present. It may be a one time order or it could be the start of a long and productive relationship. These are considered casual or passive exports and usually involve little or no effort on the part of the US firm. Delivery may even take place within the US thereby eliminating the need to get involved with the overseas movement of the cargo.

Before making any concerted effort to sell products abroad, a firm should first conduct an audit as to their product and shipping capabilities to determine whether or not they can furnish the goods in reasonable quantity and on a sustained basis. If not, what export capabilities they do possess must be carefully assessed to determine what marketing limitations should be imposed to avoid overextending those limited capabilities.

Personnel and financial resources are two other factors which should be included in the corporate audit concerning a firm's ability to conduct foreign business. Financial resources are, important since money will be required up front in order to develop an export business. In addition to the costs normally incurred in developing anew domestic market, examples of costs frequently experienced in exporting include: higher postal rates when sending letters, specifications catalogs and price sheets overseas; the cost of: translating correspondence and technical data into foreign languages, making contact by international telex or telephone, acquiring marketing research data, participation in overseas exhibitions, modifying products in order to conform to the regulations and customs of other countries, employing experienced export personnel, and in some cases foreign travel in order to sell or install equipment. Also, depending upon the shipping and payment terms extended, it could take longer to be reimbursed for not only the cost of the goods themselves, but also for the cost of transporting the goods overseas. However, expenses such as the latter can be offset or compensated for in many different ways thereby reducing their overall impact.

As international marketing efforts grow additional human resources are often needed. Success can be better assured by making one person responsible for developing overseas markets. As such that individuals capabilities should not be diluted with the assignment of too many other tasks.

Once a firm determines it has the necessary production capacity and other necessary resources to support an expanded marketing effort, it should next be determined if the potential to market its product/services overseas actually exists, and the strength of that potential accurately assessed. Should that potential prove sufficient to justify an export marketing effort, a commitment should be made to that effect. This should not be a false or short-term commitment. Success will be experienced only through a strong commitment by management and the concentration of required resources. Depending upon the nature of the product or service and the time required to establish a product and corporate identity overseas, it could take one to three years before a return on an overseas marketing investment is realized.

In summary, to those firms who succeed in building export business, there can be substantial benefits. For example:

* Developing new, overseas markets can mean expansion and growth into a larger industrial enterprise at home, use excess production capacity and create more employment.

* Corporate growth which crosses national boundaries can add prestige to the name and product of a firm. Not surprisingly this carries over to domestic business.

* Sales abroad can mean higher quantity production; lower unit costs, greater profits per piece--the familiar economies of scale. Looking at it another way, export orders can help absorb manufacturing burden when business is slow, that is, it can be a hedge against lean times.

* Compensate for seasonal fluctuations in domestic sales. Some companies produce a seasonal product, only in demand for a few months per year. Entering certain export markets can mean year-round business.

* Often products in the final stages of the product life cycle domestically, can find new profitable markets overseas. In other words, exports can find new markets for products with declining domestic sales.

* There are many firms that need an increase in overall sales volume to make a profit. Exporting can provide that margin of profit.

In the final analysis, good exporters are good profit-makers.

FORMULATING AN EXPORT STRATEGY

There are two ways a firm may choose to begin exporting, directly or indirectly. Exhibits I and II respectively describe the various options under each type and explore the advantages and disadvantages of each for small business (7).

The new exporter must realize that some markets may be closed to his products for a variety of reasons. In those instances where direct exporting is prohibited, alternative approaches may be needed to penetrate those markets. A licensing program or joint venture may be the answer. The export manager must be alert to "problem markets" and study all possible alternatives. The exporter might end up with a "mix" of methods. For example: The same firm having distributors in Western Europe and the Far East, may implement a licensing agreement in Brazil and Argentina, and at the same time operate a joint venture in Mexico. These alternatives usually emerge once the distributor network is established. The exporter must be constantly analyzing each market and determining which is the best "mix" for the particular country, considering marketing problems there.

It is imperative that, firms desiring to sell their products or services in world markets must develop an appropriate export marketing plan based on their commitment capabilities and the goals set forth by their management team. Not so strangely, the same elements used in domestic marketing apply internationally as well. Basically, a firm interested in exporting needs to:

1. Determine the export markets of greatest potential;

2. Thoroughly research the selected countries targeted for entry and sales development;

3. Initiate product modifications, if necessary, in order to conform to the requirements of those markets;

4. Decide on entry strategy, establish strong representation and distribution outlets in those markets;

5. Plan and launch an effective sales campaign;

6. Determine terms of payment and observe sound financial policies;

7. Give prompt attention to order processing, packaging and shipment;

8. Arrange for post-shipment service and follow-up.

EXPORT MARKET DEVELOPMENT MODEL

Exhibit III, provides a step by step model of the export process which small business can adopt or use as a guide in developing their own strategies. Perhaps the single most important element of this integrated international marketing plan is determining the markets of greatest potential. Probably the largest and least expensive course of information is the Federal Government, and the US Department of Commerce. Information is also available from private researchers, trade associations, and educational institutions to name a few. Listening to experienced exporters is one of the best methods of all. This year the Department of Commerce initiated "Exporting Pays Off" program featuring mainly small exporters telling their success stories. These export success stories are also featured in recent Business America issues (8).

Making the decision to at least investigate the possibility of selling one's product or services abroad is the first of many steps a firm should take in determining a strategy for marketing over-seas. After a thorough investigation, of the selected country's market potential, the various methods of selling abroad and an evaluation of the firm's capabilities and interests, a firm may decide for or against exporting. Even if the firm temporarily decides against an export decision, at least it would have explored the possibilities. For purposes of researching markets and continued involvement in international marketing, firms should be aware of the many agencies, or institutions which provide resources and services to potential and present US exporters in pursuing international sales.

MAJOR SOURCES OF INFORMATION AND ASSISTANCE

The following is a description of major sources of information and assistance available for exporters:

<u>US Department of Commerce, International Trade Administration (ITA)</u>: ITA offers a wide variety of international trade statistics, industry studies foreign country market and economic reports, and background reports on foreign firms. There are services to provide specific trade leads, to locate agents and distributors, or to promote new products overseas. ITA sponsors catalog shows, trade shows and trade missions abroad. ITA has offices in Washington D.C., in the U.S. Embassy, commercial sections overseas, and about 50 District Offices throughout the United States.

<u>US and Foreign Commercial Service (US & FCS)</u>: The Foreign Commercial Service represents the Commercial Interest of the U.S. in 67 of the most industrialized nations. In addition to developing specific trade opportunities and preparing in-depth marketing reports, foreign commercial officers can provide personal counseling and assistance to U.S. businessmen traveling abroad.

<u>District Export Council</u>: This is a Government/industry activity, under the aegis of the Commerce Department, whose role is to promote exports and counsel new exporters through seminars or individual counseling.

<u>U.S. Small Business Administration (SBA)</u>: Through its field offices in cities throughout the United States, the US Small Business Administration (SBA) provides counseling to potential and current small business exporters. These services, available at no cost to eligible recipients, include the following (9):

1) Export counseling -- Export counseling services are furnished to potential and current small business exporters by executives, advanced business students, and professional consultants. Members of the Service Corps of Retired Executives (SCORE) and the Active Corps of Executive (ACE), with years of practical experience in international trade, assist small firms in evaluating their export potential and strengthening their domestic operations by identifying financial, managerial, or technical problems. These

advisors also can help small firms develop and implement basic export marketing plans, which show where and how to sell goods abroad.

2) Small Business Institutes/Small Business Development Centers -- Through the Small Business Institute (SBA), advanced business students from more than 450 colleges and universities provide in-depth, long-term counseling under faculty supervision to small businesses. Additional export counseling and assistance are offered through Small Business Development Centers (SBDCs) which are located within some colleges and universities. Students in these two programs provide technical help by developing an export marketing feasibility study and analysis for their client firms.

3) Call Contact Program -- A third facet of the SBA counseling service is the Call Contact Program that uses professional management and technical consultants. This program is employed where firms require highly sophisticated marketing information and production technology to identify and service overseas markets.

4) Export Training -- SBA Field Offices co-sponsor export training programs with the Department of Commerce, other federal agencies, and various private sector international trade organizations. These programs are conducted by experienced international traders.

5) Financial Assistance -- The SBA operates loan guarantee and direct loan programs to assist small business exporters.

6) Legal Advice -- Through an arrangement with the Federal Bar Association (FBA), exporters may receive initial exporting legal assistance. Under this program, qualified attorneys from the International Law Council of the FBA, working through SBA Field Offices, provide free initial consultations to small companies on the legal aspects of exporting.

SBA offers a variety of management assistance programs such as SCORE, ACE, general counseling, etc. It conducts export training programs, singly or in cooperation with other agencies. SBA maintains offices in most major cities of the States.

<u>U.S. Department of State</u>: The State Department represents U.S. commercial interests in all other countries not covered by the foreign commercial service. They offer expertise in foreign political, economic, and commercial developments. State Department assistance is available at U.S. Embassies, in Washington, D.C., or through reports available in the U.S.

<u>U.S. Agency For International Development (USAID)</u>: USAID carries out assistance programs in many developing countries. It provides loans to foreign governments to carry out programs in agricultural development, rural development, housing, and many other fields. Many of these programs can result in export opportunities for U.S. firms. USAID has a Small Business Office in Washington to help small companies participate in AID projects either as consultants or suppliers.

U.S. Department of Agriculture/Foreign Agricultural Service (FAS): FAS, with offices worldwide and in Washington, promotes the sale of agricultural commodities/food products overseas. They can be of great assistance to firms by providing reports on the agricultural situation in foreign countries, and by directly promoting the sale of U.S. agricultural products overseas.

Export-Import Bank/Foreign Credit Insurance Association (FCIA): EX-IM/FCIA provides a variety of loan/guarantee programs through local or foreign banks, as well as an insurance program enabling US exporters to protect short or medium term credits against commercial and political risks.

Overseas Private Investment Corporation (OPIC): OPIC offers political risk insurance to US firms making capital investment in most developing countries. OPIC also offers some direct loans and can participate in the financing of some pre-investment surveys. International Development Banks/Agencies: The United Nations, World Bank, Inter-American Development Banks, Asian Development Bank, and the African Development Bank all participate in the funding of development projects in developing countries. These projects can offer opportunities for US firms both for exports, consulting, or marketing information based on what types of projects are being funded.

Chambers of Commerce: Local Chambers of Commerce often can be of service either through information and services in-house or through their contacts. They would also have information on publications and other services available from the U.S. Chamber in Washington, D.C.

Banks: As in domestic sales, a key in international sales is feeling comfortable with your system of being paid. Banks provide information of the various international payment methods. Whether local or farther away, banks provide essential services and information to the international trade.

Export Management Companies (10): EMC's virtually act as the export department of a company that feels it is too small or inexperienced to do its own international selling. Many EMC's operate on a commission basis, although some actually purchase the products to be exported. Several of these firms are located throughout the U.S.

Export Trading Companies (ETC) (11): ETC's offer several tools to help improve their competitiveness in world markets. They assume the risks associated with international trade by taking title to goods domestically and handling subsequent export operations for the small business owner. ETC's enjoy economies of scale because they export large volumes of products form many sources at lower per-unit costs through established networks of overseas offices, transportation, insurance, and warehouses. These economies of scale are not usually available to a small- or medium-sized company operating individually. Export trading companies are an increasingly important factor in promoting U.S. exports. The Japan External Trading Organization along with the major Japanese trading Companies located in the United States, such as Mitsubishi, Mitsui, Marubeni, C. Itoh, Sumitomo and others can assist small business firms to market their products not only in Japan, but elsewhere in the world.

International Freight Forwarders: Once sold abroad, merchandise must move to the buyer efficiently and with proper documentation. International freight forwarders serve exporters by providing all necessary transportation and documentation services.

Translation Companies: From translation of letters and invoices to preparing foreign language promotional materials and instruction booklets, companies skilled in translation can greatly help the new as well as the experienced exporter market his product.

Universities: Many of the universities in the U.S. offer seminars, and courses in international marketing, business, or finance. Often, firms can arrange to utilize the expertise of professors of International Business or of interns from other countries as available, e.g. via the AIESEC (12) chapters at local Universities.

International Trade Clubs/World Trade Councils: These offer seminars, newsletters, and monthly meetings with speakers on various aspects of foreign trade. They also provide opportunities for exporters and importers to get together and discuss mutual interests. The previous listing though reasonably extensive, does not exhaust the possibilities of research and assistance available to the present or potential exporter. Other federal agencies, regional institutions, trade associations, and even private companies can also be of assistance. The type of information sought will determine what resources will be of most value. (1)

CONCLUSION

American business today is presented with a challenging opportunity in world trade. Faced with a weakened trade position, the loss of leadership in many export areas, an overall drop in the share of the world export market in the last decade, the U.S. clearly needs to increase its competitive strength abroad. U.S. business need to increasingly be aware that every international market is a potential profitable venture. Instant communications, rapid transportation, lower tariffs following the multilateral trade negotiations, narrowing wage differentials and higher standards of living have created rising demand in world markets for more products and services. As a result U.S. exports of goods and services is expected to exceed $240 billion in 1987. The sources of information and the assistance for exporters and Export Market Development Model presents a framework for SBI University specialists in assisting small business to enter the lucrative international marketplace. The markets are available around the world and there is plenty of opportunity for U.S. smaller firms to satisfy these overseas consumers. Many countries have socio-economic programs in place, resulting in enlarged markets and it is time for small businesses to join the many exporters who are increasing their sales, profits and productivity through successful export marketing strategies.

Exhibit I Direct Exporting

Options	Definition	Advantages	Disadvantages
Export Broker	A negotiator of export sales for a fee	Has thorough knowledge of his target market and has the ability to cover area.	Specializes in a fixed line of products and might not cover yours.
Export Agent	An Agent who acts as the counterpart to the firms sales representative in negotiating export sales.	Same as above but can also make local decisions.	Specializes in a number of products.
Distributor	Purchases merchandise from a U.S. firm at the best possible price to resell to third party.	Can provide effective on site services.	He can set his own prices.
Sales Branch	A separate but dependent part of the firm that handles export activities in a foreign country.	Foreign market penetration and activities are more effective.	There can be lack of sales communications.
Sales Subsidiary	A separate company in a foreign country parent firm having controlling interest.	Can take advantage of trade incentives given by Foreign governments.	Parent firm has difficulty in direct control of activities and decisions.
States Trading Companies	The Foreign Customer	Most often found in centrally controlled economies.	Requires Export Sales force.

Exhibit II Indirect Exporting

Options	Definition	Advantages	Disadvantages
Export Merchants	Merchant that purchases direct from the manufacturer and stocks and distributes products for his own account.	Similar effort as domestic sales.	Market control is decreased.
Resident Foreign Buyers	Foreign controlled buyers in the U.S. responsible for purchasing desired goods for overseas principal	Similar effort as domestic sales.	Market and Price control is decreased.
Commission Purchasing agents	Agent responsible for locating U.S. products for a foreign firm on a salary/commission basis.	Similar effort as domestic sales.	There is little international exposure or experience for the domestic company.
Export Management Company	Company that acts as export department for client firms for a fee basis. EMC's finance export sales.	Lots of international experience Many and contacts.	Lower gross profits and less control of activities.
Export Association	A cooperative association consisting of several firms, sometimes under a separate incorporated entity for locating foreign markets.	Pooling of lots of expertise in different areas.	Lack of control by one firm.
Piggy Backing	Selling to domestic company with compatible product line already well established overseas.	Access to experience field force in the same product area.	Lower gross profits and partial lack of control.

Exhibit III
EXPORT MARKET
DEVELOPMENT MODEL

EXPORTING DECISION
Step 1. CONDUCT MANAGEMENT AUDIT
A. Production Capacity
B. Financial Strength
C. Personnel Capabilities
D. Other Business Options
Step 2. DETERMINE EXPORT POTENTIAL
A. History of Inquiries Received
B. Govt./Univ. Statistics/Studies
C. Studies/Reports (Gov't. & Private)
D. Personal Observations/Travel Abroad
E. Check U.S. Gov't. Export Controls
Step 3. DECISION TO EXPORT
A. Set Overall Objectives & Plan
B. Analyze & Commit Resources
C. Apply for Foreign Patents/TM's
Step 4. CHOOSE BEST EXPORT APPROACH
A. Direct Exporting
B. Indirect Exporting
Step 4A. DIRECT EXPORTING
A. Assign Development Responsibilities
B. Learn Mechanics/Techniques

MARKET ENTRY DECISION
Step 6. CONDUCT MARKET ANALYSIS
A. Environment Factors/Geography
B. Cultural Characteristics
C. Demographic Data
D. Industrial/Agricultural Base
E. Economic Conditions
F. Political Stability/Legal En
G. Financial Strength/Foreign Ex.
H. Covert & Transfer of funds
I. Product/Industry Standards
J. Import & Trade Barriers
K. Distribution Channels
L. Sales & Growth Potential
M. Language Requirements
N. Local Competition
O. Other Facts Relating to Product
Step 7. DECIDE ENTRY STRATEGY
A. Direct Sales
B. Local Representation
C. License/Franchise
D. Joint-Venture
E. Mfgr. Subsidiary
F. Mix of Above
Step 7A. DIRECT SALES
Step 7B. LOCAL REPRESENTATION
Step 8. DEVELOP FOREIGN CONTACTS
A. Consult Trade leads/Directories
B. Acquire Available Contact Lists

SALES STRATEGY
Step 10. NEGOTIATE SALES
A. Modify Product as Specifications
B. Check Country Laws/Regulations
C. Check Credit Reputation
D. Prepare and Submit Quote
E. Negotiate Final Details and Price as Required
Step 10A. ORDER PROCESSING/PAYMENT
A. Verify Contract Terms w/Quote
B. Verify/Approve Credit Arrangements
C. Apply for Export License if Required
D. Arrange for Special Engineering if Required
E. Order/Fabricate any Special Component
F. Prepare/Pack for Shipment
G. Arrange for Transportation/Insurance
H. Process Documents for Collection
I. Advise Customer of Delivery Status
Step 11. SERVICE AFTER SHIPMENT
A. Install Equipment if Required
B. Provide Operating Instructions
C. Determine Performance Satisfaction
D. Solicit Sales for Spares, Accessories Service, etc.

EXPORTING DECISION contd.
1. Reference Books/Articles/Studies
2. Workshops/Seminars/Counseling
C. Establish Support Contacts
1. Gov't. (Fed., State, Local)
2. Trade Councils/Clubs
3. Foreign Freight Forwarders
4. Banks w/Int'l. Dept's.
5. Shipping/Insurance Companies
Step 4B. INDIRECT EXPORT OPTIONS
A. Engage in Export Management Co.
B. Contact Export Trading Co.
C. Contact Resident Foreign Buyers
Step 5. PRIORITIZED (RANK) MARKETS
A. Utilize Data from Step 2
B. Export Commitment
C. Export Budget

MKT ENTRY DECISION contd.
C. Advertising/Sales Promotion
D. Participate in Exhibitions
Step 9. ESTABLISH OVERSEAS CONTACT
A. Respond to Export Inquiries
B. Prepare Sales Letter
C. Prepare Price List/ProForma
D. Utilize Gov't. Agent/Distributor Locator Service
Step 9A. APPOINT REPRESENTATION
A. Screen Applicant Qualifications
B. Verify Business & Credit Reputation
C. Develop Contract/Agreement
D. Negotiate Final Details
E. Sign Contract
F. Supply Sales Data
G. Provide Technical Training/Back-up
H. Provide Motivation/Incentives

SALES STRATEGY contd.
E. Maintain Contact For:
1. Future Sales Possibilities
2. Referrals
Step 12. EVALUATE CHOSEN STRATEGY
A. Assess Performance of Rep's
1. Rewards/Incentives
2. Provide Additional Training and Motivation
3. Replace if Warranted
B. Are Corporate Objectives Being Met
C. Is Competitive Status Satisfactory
D. Is Basic Strategy Sound or Should it be Changed? How?
E. Implement Changes
F. Keep up w/Market Research
G. Look for other Untapped Markets
H. Evaluate Customer Service
I. Accomplishment of Export Effort and Return an Investment

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ASSESSING ORGANIZATIONAL CULTURE IN THE SMALL FIRM FOR HUMAN RESOURCE DEVELOPMENT AND ADAPTATION

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ABSTRACT

The presence of a strong organizational culture influenced by the founder or manager of a small business facilitates the transition of new employees into the firm, and contributes to successful adaptation of the firm to its environment. The culture of a small electronics manufacturing firm as perceived by a group of new employees and key-level managers was assessed to determine whether a set of shared understandings exist about what is expected and rewarded of organizational members. In small businesses which must undergo rapid change or develop an increasingly competitive posture, assessment of the culture is a necessary step to avoid obsolescence of work-related values and behaviors.

INTRODUCTION

In an economy which is rapidly moving from an industrial orientation to a service orientation, many small businesses find that to be successful and remain competitive, the ways in which they had formerly been operating must be replaced by new values, assumptions, and behaviors. A change in the firm's culture becomes a reality. The concept of culture in business is based on the assumption that organizations are culture-bearing milieux, providing a context for affiliation leading to the emergence of a set of shared meanings, behaviors, symbols and knowledge (1,2,3,4,). The premise that organizations have cultural properties, breeding values and beliefs, has received extensive attention in organizations concerned with diagnosing and changing their cultures (5,6), with transmitting culture to new members (7), and with using culture as a guide to action (8).

This paper describes the cultural norms of a small manufacturing firm as perceived by a segment of its staff. Organizations have norms, or prescriptions for behavior, and employees form assumptions based on these regarding what is expected and rewarded by the organization. Assessment of a firm's culture provides information about potential differences in perceptions held by the founder or key-level personnel and employees. This provides an agenda for adaptation to meet organizational goals, and for gauging the transmission of company values and behaviors to new employees in human resource programs.

Loci of culture can be transorganizational, characterized by "feeder" cultures that may be occupational or industrial (2). A small business in the service sector, for example, may have aspects of a "consumer-" or "people-" orientation found in the industry embedded in its culture. In family-owned firms, the central or core values of the family, such as "loyalty," "deference to older members," or forfeiting personal gain" may be exemplified by family members in the daily operation of the business.

The cultures of small firms are identified by their direction - the content of behavioral norms and thinking styles emphasized, and intensity -the degree of consensus among employees, including the founder and all personnel, regarding "the way we do things around here" (9).

The culture of a small business is shaped largely by its founder, through the assumptions and theories s/he initially brings to the business, and through what the members of the firm learn from their own experiences (10). A unique problem may occur as the founder plans for the firm's growth and survival:

"The ultimate dilemma for the first-generation organization with a strong founder-generated culture is how to make the ransition to subsequent generations in such a manner that the organization remains adaptive to its changing external environment without destroying cultural elements that have given it its uniqueness...the culture must be analyzed and understood and the founder/owners must have sufficient insight into their own culture to make an intelligent transition process possible" (10, pp. 28).

Small business founders or managers may desire to construct a specific kind of culture, such as a "culture of productivity", through teamwork and adjustments in work structure (11) to achieve greater productivity through human resources. During the start-up phase a firm may have certain characteristics prevalent in its culture, such as decision-making authority resting with the entrepreneur, whereas during the growth phase decision-making authority is delegated to second-level managers (12) and emphasized in the culture.

As small firms grow, strategic problems may arise that are rooted in past decisions. Since future growth is historically dependent (13), it becomes crucial for the organization to identify "where have we been?" and "where are we going?" Examining the organizational culture yields information necessary to answer these questions.

The individuals who are most likely to be able to offer keen observations of organizational cultures are newcomers.

Inconsistencies and discrepancies in work life do not go unnoticed by newcomers. They are partially included members, having recently entered the setting and experienced "culture shock," and are more likely to be fine-tuned to aspects in which other members are embedded and take for granted (6).

By investigating newcomers' perceptions and comparing them to the perceptions of insiders, the intensity of the culture may be determined. A study found that newly hired insurance agents differed greatly in their perceptions about the company from the descriptions provided by insiders (14). If new employees have misperceptions about what is expected of them, outcomes of dissatisfaction and turnover are likely.

The cost of turnover is high in any organization, but to the small firm it is magnified. Training new employees does not just involve instruction in job-related skills, but also includes transmitting cultural norms that help employees fit into the organization, perhaps preventing dysfunctional turnover. Managers often lose sight of the importance of human resources in the small business (15). A practical, feasible, and replicable tool administered as part of a human resource program is needed to determine if employees view the firm similarly.

This study utilizes a quantitative assessment of organizational culture in a small manufacturing firm to diagnose the content and degree of consensus between key-level managers and new employees. Any discrepancies among preceptions provide an agenda for training. A question with which the founder or manager of the small business must grapple is, "To successfully manage the business, what do I expect of my employees and intend to reward in them?" New employees entering the firm seek to clarify, "What is expected of me and for what am I to be rewarded?"

In addition to measuring cultural perceptions, critical incidents were also collected in this study to examine the events that influence employees' impressions of what it is like to work for the firm. From the moment newcomers enter an organization, they begin gathering information about the company culture. They pick up cues through experiences which they find meaningful, and which clarify the prescribed ways of thinking and behaving for employees to follow.

Critical incidents are meetings, conversations, assignments, interactions, or any activity perceived by the new employee as helpful in understanding how the firm operates. At the organizational level, incidents reported by newcomers are a valuable source of information for managers. They are indicators of how employees experience the organization. To a great degree, the "why's" and "howls" of work life are symbolic rather than obvious, buried in stories, slogans, ceremonies and rituals permeating all aspects of organizational life.

Many of the norms in small firms are informal, negotiated amid daily operations and interactions between employees and the founder or manager.

Incidents can become change agents as those aspects of work life which are viewed favorably are emphasized, inducing employees to feel more satisfied, less alienated, and to perceive greater consistency between organizational beliefs and actions.

METHOD

Sample

The subjects were 10 employees in the production department and two key-level managers in a small electronics manufacturing firm. The production employees had been with the firm for less than one year (68% had been employed more than six months but less than one year; 32% had been employed less than six months). One of the managers had been with the firm since its startup fifteen years earlier, and the other had been employed with the firm for two years.

Instruments

The Organizational Culture Inventory (OCI) (Cooke & Lafferety, 1983) was developed around twelve behavioral styles and personal orientations that members believe they are expected to adopt; in order to fit into the organization (See Table 1).

The Inventory assesses the ways in which organizational members are expected to think and behave in relation to both their tasks and other people. It is based on a configurational or circumplicial model of interpersonal and task-related styles (16). It consists of 120 short items with a multiple-choice response format. Respondents were asked, "to what extent do each of the following help people to "fit in" and to meet expectations in your organization?". Instructions suggest to subjects that they might find it helpful to consider behaviors expected and rewarded by people in higher positions in the company. Culture styles refer to the way members in an organization deal with one another, rather than with people external to the organization.

The ability of the OCI to detect actual cultural differences was determined by comparing different cultural patterns in different types of organizations (16). Across manufacturing, service, and client-intensive organizations: a concern with interpersonal status and security, comprising approval, conventional, dependent, and avoidance styles is characteristic of service organizations; a concern with task- and work-related influence and status, comprising the oppositional, power, competitive and competence styles is associated with client-intensive firms. The heuristic value of the inventory lies in its characteristics of being self-administered and selfscored.

The Critical Incident Questionnaire is designed to ask newcomers to relate incidents they have experienced which helped them form an impression of what it is like to work for the firm. Subjects are asked to provide a description of the incident, the persons involved in it, the time of its occurrence with reference to the date of hire, and any message conveyed about the way things are done in the company. Subjects are asked to provide five incidents, or more if desired.

TABLE 1
ORGANIZATIONAL CULTURE STYLES

The twelve cultural "types" measured by this Inventory are described below in terms of the thinking styles they, promote.

(1:00) A Humanistic - Helpful culture characterizes organizations that are managed in a participative and person-centered way. Members are expected to be supportive, constructive, and open to influence in their dealings with one another. A humanistic culture leads, to effective organizational performance by providing for the growth and active involvement of members.

(2:00) An Affiliative culture characterizes organizations that place a high priority on constructive interpersonal relationships. Members are expected to be friendly, open, and sensitive to the satisfaction of their work group. An affiliative culture can enhance organizational performance by promoting open communication, good cooperation and team loyalty.

(3:00) An Approval culture describes organizations in which conflicts are avoided and interpersonal relationships are pleasant - at least superficially. Members feel that they must agree with, and gain the approval of, and be liked by others. Though possibly benign, this type of work environment can limit organizational effectiveness by minimizing constructive "differing" and the expression of ideas and opinions.

(4:00) A Conventional culture is descriptive of organizations that are conservative, traditional, and bureaucratically controlled. Members are expected to conform, follow the rules, and make a good impression. Too conventional a culture can interfere with effectiveness by suppressing innovation and preventing the organization from adapting to changes in its environment.

(5:00) A Dependent culture is descriptive of organizations that are hierarchically controlled and non-participative. Centralized decision making in such organizations leads members to do only what they're told and to clear all decisions with superiors. Poor performance results from the lack of individual initiative, spontaneity, flexibility, and timely decision making.

(6:00) An Avoidance culture characterizes organizations that fail to reward success but nevertheless punish mistakes. This negative reward system leads members to shift responsibilities to others and to avoid any possibility of being blamed for a mistake. The survival of this type of organization is in question since members are unwilling to make decisions, take action, or accept risks.

(7:00) An Oppositional culture describes organizations in which confrontation prevails and negativism is rewarded. Members gain status and influence by being critical and thus are reinforced to oppose the ideas of others and to make safe (but ineffectual) decisions. While some questioning is functional, a highly oppositional culture can lead to unnecessary conflict, poor group problem solving, and "watered-down" solutions to problems.

(8:00) A Power culture is descriptive of non-participative organizations structured on the basis of the authority inherent in members' positions. Members believe they will be rewarded for taking charge and controlling subordinates (and being responsive to the demands of superiors). Poweroriented organizations are less effective than their members might think: subordinates resist this type of control, hold back information, and reduce their contributions to the minimal acceptable level.

(9:00) A Competitive culture is one in which winning is valued and members are rewarded for out-performing one another. People in such organizations operate in a "win-lose" framework and believe they must work against (rather than with) their peers to be noticed. An overly competitive culture can inhibit effectiveness by reducing cooperation and promoting unrealistic standards of performance (either too high or too low).

(10:00) A Competence culture characterizes organizations in which perfectionism, persistence, and hard work are valued. Members feel they must avoid all mistakes, keep track of everything, and work long hours to attain narrowly-defined objectives. While some amount of this orientation might be useful, too much emphasis on perfectionism can lead members to lose sight of the goal, get lost in details, and develop symptoms of strain.

(11:00) An Achievement culture characterizes organizations that do things well and value members who set and accomplish their own goals. Members of these organizations set challenging but realistic goals, establish plans to reach these goals, and pursue them with enthusiasm. Achievement organizations are effective. Problems are solved appropriately, clients and customers are served well, and the orientation of members (as well as of the organization itself) is healthy.

(12:00) A Self-Actualization culture characterizes organizations that value creativity, quality over quantity, and both task accomplishment and individual growth. Members of these organizations are encouraged to gain enjoyment from their work, develop themselves and take on new and interesting activities. While self-actualizing organizations can be somewhat difficult to understand and control, they tend to be highly innovative, offer high-quality products and/or services, and attract and develop outstanding employees.

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Procedure
The packets of questionnaires were distributed to participants in the study. Each packet contained an introductory letter, instructing subjects to complete the enclosed OCI (for both new employees and managers) and the CIQ (for new employees only), and ensuring confidentiality of all responses. The questionnaires were returned to the researcher by mail.

Data Analysis
Descriptive statistics were computed for the twelve culture scales. The scales were averaged and comparisons made between the group of new employees and the managers. Parametric statistics were not computed due to sample size. The OCI has demonstrated ability to detect actual cultural differences and its factors have remained stable across industry, region, organization type, level, and profit/not for profit status (16). This sample was part of a multiple organizational study (17), in which the scales have reliabilities ranging from .70 to .93. Content analysis was conducted on the critical incident data, and a typology was constructed.

RESULTS
The descriptive data from the twelve culture scales are provided in Table 2. Means and standard deviations are presented for new employees and key-level managers on all twelve scales. New employees had higher mean scores on Affiliative (38.5),

Conventional (28.8), Dependent (37.5) and Oppositional (22.5) culture styles. Managers' mean scores were higher on Humanistic-helpful (34.0), Approval (28.5), Power (28.5), Competence (36.0) and Achievement (37.5). Figure 1 illustrates the circumplicial diagram of the firm's culture for the new employees, and Figure 2 is the diagram for the culture as viewed by the managers.

A representative typology of critical incidents reported by the new employees is presented in Table 3. Forty-eight incidents were collected. Nine employees provided five incidents; one subject provided three incidents. Several incidents are given under each area heading, along with the cultural "message", or information conveyed about the firm. Area headings separate incidents according to the content and message of the incident. The order of headings is not sequential. New employees may overhear a comment from a customer about the product while on their way to attend a meeting. During content analysis the attempt was made to construct incident titles based on the subjects' own words.

TABLE 2
SUMMARY OF DESCRIPTIVE ANALYSES
FOR ORGANIZATIONAL CULTURE SCALES

Scale	Newcomers (n=10) Mean	Newcomers (n=10) Standard deviation	Managers (n=2) Mean	Managers (n=2) Standard deviation
Humanistic-Helpful	32.67	6.66	34.00	5.66
Affiliative	38.50	10.79	31.00	2.83
Approval	26.00	5.72	28.50	13.44
Conventional	28.75	5.32	25.00	11.31
Dependent	37.50	3.70	29.00	9.90
Avoidance	18.75	2.60	19.50	9.19
Oppositional	22.50	2.52	18.00	1.41
Power	25.50	4.43	28.50	14.85
Competitive	21.00	1.63	22.00	7.07
Competence	32.00	4.97	36.00	15.56
Achievement	35.75	3.30	37.50	4.95
Self-Actualize	35.25	8.66	33.50	6.36

[Figure 1 omitted]
[Figure 2 omitted]

TABLE 3
REPRESENTATIVE TYPOLOGY OF CRITICAL INCIDENTS

Category	Heading/Subheadings	Cultural Message
Initiation		
	Pre-entry interview with peers	What the company is like to work for; who "fits in"
Job Requirements		
	Work group project completed prior to deadline	What is expected of employees; accuracy of job
	Asked to work overtime description	
	Informally told by manager what is expected	
Policy		
	Strict enforcement of regulation	What formal/explicit or informal/implicit rules and procedures to follow
	Casual dress code	
	Rules inconsistently enforced across organization	
Recognition/Mobility/Rewards		
	Celebration for employees	What it takes to succeed, to be recognized, to move up in the organization
	Receives promotion based on accomplishments	
Coworker Relationships		
	Extensive social interaction	What the norms of the work groups are; the degree of cohesion and reciprocity found within the work group
	Meeting held for work group	
	Coworkers offer help	
	Proving one's worth to peers	
Superior-Subordinate Relationships		
	Lunch with the Boss	What the assumptions of authority are; how subordinates are treated; degree of communication and control
	Reverence for authority	
	Decision-making pushed upward	
	Supportiveness to subordinate problems	
Organization's Relationships to Outsiders		
	Consumer lauds product quality	How customers, suppliers, community members, and governmental agencies affect the firm
	Visitor praises group of employees	

31% of the persons involved in the reported incidents were coworkers, and 52% were either key-level managers or supervisors. Most incidents (79%) were reported to have occurred during the first months of employment in the firm.

DISCUSSION

The new employees described the firm's culture differently than did the managers sampled. Newcomers described it as having an emphasis on affiliation, dependence, conventional and oppositional styles. This reflects cultures in which decisions are made top-down, individuals are unlikely to take the initiative, confrontation prevails, and status and influence are gained by opposing others. It can be concluded that the new employees view the organization as being directed towards the fulfillment of security needs, yet in which employees must prove their worth and not hesitate to disagree with others.

The managers did not perceive the firm as strongly security-oriented. They described it as emphasizing achievement, competence, humanistic-helpful, and power styles. This reflects cultures concerned with personal accomplishments and goal-setting, and also task-and work-related influence and status. The perceptions of culture assessed in this study do not describe the one culture existing in this firm. Only a segment of the organization was sampled, and generalizations are confined to it.

The critical incidents are key events experienced by new employees, helping them to fit into the firm by understanding what is expected by those in higher positions. Examining incidents sharpens our awareness of training effectiveness, whether formal or informal, enabling managers to strengthen the human resource program of the business.

Looking at how this firm's new employees experience the organization helped its managers realize which ones are meaningful. One employee recalled:

> "Being involved with a new project, my new boss informed me of a weekly meeting I would have to attend. I felt very important for this reason."

Inviting a new employee to a meeting may signify that his contribution is important and that others view him as an integral part of the firm. Newcomers need to clarify other members' roles in order to better understand their own. A supervisor might offer informal guidance to a subordinate, as described below:

> "My supervisor called me in his office and showed me who's who within the company from the top level down to my level in case if I needed anything, I'd know who to go to."

Rewards and recognition rituals communicate to employees that they are behaving in an acceptable manner, and have contributed to attaining the firm' goals:

> "Since I have been here the company has held two parties for my group. They were catered events at nearby restaurants. They were attended by many of the employees, and the purpose was to show appreciation for the hard work we did."

If managers view the small firm's culture differently than newcomers, as was the case in this study, efforts might be directed toward lessening the disparity through increased communication and continuous training. Members could discuss relevant issues such as progress toward short-term goals and the consequence on long-term outcomes for the business, how customers are to be treated, and suggestions for improvement in performance. Managers can plan interventions which, in effect, "cause" some incidents to occur and others to be prevented as a means of shaping the desired culture and maintaining a human resource program which prepares new employees for the situations they are likely to encounter.

Under conditions in which a firm has to adapt rapidly to a changing environment, as in those operating within a deregulated industry, or develop and maintain a strategically competitive posture, assessing the firm's culture is paramount to determining if the firm is moving in the desired direction. A small business which has had a strong service orientation since start-up may find itself having to adapt to a market centered environment. Culture change is necessary as values and behaviors become obsolete. Assessing organizational culture enhances understanding of the styles of thinking and behaving the employees, founder, or manager believe are necessary for success of the business, and in which direction the culture must evolve to maintain success during internal and external adaptation and growth.

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SMALL BUSINESS COMPETITIVENESS AND THE NEED FOR PLANNING AND CONTROL OVER THE HUMAN RESOURCES MANAGEMENT PROCESS

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ABSTRACT

The research evidence shows that personnel management is a neglected function in small business organizations. The authors suggest that effective management of human resources may be a critical factor in the survival, growth and competitiveness of small business organizations.

INTRODUCTION

A number of studies have examined various facets of the human resource management process in a variety of small businesses with conclusions that always seem to suggest a need for more attention to human resource planning and policy. This particular study involved a survey/questionnaire sent to 300 small businesses in the southeast with fifty five businesses responding to questions that provided insight into human resource management policy and practice. Even though the questionnaire focused on the areas of work analysis, staffing, training and development, employee analysis, compensation, and maintenance, this paper will concentrate only on the first three previously mentioned areas and the critical nature of the ongoing evaluation process involved in these areas.

While examining the results of the questionnaire in these three areas of human resources management, the authors want to use the findings as a vehicle to accomplish the following; 1) acknowledge the fact that the more flexible nature' of small business firms gives rise to less rigid job requirements and staffing considerations, as well as less formal training and development processes and 2) these practices or approaches to human resources management, in themselves, lack sufficient rationale for neglecting a timely and systematic evaluation of the informal, as well as the more formalized human resource management elements. With a proper evaluation process employee achievement should be enhanced with subsequent contributions to the goals and objectives of the small business. In addition, it's what all small businesses need in order to insure their competitiveness in their industry as well as the world marketplace.

LITERATURE

The literature supports this focus on the timely and systematic evaluation of the human resource management process or practice in lieu of formal evaluation systems. A study by

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Meyer, Kay, and French found that few employees believe that significant performance improvement results from formal evaluations. What's more important is that small business owners and managers provide day-to-day coaching, assistance with goal setting rather than criticism thereof, and other support processes, rather than relying on a formal evaluation system to improve performance(l). This may be analogous to the saying that if small business owners/managers take care of the small things, then the big things will take care of themselves(2). Due to the nature of small business, similar statements could probably be made about the work analysis, staffing, and training and development processes. Even though many studies, including one by McEvoy, suggest that small businesses develop practical yet formal human resource planning and policy, these same studies also tout the importance of formal performance appraisal systems to determine training needs, since small business hire workers with limited skills(3) and without a concerted training effort; many small businesses will "grope through the darkness" of ignorance in an attempt to survive in today's increasingly competitive marketplace(4). And further, Miron and McClelland felt that achievement motivation training significantly improved small business performance(5). Finally, many small business owners know the importance of formal external and internal salary survey yet, according to McEvoy's study, only 28% of the firms surveyed accomplished formal salary surveys of the relevant labor market to insure that their practices were competitive and only three firms used formal job evaluation systems to insure that their pay structures were internally equitable(6).

METHOD

Sample

A list of 300 companies was generated utilizing systematic sampling of companies listed in the South Carolina Industrial Directory, with fewer than 200 employees while having operated for at least three years. A questionnaire, adopted from Mathis and Cameron (discussed later in greater detail), was mailed to the owner/CEO of the sample companies with a self-addressed stamped for ease of return. Of 55 that were returned, the 45 that were usable appeared to be representative of the original sample of 300 companies.

Companies included in the final sample of 45 are primarily manufacturing and service businesses. They employ an average of 106 employees, 73 males and 33 females. Average annual revenue for these firms for the previous year was $8,092,000. and average profit was $682,000. The average annual increase in revenue over the previous year was 20 percent, and the corresponding increase in profit was 35%. Eleven of the firms, or approximately 25 percent of the usable returns, had separate human resource management departments, with this being 12% fewer than McEvoy found in his study. Finally, the companies in this sample had been in existence for an average of 30 years(7).

The questionnaire for this study was adopted from one developed by Mathis and Cameron(8). The questionnaire is divided into the seven sections that were mentioned previously with only work analysis, staffing, and training and development focused on in this paper. Instructions given include: "where you think your personnel function is very good (that needs some improvement), give a score of 3. If it is weak in an area, give it a score of 2. Score 1 where the activity is basically nonexistent."(9). Additional questions were asked in order to develop an overall profile of the responding small businesses.

RESULTS

The data collected was analyzed utilizing mean scores (k) of the independent variables and intercorrelations (r) between independent and dependent variables. The analysis for the clusters or variables of work analysis, staffing, and training and development which show only significant coefficients of correlation are presented in Table 1.

Work Analysis

This section contains questions on job descriptions, job specifications, and job design. Respondents felt that their firms' job descriptions were between adequate and weak (X=2.64) The negative correlation between number of employees and job descriptions indicates that firms with fewer employees felt that their job descriptions were better than firms with more employees.

Satisfaction with job specifications also lies between adequate and weak (X=2.53). Out of the three factors in this section, the firms were most dissatisfied with job design (X--l.88), which is the basis for communicating initial and continuing expectations for employee performance. This has obvious implications for timely and systematic evaluation of expectations as they relate to the design of the job initially (job descriptions and job specifications for recruitment and selection purposes), as well as changes that are necessary as the small business adapts to environmental and managerial induced change.

In addition, the positive correlation between job design and number of male employees (r--.32), and revenue (r:=.32) suggests that larger firms do a better job of designing work.

This may be a plausible basis for the relative success of the larger small businesses, and probably occurs either because a majority of the smaller firms lack expertise in job design, or the larger small businesses realize the importance of continually clarifying expectations by altering the jobs to meet changing external and internal environments, and their expectations. This obviously can be handled in an informal, as well as formal fashion. Finally, the average score for the work analysis section of this study is 2.35, which again indicates that small business managers believe that their firms are doing a less than adequate job in this human resource management function.

Staffing

This section contains questions on human resource planning, internal and external recruitment, EEOC compliance, legal application blank, validation of testing, reference checks, affirmative action plans, and training of interviewers. Only the results for human resource planning, recruitment, and training of interviewers will be focused on in this paper. Small companies appear to be weak (X--2.09) in the area of human resource planning with larger small businesses as measured by number of male employees (X=.26) and revenue (r=.28) being more satisfied with their human resource planning than smaller firms. This would seem reasonable since many of these larger firms also have human resource management departments.

In this area of recruitment, firms were doing nearly an adequate job in internal recruiting (X=2.77), and between weak and adequate in external recruiting (R=2.64). Larger and growing firms as measured by the number of male employees (r=.26), number of female employees (r=-.29), and increase in revenue (r=-.38), are more satisfied with their external recruiting than are smaller firms. It's obvious that as small businesses grow, they must rely more-and-more on external recruitment, and are forced to compete with larger companies, especially for full time employees, whereas smaller firms may rely more heavily on part-time employees. Dickinson, Ferguson, and Sircar corroborated this when they concluded that the ability of the participants to recruit or attract the necessary human resources will be a Critical Success Factor of CSF(10). And with the possibility of legislation passage in the areas of minimum wage, disability leave and replacement, and minimum health insurance coverage, recruitment of high quality employees will be even more critical due to the increased costs involved in staffing. Even the alternative of using temporary help agencies or contracting out certain functions won't ameliorate the increased costs anticipated by passage of any or all of this pending legislation.

Finally, in the area of training interviewers, managers feel that their companies did a weak job of training interviewers (X=1.90) with this being consistent with overall satisfaction with training and development (X=2.12). Firms with a higher number of female employees did a better job than those with fewer female employees. The overall rating of the staffing function *(x=2.48)* indicates that small businesses felt they were doing a less than adequate job in this area. This could be further compounded if there is a move to utilize more-and-more part-time employees in order to ameliorate the increased costs of required minimum benefits in the proposed legislation.

Training and Development

This section contains questions on orientation of new employees, job skills training, career planning, and management development programs. As mentioned earlier, this had the lowest satisfaction score (x=2.12) of all seven independent variables measured by the questionnaire. The only question that was scored anywhere near adequate was the orientation of new employees *(x=2.64).* Thus, it is again apparent that in the small firms surveyed, the timely and systematic evaluation of job demands and communication of the corresponding expectations essential to performance and small business competitiveness is sorely lacking.

The finding on new employee orientation is not particularly surprising, since it is fairly simple and even necessary to have an effective orientation for new employees, in order for the employees to perform essential tasks involved with day-to-day operations. Job skills training was rated at just above weak *(x=2.26),* while career planning was rated as worse than weak *(x=1.62).* Larger firms, as measured by the number of male employees (r=.30) and number of female employees *(r=.29),* scored higher in career planning than did smaller firms, primarily because many smaller firms may not have a stable work force. Smaller firms also offer few promotion or advancement opportunities to employees, which causes higher turnover in these companies.

Management development programs were also considered to be weak (x=2.00) for responding firms. Satisfaction with management development programs, however, seems to be necessary with an increase in the number of female employees. This finding is consistent with Barry's observation that systematic development is not usually to be found in small businesses (11). If it is true that small businesses bear the major cost in initial on-the-job training in basic skills and initiation of employees(12), then small businesses need to continue to build on that investment, or they may not be spending their training dollars wisely.

SUMMARY RECOMENDATIONS

It's clear from this study that small business' satisfaction with the human resource management practices of work analysis, staffing and training and development, are woefully inadequate yet these same small businesses must depend on the recruitment of employees after a careful analysis of the changing job needs based on demands determined in a scan of the environment, as well as the changing abilities of existing employees in the organization. This problem is compounded due to the lack of interviewer training, as well as the need for investment in training and development to take advantage of existing and new staff by developing their potential. This is not a prescription for high levels of employee performance, let alone systematic development.

Another area worth noting is that trends in the increasing use of part-time labor in small business will probably be compounded by any of the pending legislation on minimum wage, disability coverage, and minimum health insurance requirements. The additional costs involved in these proposals will force more and more small firms to substitute part-time for full-time employees(13), thus widening the performance gap which results from inadequate recruitment due to substandard(5) work analysis, staffing, and development training and practices. In addition, the further substitution of part-time employees will probably lead to increased problems, with employee satisfaction and performance, since part-time employees are likely to have lower job involvement and reduced job satisfaction(14).

Thus, the major recommendation of the authors is the ongoing, systematic external and internal environmental human resource management scans that are necessary to not only hire the right employees, but also to provide for the proper development of existing employees. These evaluation processes whether they be informal or formal, should help instill high performance expectations essential for small business competitiveness in an increasingly competitive global economy.

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THE ROLE OF ORGANIZATIONAL CULTURE IN FOSTERING INNOVATION IN THE SMALL BUSINESS: HOW CAN THE ENTREPRENEUR CREATE A CULTURE OF INNOVATION?

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ABSTRACT
Innovation is a skill upon which the success of many entrepreneurial businesses is founded. Unfortunately, it is a skill which is too frequently lost as small businesses grow. This paper reviews some of the current research on the determinants of successful innovation and suggests that there is a missing link in innovation research--the missing element is the influence of organizational culture on innovation. Culture, acting through organizational ideologies and norms is seen as an important motivating and directing force for the process of innovation. Finally, some suggestions are made as to how the entrepreneur can create a culture of innovation in the small business.

INTRODUCTION
Many successful small businesses have been founded upon an innovative idea which creates a new product, process or service that better fulfills the needs of customers. By creating innovation, the small business entrepreneur not only provides an opportunity for self-profit but also is an important source of change within his or her industry. Innovation-driven change forces competitors to adapt either by copying the innovation or by altering their product or service in some way so that it provides the consumer with a value comparable to the new product or service. Thus, successful innovation created by an entrepreneur may set off a series of changes within an industry as competitors attempt to adapt to the original innovation.

Unfortunately for many entrepreneurs, however, the innovative spirit that launched early successes is lost as the business grows in size and complexity. The decline in the ability of growing organizations to innovate has been explained by some commentators in terms of the increasingly formal and bureaucratic structures required by larger organizations (4;18), others have cited the replacement of entrepreneurial reason for declining organizational innovation (9;19). Whatever the reason, the loss of innovativeness by growing businesses is dangerous. This is so because the ability to innovate is necessary not only to initiate change within an industry but also to respond or adapt to subsequent changes in the external environment. Small businesses must retain the ability to quickly and effectively adopt new characteristics as competitors initiate their own innovations and as changing external environments impose new requirements. Thus, the ability to innovate is a necessary organizational capability which can provide the small business with a source of competitive advantage as well as a means of adapting to changing external conditions. Moreover, innovation is not something that an organization does once and then forgets; it is a skill that needs to be developed and practiced with varying degrees of frequency depending upon the degree of change present in the organization's external environment. Rapidly changing environments require a greater capacity to adapt to change than more static environments and, therefore, they require a more refined ability to innovate on the part of organizations competing within them.

Although innovation is important as a means of adapting to change, present knowledge of the factors which influence the innovation process is scant. In the words of Bigoness and Perreault (2, p. 68) "present knowledge and understanding of the innovation process remains at the relatively undeveloped state--findings have been either inconclusive or contradictory." A possible reason for the lack of progress in innovation research is that current research has emphasized the contextual factors associated with innovation but has ignored the organizational forces that motivate and direct the process. Successful innovation requires an organizational mind-set that stimulates and supports the development and implementation of new ideas. An organizational culture which promulgates a belief system reinforced by a set of norms that support the innovation process is essential for successful innovation to occur.

This paper will briefly review the current research findings on innovation and will discuss a new area of interest for innovation researchers--the effect of organizational culture on innovation. Finally, some suggestions will be made about how entrepreneurs can retain and, indeed, strengthen the innovative spirit of the young organization.

CURRENT RESEARCH ON INNOVATION

Research efforts on the determinants of innovation from an Organizational Theory Perspective have focused on three major areas: (1) the impact of the external environment, (2) the influence of organizational structure, and, (3) the role of individual characteristics of managers (11).

Much of the research effort concerning the influence of the external environment on innovation has concentrated on the concept of environmental uncertainty. Uncertainty is usually measured in terms of degree of complexity and rate of change among critical environmental elements. There is a consensus among researchers that there is a positive association between higher degrees of uncertainty and increased levels of innovation (19). The positive relationship between uncertainty and innovation has been explained in terms of the fact that environments that change rapidly offer more opportunities for innovation than relatively static environments (20). A stronger assertion would be that rapidly changing environments require a greater degree of innovativeness because organizations must learn to adapt to the changes by adopting new characteristics or they may not survive.

There has been a great deal of effort directed at the study of the influence of organizational structure on innovation. Early studies adopted a global perspective on structure and found an association between increased levels of innovation and more "organic" structures (4). Conversely, other studies confirmed that more "bureaucratic" organizations were less innovative (10;18). According to Tornatzky et al (19), recent innovation research has concentrated on three structural variables: centralization, formalization and complexity. Positive associations have been found between innovation and a decentralized structure (6;16;18) innovation and complexity (1;5) and innovation and an informal structure (5;12). These studies reinforce the notion that more organic structures seem to support innovation while bureaucratic structure tends to inhibit innovation.

Turning to the research on individual difference variables, there has been little success in identifying any variable that is consistently related to innovation (19).

In summary, the present state of innovation research from an organizational perspective has identified positive associations between innovation and environmental uncertainty and the structural variables of decentralization, informality and complexity. Despite the identification of these relationships, however, there has been little effort to combine variables into a general model of innovation and relatively little is known about the processes which underlie the above relationships or about the factors which drive the innovation process within an organization. This paper will now consider a "missing link" in the study of innovation--the influence that organizational culture might have on innovation.

CULTURAL INFLUENCES ON INNOVATION

Although environmental uncertainty and structure are correlates of innovation, they only define the external and organizational contexts in which the process of innovation occurs. External change provides opportunities for innovation and structure provides the setting for the process to proceed but neither can motivate or guide individual organizational members through the maze of the innovation process. In order to understand how successful organizations innovate it is necessary to analyze what drives and guides the process of innovation. Organizational culture is likely to have a critical role in directing this process.

Organizational culture has been defined by Schein (14, p. 9) as "a pattern of basic assumptions-- that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel." According to Schein, these basic assumptions guide decision makers in dealing with the problems of external adaptation and of integrating the behaviors of organizational members. One way that culture is manifested is through characteristic organizational ideologies. Ideologies may be considered as collective or shared cognitive structures within the organization. They are comprised of a set of values linked to an integrated network of perceived cause and effect relationships which guides goal-directed behavior (3;17). Ideologies are used to interpret ambiguous experiences for organizational members; they define what problems are important and provide a methodology for dealing with those problems.

Organizational members are intentionally socialized into the assumptions and belief systems of the culture. One method of transmitting cultural values and beliefs is through group norms (8). Norms help to shape the behavior of group members so that it is in accordance with the values and beliefs of the organization's culture.

Culture, acting through institutionalized belief systems and group norms, can be a very effective means of directing the behavior of organizational members toward innovative activities, even though innovation is a highly uncertain process. Zaltman, Duncan and Holbek (21) describe innovation as a process which is fraught with ambiguity both in its initiation and application within an organization. It is a process in which specific, desired outcomes cannot be predicted with reliability nor can the specific means to achieve preferred outcomes be precisely defined. Innovation is an unstructured problem which requires creativity and a trial and error problem-solving approach.

Since innovation is an uncertain, unpredictable process, its progress cannot be directed by formal, structural means. Rules, procedures, job descriptions or even the experience of senior managers cannot be used effectively to solve the new, unique problems presented by the attempt to innovate. Innovation requires creative problem-solving during its initiation and implementation by a large number of organization members. Organic structures can aid innovation by providing the necessary context of freedom and autonomy to organizational members to pursue creative solutions to problems but organic structures cannot by themselves generate the motivation and commitment necessary to seek out innovation. In fact, in most organizations, generating motivation for innovation is difficult because of the inherent uncertainty of the process. Uncertainty about how to achieve the innovation as well as uncertainty about how the innovation will impact the organization will tend to reduce the propensity of organizational members to act in innovative ways. Moreover, the ambiguity regarding the means of achieving innovation makes it difficult for individuals to evaluate the likelihood that they will be rewarded for their innovative efforts which also tends to curtail motivation to innovate.

All of these ambiguities tend to reduce the likelihood that individuals will, on their own, become engaged in innovative efforts. In order to motivate and engender commitment to innovation, an organizational culture that supports and rewards innovation must be in place. Organizational members must perceive that innovation is valued and innovative activities must be supported by group norms and organizational ideologies. Although innovation-related activities cannot be reliably evaluated in terms of their effect on desired outcomes, they can be evaluated in terms of their consistency with norms which express organizational values and beliefs regarding how the innovation process should proceed.

The Role of Innovation-Related Norms

Innovation-related norms can be an effective means of motivating and directing innovation-producing behaviors in the uncertain context that surrounds the innovation process. Russell (13), in a study of small to medium size businesses, found that a set of innovation-related norms were significantly related both to the absolute number of innovations successfully implemented in the organizations and to the frequency and importance of innovation as an element of organizational strategy. Seven norm dimensions were identified that are associated with reinforcing behaviors which are associated with innovation. These norm dimensions are: (1) support of individual creative activities, (2) recognition of innovation as an appropriate solution to organizational problems, (3) free and open exchange of information both inside the organization and with external agents, (4) open-minded consideration of new ideas, (5) commitment to the development of new ideas by providing psychological and resource support, (6) support of moderate risk-taking in new ventures, and, (7) support for the effective implementation of change.

Because innovation-related norms help to express the value of innovation to group members and to define appropriate or expected behaviors within the context of the innovation process, they help to reduce the uncertainty felt by organizational members regarding innovation. Thus, innovation norms help to direct group members' activities toward innovation and to engender a commitment to the process.

Innovation norms are also an expression of the deeper reality of the values and beliefs characteristic of the organization's culture. In order to create an operating set of innovation-generating norms, an ideology which values innovation and which links organizational action to innovation must be in place. A consistent, well-accepted ideology is an effective means of directing the uncertain process of innovation. As mentioned above, the successful completion of any specific innovation cannot be directed by using set formulas or procedures because of the uncertainty of the process. The process of innovating, however, can be guided by organizational ideologies and norms which provide a general methodology of knowledge use and generation which can be applied to the innovation problem. Although it cannot guarantee the easy solution of any specific innovative project, an ideology of innovation can direct organizational members to seek innovation as a solution to organizational problems and innovation-related norms can guide group members through the innovation process.

THE ROLE OF THE ENTREPRENEUR IN CREATING AN INNOVATIVE CULTURE

Although a number of culture researchers have pointed out that changing an existing organizational culture can be very difficult (7;14;15), the entrepreneurial founder of a small business may be in a unique position to create a culture of innovation. Schein (14) states that the founders of organizations are a major influence in the formation of organizational culture. The values, assumptions and beliefs of the entrepreneur are very often transmitted to organizational members and become characteristics of group culture. How the founder defines the organizational problem of adapting to external environmental conditions and how he/she goes about coordinating the activities of group members in solving this problem supply important inputs into an organization's ideology. In a very real sense, the entrepreneur shapes organizational reality through his/her assumptions and beliefs about the organization and its external environment.

The entrepreneur who values creativity and change and who believes in innovation as an appropriate response to dynamic external conditions, can transmit these values and beliefs to organizational members. A culture of innovation can be shaped in four ways:

(1) By mentoring and coaching group members in innovation-supporting behaviors. By actively encouraging creative activities and teaching innovation-inducing behaviors such as sharing information and ideas openly within the organization, the entrepreneur can help to establish innovation-directed behaviors as accepted methods of interaction between organizational members. These activities will create norms within the organization which will establish innovation-related behavior as accepted and approved responses to organizational problems. Moreover, if the entrepreneur is actively involved

in coaching group members in innovation skills, it is a clear signal to them that innovation is a valued and expected practice within the organization.

(2) By focusing the attention of group members on the successful development and implementation of innovation as an ongoing organizational practice. Although direct coaching is a powerful means of focusing the attention of organizational members on innovation-related behaviors, other methods exist to direct action toward innovation. Group members tend to model their behavior and thinking after the group leader. What the leader or entrepreneur regards as important and what activities the leader emphasizes in his/her interactions with group members will be perceived as important by group members. The consistent emphasis on innovation-related activities by the entrepreneur as well as the active role-modeling of innovation-directed behaviors will help to highlight the importance of innovation and to create an example of how innovation is to be conducted.

(3) By creating a reward system which rewards both successful innovation and innovation-related behavior. An important point to keep in mind here is that although both tangible and intangible rewards under the control of the entrepreneur should be used to reward successful innovation projects, the process of innovation is so uncertain that relatively few projects may be successful. In order to produce the few successful innovations, a relatively large number of creative ideas must be generated and evaluated within the organization. Thus, the behaviors that generate new ideas and which support their development must be rewarded by the entrepreneur as well as successful innovations in order to help make innovation an ongoing, sustained process within the organization.

(4) By recruiting, hiring and promoting innovative people. Although innovative cultures can be shaped by the values and beliefs of the entrepreneur, the process is made easier and potential conflicts are reduced if the personalities of the group members are sympathetic to the beliefs of the entrepreneur. Thus, it is important to bring into the organization and place in positions of responsibility those individuals who value innovative change and who enjoy being involved in a creative process.

SUMMARY

A survey of business organizations would reveal that most of them are not very good at innovation. This conclusion is as likely to be true of most small businesses as well as large and this is all the more perplexing because many small businesses were founded upon an entrepreneurial, innovative idea. One of the reasons that business organizations find innovation difficult is that researchers have not contributed very much useful knowledge to the understanding of the process of innovation. Most research has focused on the contextual correlates of innovation and not on the motivating, directive forces of innovation. It is a contention of this paper that organizational culture, acting through norms and organizational belief systems, is an important determinant of successful innovation. Ideologies and norms can provide a value-based framework that motivates and directs organizational members toward innovation-producing activities. Ideologies are particularly important in sustaining innovation because of the uncertainties of the process which make it impossible to control using more conventional, formal mechanisms. Additionally, it is felt that, although existing cultures are difficult to change, the entrepreneurial founder of a business is in a unique position to create a culture of innovation which is likely to sustain itself within the organization for a long time.

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A CONSPECTUS OF BUSINESS FAILURE FORECASTING

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ABSTRACT
Financial failure forecasting is a subject of great interest to practitioners and researchers alike. Forecasting financial failure allows for timely decisions to be made relative to the reallocation of resources to more efficient uses. The results from several previous studies are brought together in this paper and compared with the objective of identifying the forecasting tools best suited for small business applications. A review of the research on this subject indicates the availability of several practical forecasting approaches.

INTRODUCTION
Business failure, whether meaning the cessation of operations and the liquidation of assets, or meaning insolvency in either the equitable or legal sense, is of critical importance to both the business community in general and society as a whole. Being able to forecast potential failure provides an early warning system so that an appropriate adjustment in resource allocation can take place (10, p. 378). It may also provide the opportunity to seek debtor relief outside the constraints of straight bankruptcy.

Realizing the potential benefits to be derived from some type of early warning device for forecasting potential business failures, attention should be focused on identifying the most effective tool(s) to produce these benefits. The models proposed for accomplishing this goal have ranged from the relatively simple use of ratios designed to establish empirically derived "cut-off" points to more sophisticated statistical formulas using multiple discriminant analysis. The purpose of this paper is to provide a brief overview of the development of our ability to forecast potential business failures using financial data, not from the perspective of an analysis of statistical techniques but from a perspective of useable applications for all businesses.

UNIVARIATE MODELS
In the univariate approaches to forecasting financial failure, it is assumed that a single variable can be used for predictive purposes. The use of ratio analysis as a tool for forecasting potential failure has been used with a limited and varying degree of success for a number of years. Fitzpatrick (9, p. 598) reported an early application of comparing ratios of failed against non-failed firms, noting a significant difference between the two sets of comparable ratios.

Fitzpatrick's study was indicative of several other studies that followed in which comparisons were made between the ratios of successful and failed or failing organizations.

A major turning or focal point in the use of ratios for financial failure forecasting purposes occurred when Beaver (5, p. 100) shifted the attention from an ex ante to an ex post perspective. The significance of Beaver's work lies in two main areas. First, financial ratios can be used to predict failure. Second, it was shown that available ratios could not be used indiscriminantly because some ratios could prove to be more accurate in their predictive ability than others. Not only did Beaver (5;6, pp. 98;192) focus attention on ratio analysis, but he also alluded to the use of two techniques he believed could possibly prove to be more powerful for predictive purposes; namely, (1) multi-ratio analysis and (2) market price information. Of these two techniques, only multi-ratio analysis is discussed in this paper because of their relevance to small business since most small businesses are not typically publicly traded. Prior to Beaver's work, the accepted use of selected ratios for financial failure forecasting purposes could be questioned since managerial decisions could be made to manipulate particular ratios resulting in distorted financial presentations.

In order to overcome the inherent problems associated with using selected ratios for forecasting purposes, Beaver (4, p. 114) proposed the use of a dichotomous classification test. In this test, a firm's ratios were compared with the ratios of other firms by placing them in an array. A cut-off point based on previous experience with failed and non-failed firms could then be established as a predictor with some degree of confidence. To accomplish this task, fourteen ratios were selected and classified into two broad categories--nonliquid and liquid assets. Superior predictive power using this technique was shown not only for a short-term time horizon, but also for a period of up to five years before failure occurred. The nonliquid assets ratios of (1) cash flow to total debt, (2) net income to total assets, and (3) total debt to total assets proved to be superior in their predictive abilities when compared to the use of liquid asset ratios.

When testing the predictive powers of each of the fourteen ratios by using data from actual companies, the most precise, cash flow to total debt, showed an error factor of 13% in the year before failure and 22% five years before failure since this ratio cannot be easily altered. The more commonly referenced ratio in accounting and general business usage, the current ratio, on the other hand, showed percentage errors of 20% and 45% for the first and fifth years respectively prior to failure.

The cash flow to total debt ratio would be of questionable importance to firms experiencing insolvency. However, in the equitable sense of not being able to meet debt obligations as they fall due, the ratio would prove to be useful. Although less than 1% of all bankruptcies are involuntary, Sec. 303(h) of the Bankruptcy Reform Act of 1978 allows qualifying creditors to force a debtor into either Chapter 7 or Chapter 11 bankruptcy upon showing that the debtor is not generally paying his undisputed debts as they become due. Although cash flow to total debt is a good predictor of financial failure, it is very difficult to find the ratio from published sources. A similar ratio published in Robert Morris & Associates would be:

Net Profit + Depreciation, Depletion, Amortization Expenses

Current Portion of Long-Term Debt (15)

Recognizing the potential problems of manipulating the commonly used ratios in financial failure prediction models, Wilcox (18;20, pp. 1;389) proposed new criterion ratios for forecasting financial failure. By using his proposed model and the original data analyzed by Beaver, Wilcox (19, p. 163) was able to predict financial failure for a period of up to four years before bankruptcy. Wilcox (19, p. 167) was testing what he believed to be a naive approach to determining a firm's financial well-being.

His approach was to identify the distance from failure of a firm at a particular point in time. Therefore, by using a stochastic cash flow model, it was possible to determine a firm's financial progress and to note any movement indicating the potential of financial failure. The indicator generated by this model is "P" or P (Ultimate Failure) (1). The significance of the probability lies in the drift. The higher the estimate of "P," the higher the risk. However, the true significance of the estimate of "P" is determined by the direction of its movement. This particular predictor would prove to be difficult for a small firm to operationlize.

MULTIVARIATE MODELS

The multivariate approach to forecasting financial failure attempts to overcome the potentially conflicting indications that may result from using single variables. The ability to consider several indicators in an attempt to predict the likelihood of possible failure was made possible by the use of multiple discriminant analysis (MDA). Multiple discriminant analysis enables variables to be classified into groups and then attempts to find the linear combination of variables that best discriminates between groups after the discriminant function has been computed. It can be used to describe the differences between groups and classify new cases based on available data. A single discriminant value or score can then be computed for predictive purposes (17, p. 435).

Altman (2, p. 591) proposed using the MDA technique to overcome the shortcomings of using univariate analysis for predicting business failure. He was specifically interested in identifying those variables (ratios) that had the greatest predictive power. After analyzing twenty-two potential ratios, a group of five ratios were identified as providing the best predictive ability. Altman proposed the following model based on the observed relationships between significant ratios:

(1) A detailed discussion of this indicator is beyond the scope of this paper. Please refer to Wilcox, 1973 for complete details.

$$Z = .012X(1) + .014X(2) + .033X(3) + .006X(4) + .999X(5)$$

where X(1) = Working capital/Total assets

X(2) = Retained earnings/Total assets

X(3) = Earnings before interest and taxes/Total assets

X(4) = Market value equity/Book value of total debt

X(5) = Sales/Total assets

Z = Overall Index (2)

The Z score calculated from the preceding formula proved to be 95% accurate for the first year preceding failure for the firms studied. The predictive value of the model was still successful for a period of two years prior to bankruptcy, but the accuracy rate fell to 72%.

A Z score greater than 2.99 placed a firm in the non-bankrupt category while a Z score of below 1.81 placed a firm in the bankrupt category. The area between these two figures was labeled the "zone of ignorance" or "gray area." However, for simple predictive purposes, a Z score of 2.675 was identified as being the critical point separating bankrupt and non-bankrupt firms. In a later application (3, p. 194) of his model, the success rate for predicting failure among railroads was 97.7% accurate during the first and second years prior to bankruptcy.

In a replication of the Altman approach to predicting failure, Moyer (12, p. 11) found a success rate of 88.1% in the first year. However, when the model was reduced through stepwise procedures to include only the first three variables of the model, the success rate increased to 90.48%. In the period two years prior to failure, both the full and the limited models yield the same success rate of 83.33%. In examining the third year, only the second and third variables proved to be significant and provided a success rate of 73.81%. This compares to a correct classification of 71.43% for the full model. The findings indicate that the Altman model could be simplified and still retain its inherent predictive abilities. Our analysis showed the larger Altman to be a better predictor of failure. A least squares analysis of the larger Z factor, utilizing all five variables, was only 6% related to the Z factor using only three variables. Although a 1977 study by Altman, Haldeman, and Narayana found four different variables statistically significant, only one remained the same as the 1968 study. The Moyer study upheld the original four Altman variables. The difference between the studies could be attributed to how the failing and nonfailing firms were chosen.

Meyer and Pifer (11, p. 853) developed a greatly expanded linear regression model that took into consideration thirty-two financial measures for use in predicting bank failures. (For a complete listing of all the variables, see Meyer and Pifer, 1970.) In order to test the model, data was collected for a period of six years; however, the predictive success of the model was only demonstrated for a two-year period of time prior to bankruptcy. Although the time horizon was relative short, more than 80% of the banks studied could be classified correctly during the two years prior to failure. Although this work advanced the knowledge in the area of financial failure forecasting, it provides for little practical application in a small business setting.

Collins (8, p. 354) questioned the benefits to be gained from using the more complex and computationally sophisticated model developed by Meyer and Pifer when compared to the simpler approach used by Altman. Both models were tested on financial data from credit unions for the purpose of determining any significance in the ability to predict financial failure. As in previous models, a critical cut-off point was established to differentiate between the probability of failure and success for the firms under study.

The results indicated that both models had good predictive ability. However, it was found that the sophistication of the Meyer and Pifer model did not improve on the ability to forecast failure. In fact, the Altman model proved to be slightly more powerful as it was correct in 94.4% of its classifications. Since the Altman model is simpler to update and less complex than the Meyer and Pifer model, it would appear to provide a more practical tool for financial forecasting purposes.

Blum (7, p. 2) proposed the use of the Failing Company Model (FCM) to predict business failures. The accuracy of the model proved to be 93-95% effective in the first year before failure and 80% effective during the second prior to failure. In the third, fourth, and fifth years, the accuracy rate dropped to 70%. The model proved to be very weak over an extended time frame and was not able to discriminate between failure and nonfailure during the sixth year prior to failure.

The FCM uses discriminant analysis to determine an index and cut-off point for predicting failure. The component variables to be analyzed for a company are classified into the following three major categories: (1) liquidity (short-run and long-run including both flow and position); (2) profitability; and (3) variability including standard deviation, trends, and slopes. (For a complete discussion of all variables, see Blum, 1974). After the index score has been determined, it can then be compared to a critical score that will separate firms into two classes, success and failure.

Rose and Giroux (16, p. 2) developed an eighteen-variable predictive model which proved to be successful in predicting bankruptcies. (For a complete listing of all the variables, see Rose and Giroux, 1980.) The overall accuracy of this model for forecasting the failure of firms is particularly interesting because its predictive ability extended into the seventh year prior to failure, thus allowing tremendous lead time for decision making and corrective purposes. In fact, from years seven through one, the predictive capacity of the model was 94.1%, 90.9%, 86.4%, 91.7%, 87.5%, 78.1%, and 84.6% respectively.

These findings are extremely interesting since the previous studies indicate a high degree of accuracy during the two years immediately prior to bankruptcy and the Rose and Giroux model exhibits stronger predictive ability during a much earlier time span. The possibility of combining this model with others may offer the unique opportunity of a more comprehensive "early warning system."

The impact of inflation on reported financial data may appear to cast some doubt on the wisdom of using historical financial data during periods of high inflation. Norton and Smith (13, pp. 84-85) addressed the specific issue of the impact of inflation on predictive ability by utilizing both unadjusted and adjusted financial ratios. In their study, they found no significant difference in results when comparing predictions made from either general price level or historical cost financial statements. This finding would indicate that available financial data should provide the necessary information to be used in any of the models previously mentioned without the need for making time consuming adjustments.

SUMMARY

Forecasting financial failure has the obvious benefit of allowing for the reallocation of financial resources to more efficient uses. Several methods using both univariate and multivariate models have been proposed over the years. While there are conflicting claims of superiority, it appears that all of the models mentioned in this paper possess an acceptable degree of reliability and validity on a short-term horizon. However, it would appear from the literature reviewed that the simpler multivariate models take no more computational time and offer the benefit of increased predictive ability on a long-term time horizon when compared to the univariate models. The Appendix has been included in order to provide an example of the recommended financial failure predictors.

Since the ultimate objective in forecasting failure should be to provide an "early warning system," practitioners should adapt a multivariate model that is compatible with their abilities and available data sources. Each of the methods developed for forecasting financial failure will provide indicator scores or cut-off points. However, as with any statistical method, it is necessary to remember that judgement is still an important determinant. A number of business failures may not be predictable from financial data, such as those arising from large product liability judgments or catastrophic natural calamities. Further, some financially healthy firms have sought the protection of bankruptcy to achieve other purposes, including the avoidance of burdensome collective bargaining agreements or extensive litigation. Therefore, the forecasting techniques should be used as they were intended--as a tool--and not as a final decision point.

APPENDIX

Sales	1138
Retained Earnings	22.6
EBIT	25
Market Value of Equity	58.5
Total Debt	184
Current Assets	202.6
Current Liabilities	182.7
Total Assets	242.5
Net Profit	100
Depreciation Expense	23
Depletion Expense	45
Amortization Expense	23
Current Portion of LTD	3

Net Profit+Depreciation, Depletion, Amortization

Current Portion of Long Term Debt

equals
(+B9+BlO+Bll+B12)/Bl3

X(1) = Working Capital/Total Assets	(+B6-B7)/B8
X(2) = Retained Earnings/Total Assets	+B2/B8
X(3) = EBIT/Total Assets	+B3/B8
X(4) = Market Value Equity/Total Debt	+B4/B5
X(5) = Sales/Total Assets	+Bl/B8

Z Factor Equals .012*Cl9+.014*C20+.033* C21+.006*C22+.999*C23

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AS THE ORGANIZATION EVOLVES: A STUDY OF THE PLANNING PROCESS IN THE POST-ENTREPRENEURIAL STAGE

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ABSTRACT
Despite the continued popularity of Horatio Alger stories, a harsh reality haunts the entrepreneurial population. This reality is that most entrepreneurs fail in the early years of business formation. Of those who do pass through the perilous early years, many fail to become "organization makers" (1) as they build craft businesses which do not survive the founder's retirement. While craft businesses provide a valuable public service, the organization which survives its entrepreneur provides a more valuable service ... growth in employment. While we have made legends of the organization makers, we know little about the organizations they build. In the study reported here, we investigate the properties of organizations which have gone beyond the entrepreneurial stage but have not yet become giant organizations.

The growth beyond the entrepreneur represents a critical stage in the development of organizations. Many prescriptions, based on the experience of very large firms, suggest that smaller firms develop by adopting those processes (such as planning) prevalent in large firms. These prescriptions may be misleading, in that small firms are not "just little big firms" (2). There have been few descriptive studies of these "little big firms." This study helps fill that void, by describing the planning used by organizations which are growing beyond their entrepreneurs.

BEYOND THE ENTREPRENEUR
There are several models which describe the evolution of organizations as a series of stages or steps (3). The models suggest that several changes take place as the firm evolves from early stages to late stages. Two obvious changes are the size of the organization and the stewardship of the organization. In early stages, the organization is small and guided by an entrepreneur; in later stages, the organization is large and guided by professional managers. Less obvious, though, are other changes. One of the less obvious changes is the nature of planning.

Large organizations use sophisticated planning systems (4). The success of these large organizations fosters exhortations encouraging entrepreneurs to install planning systems. Yet,most entrepreneurs resist the use of planning systems that are found in large businesses (5). Indeed, at the entrepreneurial stage, planning is largely intuitive. The most important planninglike activity for the business in the early stage appears to be budgeting (6). What do planning systems look like as the organization evolves? Are these planning systems related to performance? These are the questions which guide this study.

Planning: What Does It Look Like?
Most investigations of planning study large businesses. As such, the measurements used in these studies may reflect a large business bias. Concepts such as "formalism" and

"comprehensiveness" are quite common in planning/performance studies. And many of these studies find that there is a relationship between formal planning and performance. Yet, we are left to wonder; is that relationship due to formalism or due to planning? Can a firm plan, and not be formal? The studies of planning are silent on this point, since "non-formal" planners are labelled as "non-planners."

Is this distinction between formalism and planning important? Two studies indicate that it may be. In one study, Robinson and Pearce (7) found that small banks do plan, but in a manner much less formal than that found in larger banks. In another study, Seeger, Shuman and Teebagy (8) found that entrepreneurs engage in activities associated with planning, but do so in an informal manner. Each of these studies suggests that planning does take place in firms that are not large, but that the planning is not like that found in large firms. It is less comprehensive and less formal. This leads to our first proposition:

Pl: Firms emerging beyond the entrepreneurial stage will have planning systems; these planning systems will be less "formal" or less "comprehensive" than those found in large businesses.

Does Planning Improve Performance?

If the growing organization evolves a planning system, then there must be a reason for that system. Perhaps the planning system improves performance. Or perhaps the adopter of a planning system hopes that the system will lead to an improvement in performance.

The evidence about the relationship between planning and performance is mixed. Several studies find that there is a positive relationship between planning and performance, while others find no relationship (9). There are at least two reasons why studies of the planning/performance relationship would not consistently find a positive relationship between planning and performance. First, the relationship between planning and performance might not be direct. Second, planning might not be effective in all environments.

Figure 1 demonstrates the first point, that the relationship between planning and performance may not be direct. In a planning process, regardless of the level of formality, three activities are undertaken: the search for information (scanning), the choice of a strategy (analysis), and the implementation of the strategy (control). Planning should be positively related to each of these three activities. Each of these activities, in turn, may carry a different impact on performance. For example, overinvestment of time in analysis may lead to a lack of flexibility and, ultimately, lackluster performance.

Several researchers and theoreticians provide insights into the second explanation why planning might not be effective. They suggest that turbulent, dynamic environments cannot be analyzed. Further, they say, complex environments tax the limits of human cognition. In effect, then, planning cannot be expected to have a direct effect on performance in unstable environments. On the other hand, planning may not be necessary in stable environments since good habits (once learned) should suffice to provide guidelines for performance in such environments.

In summary, then, planning may not improve performance in all cases. This is because the effects of planning are complex, and differ across environments. This leads to the following two propositions:

P2: Planning will not improve performance in all cases.

and

P3: Planning will bring a performance advantage in some environments. The net performance effect is based on sum of the individual effects of planning activities (scanning, analysis, control).

METHODOLOGY

The Sample

The sample was drawn from manufacturing firms in several northeastern states. A main objective of the research was to capture firms either in, or likely to soon enter, the post entrepreneurial stage. Thus, the size of the firms was restricted. The size of the firms ranged rom 250 to 2550 employees; the mean firm size was 884.

Standard reference sources, such as state manufacturing directories and Chamber of Commerce listings, were used to identify firms which fit the purposes of the study. Medium size manufacturing firms were contacted by phone within two weeks of the mailing. Each firm was studied in two steps. First, the chief executive of the firm was interviewed. Each interview was conducted by a trained faculty researcher. The purpose of the interview was to explain the study, to solicit general information about the firm, and to provide specific information about the firm's approach to planning. The use of the interview placed practical limits on ultimate sample size: chief executives guarded their time jealously, and there were limits to the amount of travel and interview time available to the researchers.

In the second step, each member of the top management team was asked to complete a questionnaire independently and unanimously. The questionnaire included a series of scales to measure both organizational processes and the environment. Ninety-two managers in twenty-nine firms took part in the study. The responses of the top management team were averaged for each organization. The results which are discussed below are based on the questionnaire responses.

The Variables

The variables used in the study were planning, scanning, analysis, control, dynamism, age and performance.

As noted in the discussion, one purpose of the study was to provide a description of planning in post-entrepreneurial stages. To achieve this end, a specific statistical method was used to build a measure of planning. Nine items were chosen from previous studies of planning. A scaling technique (Guttman scaling) compared each of these nine items iteratively, testing for patterns in the responses. Those items which passed this statistical screen were used as the measure of planning. This method assures that the respondents, rather than the researchers, define the planning process in their firms. Multi-item scales were used to measure scanning, analysis and control. Each of these scales is reproduced in the appendix. A multi-item scale was used to measure dynamism. This scale is also reproduced in the appendix. These scales were developed by Miller (10).

Age was measured as the number of years since the firm's inception.

Performance was measured subjectively. Each respondent was asked to rate the firm's current performance as compared to the last five years. The responses included the verbal anchors "worse," "same," "better." This subjective measure of performance is less reliable than such objective measures as sales and profits. Unfortunately, many of the closely held firms in the study would not release sales and asset figures. To assure reliability, the responses of respondents within firms were compared. In addition, the propositions were tested on that subset of firms which did provide objective data. The conclusions do not vary with the type of data used to measure performance.

Analytical Methods

Guttman scaling techniques were used to identify the planning scale. Regression analysis was used to test the effects of planning and related activities on performance. To test for differences across environments, the sample was split in two, based on each organization's score on the dynamism variable.

RESULTS

The results are summarized in Table 1, 2, 3.

As expected, there is a planning process in these post-entrepreneurial firms. As expected, the process is less formal than that found in larger firms. For these firms, planning involves three key processes. Management develops a formal statement of what business the firm is in and/or what business the firm aspires to. There is a regular cycle during which management assesses the organization's performance. And key managers plan before they act; their plans are reviewed before action takes place.

As expected, planning does not improve performance in all environments. When tested for the entire sample or for environments low in dynamism, there is no significant relationship between planning and performance. In dynamic environments, there is a positive relationship between planning and performance.

As expected, the relationships between planning and performance are complex. In the dynamic environment, analysis depresses performance while control encourages performance.

Age has a positive effect on performance in dynamic environments. This probably is related to experience; firms which survive a dynamic environment become more skilled in performance in that environment.

FIGURE 1

```
          (+)                                       (+)(-)
          ---------------------> SCANNING ---------------------
          |                                                   |
          | (+)                                 (+)(-)       \|/
PLANNING-----------------> ANALYSIS --------------> PERFORMANCE
          |                                                  /|\
          | (+)                                       (+)(-) |
          ---------------------> CONTROL ---------------------
```

TABLE 1
QUESTIONS ON PLANNING SCALES, DERIVED BY GUTTMAN ANALYSIS

1. Has top management developed a formal plan of what business the company is in or wants to be in?

2. Is there a regular long-range strategic planning cycle?

3. Do middle managers submit long-range plans to top management for review?

TABLE 2
REGRESSION MODELS: WHOLE SAMPLE, LOW AND HIGH DYNAMISM

	N	F	Sig.
Whole Sample	29	1.36	.2833
Low Dynamism	14	1.81	.2458
High Dynamism	15	4.05	.0478

TABLE 3
FIRMS IN DYNAMIC ENVIRONMENTS: TEST OF COEFFICIENTS R(2) = .74

Variable	t-statistic	sig.
Planning Scale	1.93	.01
Scanning	.95	.37
Analysis	-3.78	.007
Control	2.56	.04
Age	3.40	.01

DISCUSSION

This study provides interesting insights regardless of one's perspective as either a researcher or manager.

For researchers, we note that this study joins the growing body of scholarship which shows that both size and environment moderate the planning-performance relationship (11). Our finding that planning is less formal in small organizations parallels the findings reported by Robinson and Pearce (12). Our finding that the efficacy of planning differs across environments for small organizations extends previous research on planning. This previous research had been restricted to large organizations.

One unique aspect of this research is its attempt to isolate the various segments of the planning task. As Pearce, Freeman and Robinson recently noted: "it seems logical that formality in planning and excellence in planning cannot be assumed to be synonymous" (13). By isolating the effects of scanning, analysis and control we hoped to identify those characteristics which contribute to excellence in planning. Our results indicate that firms seeking planning excellence in dynamic environments need pay particular attention to control.

Our finding about the relationship between formal planning and performance in dynamic environments may appear to conflict with recent pioneering work on decision processes in stable and turbulent environments. Fredrickson and Mitchell (14) suggest that effective decision making in unstable environments is less comprehensive than that found in stable environments. But as noted in Table 2, we too find a negative relationship between analysis and performance in dynamic environments. We suspect that comprehensiveness and analysis represent similar constructs. Our contrasting finding about the positive relationship between control and performance in dynamic environments highlights the complexity of planning-performance relationships. Over-emphasis on one aspect of planning, such as analysis, can lead to suboptimal performance. Yet, the need to lessen emphasis on analysis is an insufficient justification to reject formal planning in complex environments. Clearly, further empirical study of the planning task is warranted.

The results have several implications for managers. First, firms entering post-entrepreneurial stages should plan. A major justification for planning at this stage is that planning mimics the direction and control function originally provided by the entrepreneur. These functions may have no direct affect on the range of performance, but they may have a more drastic effect in that organizations which do not develop these skills don't survive. The planning function, then, is a ticket to the post entrepreneurial stage. It is not a guarantee of strong performance in that stage. Nonetheless, it is a function which the organization builder need attend to.

A second managerial implication is that planning is important in dynamic environments. To the extent, then, that firm expects to face a dynamic environment planning becomes more important as an organization activity.

A third management related conclusion is that each step in the planning process requires attention. Most specifically, the firm needs to avoid too much reliance on analysis. Control (review of performance, quality control, cost controls) is a crucial process in the dynamic environment.

Perhaps the most important conclusion this study supports is the conclusion that the organization must perform these activities in the absence of the entrepreneur. The entrepreneur plants the seeds, but the planning competence must grow in the management team. This is how the entrepreneur makes an organization; he makes managers; he makes planners.

APPENDIX - SCALES

Performance
Overall, is the performance of your organization today better or worse than the average of the past five years?

Better_______ Worse_______ Same______

Scanning
Rate the extent to which the following practices are used by your firm to gather information about the environment:

	Used rarely				Used very frequently
1. Routine gathering of opinions from clients and customers	1	2	3	4	5
2. Explicit tracking of the policies and tactics of competitors	1	2	3	4	5
3. Forecasting sales, customer preferences, and technology	1	2	3	4	5
4. Special market research studies	1	2	3	4	5

APPENDIX – SCALES (contd.)

Analysis
To what extent are the following techniques used in decisionmaking?

	Used <u>rarely</u>				Used very <u>frequently</u>
1. The application of operations research techniques, such as linear programming and simulation, to decide upon financial decisions.	1	2	3	4	5
2. The use of Ad Hoc groups	1	2	3	4	5
3. Periodic brainstorming by senior management groups for novel solutions to problems	1	2	3	4	5
4. The use of consultants	1	2	3	4	5
5. Formalized, systematic search for and evaluation of opportunities for acquisitions, new investments, and new markets	1	2	3	4	5
6. Use of staff specialists to investigate and write reports on major decisions	1	2	3	4	5

Control

	Used rarely or for small part of operations		Used frequently or throughout the firm		
1. A comprehensive management control and information system	1	2	3	4	5
2. Use of cost centers for cost control	1	2	3	4	5
3. Use of profit centers and profit targets	1	2	3	4	5
4. Quality control of operations by using sampling and other techniques	1	2	3	4	5
5. Cost control by fixing standard costs and analyzing variations	1	2	3	4	5
6. Formal appraisal of personnel	1	2	3	4	5

APPENDIX – SCALES (contd.)

7. Marketing information	1	2	3	4	5

Dynamism
Please answer the following with respect to your thinking about the future in this business:

	Rarely True		Sometimes True		Always True		
1. You can see up to five years ahead in this industry	1	2	3	4	5	6	7
2. You can pretty much predict what your competition will do	1	2	3	4	5	6	7
3. You can pretty much predict what customers will want in this industry	1	2	3	4	5	6	7
4. You can pretty much predict what suppliers will do	1	2	3	4	5	6	7
5. You can anticipate the timing of technological advances in this industry	1	2	3	4	5	6	7
6. You can anticipate the impact of technological advances in this industry	1	2	3	4	5	6	7

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PRODUCT LIFE AND AUTO RENTAL SALES

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ABSTRACT

This paper presents a statistical relationship between the change in product life and auto rental business. There is a significant negative correlation between the product life and the rental sales of automobiles in the Ugly Duckling Rent-A-Car in the city of Petersburg. As the product life of new automobiles used by the rental manager becomes shorter, the consumers tend to lease the automobile more. This study implies that the rental business in general will increase as the business competition and population expand in the economy. The shorter life span also implies that the price of most products will rise, as production cost and initial investment tend to be heavy. Non-price competition is also intensified in the rental business.

INTRODUCTION

The subject of services marketing has received increasing attention among academicians as well as the business community in recent times. This is rightly so, because our society is becoming a service-oriented economy. This is obvious in the employment pattern where nine out of every ten new jobs created in the economy are engaged in the service sector. A large portion of our personal expenditures is composed of spending for services. Rising average family income with the complexity of economic life and more leisure time have generated a greater demand for services in our economy [12].

Services marketing is diverse and complex in its structure and management. It includes a wide range of activities from medical and tax services to rental businesses of every stripe [2]. Service markets are characterized by intangibility and perishability of their products, inseparability between production and consumption, and heterogeneity [5] [10]. It may require a different marketing strategy tailored to meet the need of each marketing variable. The traditional marketing strategy may not be applied to the service sectors of our economy, as they are highly specialized in their field as well as more subjective in the decision-making process [9]. This emphasis on services marketing becomes even more important as we consider the international trade where a growing volume of export is composed of services [14].

The purpose of this paper is to ascertain a relationship between the change in product life and auto rental business. The auto rental activity is a part of services marketing. Every product goes through the life stages such as market introduction, market expansion, market maturity, and eventually declining stage of its products. It is generally accepted that the product life has become shorter over the years, as the rate of technological change has been accelerated in our economy [6] [7]. The competitive nature of our business environment has also shortened the life span of many products [3]. International competition has fueled pressure for producing new and better products for consumers.

This pressure is particularly conspicuous in highly technological products such as computers, electronics, military hardware, space and medical technology, as well as household appliances [13].

Likewise, in the field of auto rental business, managers tend to change the products as new and better products become available to them for renting. In the case of automobile rental business, the produce life can be measured by the number of months the new automobile has been used by managers for rental purpose. As expected, the time the automobile is used for rental purpose has declined over the years.

Price competition in auto rental firms tends to be quite stiff, since they offer essentially the same service to customers. Many auto rental firms face a difficult problem of demonstrating dependability and creativity in management. Therefore, firms have attempted to overcome this difficulty by price cutting, such as offering low introductory rates to new customers [8]. However, the new models of automobiles used for renting can provide some degree of dependability of service in the auto renting company. Consumers tend to place a greater confidence in new automobiles than in old ones.

New models for automobile renting tend to enhance the image of the rental company, as it represents a better service to the customers. A good image of service is even more important to a rental company than to a company that sells tangible products. Non-price competition becomes intensified in rental firms [4]. New models with comfort and dependability are of critical importance to the customers, as the auto rental business is personal service marketing. Consumers tend to choose a rental company on the basis of good image and reputation, as most customers use rental vehicles infrequently [11].

Because of the cost-oriented pricing strategies of most auto rental companies, the rental companies attempt to adopt a low contact system to minimize personnel and office costs [1]. Auto rental companies emphasize using marketing strategies designed to meet low contact personal strategies, as it is more economical. For example, automated rental procedures with a minimum personal contact can be considered in its management.

A few past studies include research work on the characteristics and behavior of the product life cycle, consumers' attitude toward product and marketing strategies [13]. However, no previous study has been published concerning a relationship between the product life and the auto rental activities. Therefore, this study should be not only useful to many local marketing managers, but also applicable to many small towns, similar to Petersburg in size and demographic characteristics. The main hypothesis of this study is that the car rental sales increases significantly when the product life decreases. The statistical methodology of this study is first examined.

STATISTICAL FRAMEWORK AND RESULTS

This study is based on primary data obtained from a local rental automobile firm, Ugly Duckling Rent-A-Car, Petersburg, Virginia. The product life is measured by the duration (months) of new automobiles used by this firm. The dependent (rental sales) and independent variables (product life, population, income) were obtained from the Ugly

Duckling Rent-A-Car for the period of 1974 through 1985, as shown in Table 1. The rental sales and household median income have been adjusted by the Consumer Price Index published by the U.S. Department of Labor to obtain the real values.

Multivariate regression techniques were used to estimate the equation for the rental sales of Ugly Duckling Rent-A-Car in the City of Petersburg, Virginia. The general expression used for predicting Y, rental sales of automobiles were

$$Y(i)= b(o) + b(i)X(l)(j) + b(2)\ x(2)(j) + b(3)X(3)(j) + u(j)$$

Where there are three independent variables (product life, population, and household median income) as described above, with 12 observations of each associated with an observed value of the independent variable Y. Thus, i(th)= 1, 2, n; bi is the coefficient of the ith independent variable; Y i is the ith independent variable. In this equation, uj is a random component assumed to be normally distributed with the mean at zero and the variance at 2/a. In all sampled cases, all available data were used, and no attempt was made to determine whether some subset might be found essentially equal to the predictive value of the full set. Hence, each regression coefficient in any given equation is understood to be adjusted for all intercorrelations among the independent variables in that set.

TABLE 1. Rental Sales, Ugly Duckling Rent-A-Car, Petersburg,Virginia

Years	Rental Sales*	Product Life	Population	Household Median Income*
1974	$ 75,650	4.0	38,103	$11,036
1975	84,243	3.8	38,500	12,073
1976	96,884	3.6	39,103	13,376
1977	105,781	3.4	39,603	14,118
1978	114,865	3.2	40,103	15,044
1979	121,376	3.2	40,503	15,471
1980	130,249	2.9	41,055	16,435
1981	148,408	2.8	41,050	13,040
1982	171,084	2.7	41,034	22,066
1983	194,005	2.6	41,030	24,200
1984	210,981	2.5	41,000	26,317
1985	234,716	2.4	41,000	285,459

*These figures are deflated by Consumer Price Index.

Sources:

U.S. Bureau of the Census, General Population Characteristics, Vol, Part 48 (Washington, D.C.: Government Printing Office, 1982). p. B-1.

Knapp, John L. and Cox, Robert W., Median Family and Median Household Income in Virginia's Counties, Cities, MSAs, and Planning Districts. Taylor Murphy Institute, University of Virginia (Charlottesville, Virginia). 1986.

U.S. Department of Labor. Monthly Report on Consumer Price Index. Bureau of Labor Statistics. 1974-1986.

Table 2 presents the results of the rental sales equation. The coefficient of multiple determination (R2) resulting from the equation for the Ugly Duckling Rent-A-Car is 0.99434 with F being 233.572, which is significant at the 99 percent probability level.

The product life of renting automobiles is negatively and significantly correlated with the rental sales. As the product life decreases, the rental sales increases significantly. As noted, the population in the City of Petersburg has slightly decreased in recent years. The population in the city of Petersburg is negatively correlated with the rental sales with no significant relationship. As expected, household median income is positively correlated with the rental sales with no strong evidence for significant relationship.

As shown in Table 1, the rental sales increased from $75,650 in 1974 to $234,716 in 1985 in the Ugly Duckling Rent-A-Car, while the product life decreased from 4.0 years in 1974 to 2.4 years in 1985.

Therefore this study accepts the hypothesis that the car rental sales increased significantly when the product life decreases.

CONCLUSIONS AND IMPLICATIONS

This study demonstrated that there is a significant negative correlation between the product life and the rental sales of automobiles in the Ugly Duckling Rent-A-Car in the City of Petersburg. As the product life of new automobiles used by the rental manager becomes shorter, the consumers tend to lease the automobile more. Therefore, the hypothesis of this study was accepted. A shorter life span of a product tends to reduce an economic and psychological incentive for consumers to purchase the product. The value of ownership may be less than the value of the product. The concept of break-even analysis may be applied implicitly to the extent that a consumer will decide to rent a given product if the cost of purchasing exceeds the rental value of the product.

This study implies that the rental business in general will increase as the business competition and population expand in the economy. As the society becomes a more service-oriented economy, rental activities are projected to expand. The rental market outlook for selected products such as garden equipment, sporting,goods, especially ski equipment, computer hardware and software, home computer, rental property such as apartments, second houses, trailer houses, selected dressware such as tuxedos, wedding dresses, special occasion dresses and baby equipment should be attractive.

The shorter life span also implies that the price of most products will rise, as production cost and initial investment tend to be heavy. Marketing firms attempt to recover the initial investment as well as expected profits from sales. These interacting forces tend to raise the price of products. The promotional strategy tends to be intensified for the products of a shorter life. The promotion should be both for primary as well as secondary demand. The distribution channel of service markets tends to be more direct as the sellers transact the services directly to the buyers as in cases of medical and tax services, rental services, and educational services. The quality of service is of critical importance to service marketing, as the quality affects the good image of the service firms. Therefore, marketing strategy should combine the appropriate strategy of selecting the target market as well as the marketing mix to generate the best possible marketing program for service markets. Price competition in an auto rental company is severe, as most rental firms offer the same service to customers. Non-price competition is also intensified in the rental business. Building a good image of auto rental firms is essential, as consumers decide their preference of a rental company on their perceived quality and good image of the company. Many customers utilize auto renting rather infrequently. Service transactions usually take place before a buyer can evaluate the quality, as the defective services cannot usually be returned to the seller. Services marketing is significantly different from products marketing, because of intangibility and perishability of the products, inseparability of production and consumption, and heterogeneity of its products. Therefore, new marketing strategies needs to be designed to meet the needs of the new marketing variables.

TABLE 2. Analysis of Factors Influencing the Rental Sales in Ugly Duckling Rent-A-Car(a)

Independent variable	Coefficient	Beta	Standard error	F
Product life (X 1)	- 135817.05	-1.3853	27283.35	24.781*
Population (X 2)	- 32.13	-0.6782	9.38	11.735
Household Median Income (X 3)	2.04	0.2368	1.02	3.981
Constant	1815358.88			

(a) The multiple coefficient of determination for the equation is 0.99434.

* Significantly different from zero at the 0.01 level.

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AN EXAMINATION OF THE ATTITUDES OF CLIENTS AND STUDENTS IN THE SBI CASE SITUATION

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ABSTRACT
A study was conducted to examine the attitudes of clients and students in the SBI case situation. The results indicate that both the student and the client receive benefits. The study suggests that although the benefits are high it appears that it is necessary to better educate the client regarding the purpose and procedures involved in SBI projects. Additionally, it appears that the students should be better educated with regard to communication skills, mainly the art of listening.

INTRODUCTION
Client-student projects are rather common in colleges of business today. Most colleges of business have some form of client-student type projects either through marketing research classes or via SBI projects. The literature has addressed numerous aspects of client-student research projects, mostly with regard to the implementation in marketing research classes. Discussions have been concerned mainly with methods of implementation, inherent problems, guidelines for instructors to follow, etc. (Browne 1979; Humphreys 1981; Richardson 1980; McCain and Lincoln (1982) (1), (3), (4), (6).

The existing literature has for the most part, neglected the investigation of the positive aspects of the student-client project. Henke (1985) (2) made an attempt to measure the success of a project by examining student perspectives, however, his evaluation was simply a number of quotes gathered at the end of a semester. Ramocki (1987) (5) attempting to assess the effectiveness of the applied marketing attempted to measure attitudes toward research project solicited the attitudes of both client and student. Ramocki concluded that the approach has a profound effect on student learning and futhermore the client should receive major benefits.

To reiterate, most studies concerning the client-student project have centered on the marketing research class. Thus, utilizing Ramocki's methodology, the primary purpose of this study is to explore the attitudes of both client and student regarding the SBI case situation.

THE STUDY
The study was initiated in April 1987 and completed in June 1987 at the conclusion of the spring quarter. A total of 18 students participated in groups of two or three, consulting with seven clients. The projects were quite representative of the typical SBI cases. They included a lumber company, a small research lab, a travel agency, a door manufacturer, a motel, a video production company, and an equipment rental company.

Two different questionnaires were employed, one for the students and one for the clients. The participants were unaware that a formal study was in progress and the questionnaires were completed at the conclusion of the projects.

The Student and Client Questionnaires

The student and client questionnaires were constructed somewhat differently because of the different perspective of the two different groups. However, both questionnaires utilized Likert scales to measure attitudes toward the SBI case situation. The client questionnaire attempted to measure attitudes toward the student, results of the project, and community relations. The student questionnaire measured attitudes toward the client, research ability, learning, effectivenss of the project, and behavioral characteristics. The essence of the questionnaires may be seen in Table 1 and 2 (although abbreviated because of space limitations).

TABLE 1
CLIENTS' ATTITUDES TOWARD THE SBI PROJECTS

Constructs and Descriptors	(1) S.D.	(2) D.	(3) N.	(4) A.	(5) S.A.
1. Perceived student competence:					
a. Interest				43	57
b. Professional				14	86
c. Capable			43	28	29
d. Reservations		43	43	14	
2. Methodology:					
a. Listened			14	43	43
b. Data Analysis				43	57
c. Study Overall				28	72
3. Projects Results:					
a. Meaningful				43	57
b. Effective Oral				28	72
c. Effective Written				28	72
4. Community Relations:					
a. Desirable Service				43	57

Percentage of Clients Expressing the Attitude (N=7)

TABLE 2
STUDENTS' ATTITUDES TOWARD THE SBI PROJECTS

Constructs and Descriptors	(1) S.D.	(2) D.	(3) N.	(4) A.	(5) S.A.
1. Client's knowledge/ behavior:					
a. Goals		6	17	56	21
b. Enthusiasm			21	17	62
c. Cooperative		11		39	50
d. Helpful		28		28	44
e. Confidence			6	56	39
2. Self-perceived ability/ confidence:					
a. Communicate			6	66	28
b. Study Doubts	6	28	39	28	
c. Knowledge			17	78	6
d. Helpful				72	28
e. Confidence			17	56	28
3. Learning:					
a. Beneficial				50	50
b. Insights			17	44	39
c. Oral			6	62	33
d. Similar Study			6	62	33
4. Effectiveness:					
a. Goals			6	78	17
b. Clients Pleased				62	39
5. Behavioral:					
a. Group			6	72	22
b. Individual			17	61	22
c. Effort			17	44	39

Percentage of Students Expressing the Attitude (N=18)

RESULTS AND DISCUSSIONS

The results indicate that the SBI case situation (i.e., an applied research approach) is very worthwhile from both the students' perspective and the clients' perspective. Table 1 shows the clients' attitudes toward the SBI projects and indicates the clients perceived the cases as being very successful. Clients perceived the students to be responsible and competent however the clients had mixed feelings as to whether the students were capable of acting as management consultants. This latter result is probably a reflection of the students' ages and the "classroom situation," as the clients scored the students very high on methodology. Additionally, the clients felt that project results were meaningful and that the service provided was desirable. It is important to note that the clients appeared to have some reservations about the client-student relationship at the start of the projects but no reservations at the end of the projects. These reservations could be due to the uncertainty and lack of client understanding about SBI projects. At any rate it would appear that clients need to be better educated as to the purpose and procedures of SBI cases. One further note seems appropriate, it seems that the students could listen a little more attentively to the clients.

Table 2 depicts the students' attitudes toward the research projects and indicates that the client-student cases were successful from a pedagogical perspective. Clients were seen to be supportive and cooperative in general. However, there were some clients not as cooperative and helpful as is hoped. This, of course, is critical to the whole process and is necessary if the client-student relationship is to culminate in a mutual beneficial experience. This observation seems to be in coincidence with the finding from the client questionnaire indicating that client education may be necessary. Students perceived themselves as being able to perform the study tasks but did have some doubts as to the outcome of the study. This latter finding is not surprising considering that most of the students had never before been thrust into this type of client-student situation. Learning, which is of primary importance to the instructor, appears to have occurred. All students agreed that the experience was beneficial and most believed that could now perform a similar study solo. The students considered the effectiveness of the study as being very good and indicated that the client was pleased. This seems to confirm the notion that learning in fact did occur. The behavioral dimension is somewhat difficult to interpret. While most students felt this type of project required more effort than a normal class, there seemed to be some discord within the groups. This finding although not unusual is cloudy in its interpretation. It probably reflects the normal conflict that is suggested by group theory. Overall, the students attitudes were very positive toward the SBI projects.

Comparative Results

Two constructs were employed to match clients' and students' perceptions. The constructs are whether the project achieved its purpose and whether the results were useful. Table 3 provides the comparative results of clients' and students' attitudes concerning project purpose and usefulness and indicates considerable agreement. The agreement between clients and groups concerning purpose and usefulness is very high. This correlation reinforces the results and conclusions presented so far, as it adds some validity to the obtained responses. Interestingly, the clients believed more strongly than did the students that both the purpose of the project was achieved and that the results were useful. Some light as to the reason for these slightly different perceptions may have been shed earlier in the paper. A likely explanation for the clients attitudes may be that they were unsure as to the purpose and procedures of the project. Further they were most likely dubious of the students. Again reinforcing the notion that the clients need education concerning SBI projects. It would seem that, as indicated earlier, the students felt less strongly about purpose and usefulness than did the clients due to less than optimal communication between the clients and students.

TABLE 3
RESULTS OF INDIVIDUAL GROUP VERSUS CLIENT ASSESSMENTS OF ACHIEVED PURPOSE AND USEFULNESS

	Achieved Purpose*		Results Useful**	
Project	Client Mean	Group Mean	Client Mean	Group Mean
Project 1	4	4	4	4.5
Project 2	4	4	4	4
Project 3	4	4	4	4.3
Project 5	5	4.7	5	4.3
Project 6	5	4.3	5	4
Project 7	4	4	5	4.3

* Responses indicate degree to which the project achieved its intended purpose. A Likert scale was employed with 1 being strongly disagree to 5 being strongly agree.

** Responses indicate degree to which the results will be useful to the client. The same Likert scale was used.

CONCLUSIONS

Certainly there are some limitations concerning generalizations that can be made from this study due to the relatively small sample size. However, the group of cases sampled in this study are representative of the typical SBI case that these authors have experienced. Additionally, the results are intuitively comfortable.

The results strongly imply that both the client and the student receive benefits from the client-student situation in the SBI case situation. Students completing the course demonstrate high levels of learning and satisfaction. Clients are pleased with the assistance they received and believe it to be very beneficial. In general SBI projects seem to strengthen relations between community small businesses and the college.

Furthermore, the study suggests a few prescriptive guidelines for instructors and/or SBI directors. It would appear that a better effort is necessary in education the client regarding the purpose and procedures involved in SBI projects. This seems to be an important step in order to relieve anxieties of clients that could interfere with the client-student relationship. Additionally it appears that the students should be better educated with regard to communication skills, mainly listening.

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"THE ACTION LEARNING MODEL FOR NEW STARTER MANAGEMENT TRAINING"

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ABSTRACT
The methodology of Action Learning has been transposed from its wider use, in management development in large organizations, over to specifically designed programs for new owner managers. An analysis of several variables both of faculty experience and of surveyed participants' perceptions reveals an effective learning experience within this different application area of small business.

INTRODUCTION
Action Learning is both a pragmatic approach to problem solving and an alternative methodology for management development. Although the model presented by Ravens (1) has been widely adopted in a number of large organizations in the UK and overseas (2,3,4,5) its application to small firm training appears still in its infancy and as yet unproven across a range of situations (6,7,8,9,10). In a sense the emphasis on action in action learning is not new as many management training programs seek to encourage positive changes in behavior as a major objective. However, as suggested by Ramirez (11), action learning originally stems from a reformulation of existing concepts from such areas as small group dynamics, experiential learning, learning theory and scientific methods of enquiry. This reformulation coalesces previously disconnected activities into a integrated, broader approach to management development.

As a management development methodology, the emphasis is on self development, through action, supported by fellow learners. These learners, formed into groups or 'sets' of five or six participants, each work on a management problem of substance that requires analysis, conceptualization and action. The process has been described by Revans (12) as:

"A means of development, intellectual, emotional or physical, that requires its subject through real, complex and stressful problems, to achieve intended change sufficient to improve his observable behavior in the problem field . . . subjects learn with and from each other by mutual support, advice and criticism during their attacks upon real problems."

This paper has two objectives. Firstly it is concerned with reviewing the relevance of the action learning model to new business starter training based upon the experiences of both authors in the North East of England. Secondly, attention will focus on participant's perception of the processes experienced during involvement with action learning sets. The field investigation concentrates primarily on the issues associated with the complex interaction of variables that take place during peer group exchanges. No attempt will be made to hypothesize casual links between the adoption of an action learning approach and resultant business outcomes, but a number of areas that merit further investigation will be highlighted.

MANAGEMENT TRAINING FOR THE START UP BUSINESS

The growth of interest in the small firms sector has encouraged the development of a comprehensive small business training infrastructure in the UK (13). Responses to emerging training needs have been diverse in both focus and delivery as a large number of polytechnic and colleges, along with some universities, have become closely involved with training and development for the small firm. Although sponsors are varied, a prime influence source has been the Manpower Services Commission, particularly in the new starter area. Three main programs formed the basis of their involvement in new starter training prior to reorganization in late 1986. These programs were:

(a) The New Enterprise Program: Designed for manufacturing and industrial service businesses with good job creation potential. Operated from five major business-schools.

(b) The Small Business Program: Located in colleges and polytechnic to cater for a variety of new ventures, at a localized level, where potential for growth may be more limited.

(c) The Self Employment Program: Designed to facilitate the transfer hobby or work related skills into profitable self employment.

In many cases the development of the above and other programs represented a significant departure for educational establishments from traditional areas of operation. This has resulted in a period of modification to meet emerging patterns of need in the small firms market. Issues of researching, staffing, administration, marketing and not least teaching approaches have needed re-examination in the light of new experiences when dealing with a highly differentiated sector. Of particular concern has been the adaptability of 'academic expertise' to the needs of the small firms. It has been widely recognized that participants on small business programs differ substantially from those on degree/ certificate based courses and furthermore they have little interest in and patience with academically based courses. Various writers have concluded that approaches need to be goal-oriented and problem centered (14), multi-disciplinary (15,16) and action based (17,18) with a minimum of jargon and indigestible material. A particular structural problem is created in small firm management development due to the synonymity between personal development and organizational development. In many cases owner-managers may be unwilling or unable to accept a linkage between a recognized organizational need and an externally diagnosed personal development need (19).

Given the above concerns the selection of teaching methods in relationship to learning needs is likely to merit serious examination and reflection by the small business trainer. Traditional academic delivery systems such as lectures, case studies and even tutor led discussions may be inappropriate if they cannot generate changed behavior in an organizational context. Knowing about managing a business is one thing, actually the instrument to implement change and growth in a new business, quite another. For example, Pettitt and Kirkwood (17) expressed concern about an apparent gap between the wide variety of marketing training-inputs for the small firm and the resultant poor levels of marketing performance recognized by a number of observers (20,21,22). The transfer gap could be regarded as a major issue in small firms training provision effectiveness.

Facilitating the narrowing of the transfer gap is central to any rationale for the adoption of an action learning model for small firm training. Of course there is a role for a well prepared lecture, supported perhaps by pertinent notes, in imparting fresh concepts and ideas to the new starter. Information concerning administrative systems, business techniques and other essentially 'programmable' knowledge has a vital role in explaining clearly defined 'ways of doing things'. However there may also be other situations that do not lend themselves readily to programmed responses. The theme for this conference 'Adapting for Success in a Changing World' is perhaps indicative of the very real challenges facing the new starter entering a dynamic, complex and uncertain environment.

With such environmental turbulence learners need to be able to cope with the unexpected challenges and situations where ready- made, programmable answers may not be appropriate. The management trainer needs to tackle the problem of providing learning experiences for new starters seeking to acquire problem- solving and decision-making skills in situations of such turbulence. Action learning provides this experience within the context of the new venture and therefore has little need for simulation, lectures or case studies as each situation is essentially a live start up problem that demands comprehension of the environmental situation and a series of considered managerial responses. These evolve through a model of Understanding Action Experience and subsequent Reflection which may lead to further Understanding as a basis for revised action (see Fig 1). Of course inputs of knowledge, ideas, concepts and techniques can assist in the speed and direction of this learning process but the key distinction compared with traditional methods is that theory may follow rather than precede practice. Theory and practice are therefore seen as part of a continuous learning process. Although there are inherent dangers in generalizing about either the small firm population or the new starter (23) given the wide variations in products, markets, competitive environments, technologies, organizational forms and not least the owner manager in terms of values, experiences and objectives there may be merit in seeking to explore a number of underlying determinants of new starter training needs.

FIGURE 1
THE KOLB - RUBIN - McINTYRE EXPERIENTIAL LEARNING MODEL AND CORRESPONDING TRAINING ACTIVITIES

```
                  --------------- Concrete Experience ---------------
                  |              (Action Projects)                  |
                 \|/                                               \|/
     Active Experimentation                          Reflective Observation
(Now Questions, Plans,                               (Individual/Group)
Activities)                                                         |
                 /|\                                                |
                  |                                                 |
                  ------------ Abstract Conceptualization <-----------
                              (Transfer to Business)
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While it could be argued that all organizations face environmental uncertainty there are various information gathering strategies and learned responses (24,25) that may reduce its overall impact. However new starters, often with limited resources to gather information and perhaps with little prior experience of environmental influence are likely to face a period of extreme uncertainty and unpredictability during the start-up process. It has been argued that the owner manager's ability to learn and respond to new experiences is critical to the success of the fledgling business (26). The environment facing the new starter need not be dynamic in terms of rapidity of change, indeed many often enter relatively stable, mature areas; it may be the sheer complexity, interrelatedness and pace of thinking required that represents the significant challenge. Often the market related areas pose the major need for rapid learning. Product Innovation, New Market Opportunities, Competitive Actions and resultant strategic responses may require radical departures from the original plan. There is little substitute for market testing and experience in assessing business viability so the first business plan may give a rationale and direction, but the ability to respond and adapt may strongly influence eventual outcomes. In such an uncertain environment the premiums may well be on flexibility, modification and changing to situations unperceived at the time of starting. Ravens (27) argues that it is the ability to ask discriminating questions that forms the basis for an individual to cope with the unexpected. Programs that offer an approach based on knowledge acquisition rather than on developing a questioning/ reflective style may not adequately prepare the new starter for subsequent problem solving. Action learning does offer the opportunity to facilitate a more effective use and re-interpretation of previous experience through a process of reflection and peer group involvement.

Managing Complexity

Whereas the tendency of traditional models of management education is to compartmentalize a range of inputs into discrete areas for detailed analysis, the world of the manager often reflects the need for a holistic, multi-disciplinary perspective (28). This is particularly true in the start-up situation where the owner manager needs to perform a non specialist, multifunctional role. Many of the problems facing the new starter often appear overwhelmingly complex. Effective decisions are likely to encompass a knowledge of the business markets, sources of information, a gathering and analysis of information, identification of alternative directions and finally, but not least, the implementation of findings. This process may require the owner manager to develop iconic thought processes, linking patterns, across a range of functional areas and is in marked contrast to the more mechanistic skills demanded of specialist technique based disciplines.

Given such complexity, especially when faced with limited time, resources and expertise (29), again the question must be asked if traditional models are encouraging a capacity to handle multi- dimensional problem solving. Action learning does encourage 'learning by doing' and whilst accepting that 'mistakes' or 'suboptimal' decisions may be made, does allow a focus on the multifaceted nature of problem solving in the start up process and so with the additional support of the peer group network better handling of complex decision making may be facilitated.

Managing Networking

Social networking has emerged as a fundamental explanation of entrepreneurship and as a successful initiation into an entrepreneurial role (30,31). Granovelten (32) suggested that the diversity of social ties is linked to the scope of opportunities open to that person. The new starter with only a limited background in business may only have developed weak ties in the local community. This may seriously impede information flow about potential sources of capital, premises, business procedures, suppliers, new innovations and of course potential new product - market areas. Therefore, an ability to effectively network may speed up the establishment of business relationships and to expand the customer base.

But can networking be taught? Clearly a simple provision of lists of potential sources of help may assist the new starter develop contact patterns above the narrow range of personal contacts often found. However perhaps the problem goes deeper. It is often reported that owner managers tend to ignore sources of external support despite being aware of their existence (33). This may reflect an unwillingness, a lack of trust or perceived incapability of being assisted by 'an outsider'. The very processes that encouraged the entrepreneur to seek an independent career may exacerbate networking effectiveness. Action learning, through its emphasis on group learning, sharing and exchange may enhance the new starter's desire and ability to develop stronger tie networks.

It has primarily been argued in this section that new starter training focusing primarily on system and technique rather than on more fundamental learning skills may reduce the effectiveness of the overall launch plan. The discussion has concentrated on preparing the new starter for the unknown in order that appropriate, flexible responses may be realized for problems unperceived at the time of initial training. The theme has evolved around the skills of learning as a basis for ongoing problem solving. Mumford (35) has proposed a number of critical skills associated with setting performance standards, identifying learning needs and opportunities, analyzing personal learning preferences and blockages.

The development of critical learning skills of Listening, Taking Risks, Sharing, Accepting Help and Monitoring Achievement rarely stems from passive learning. Only through action based experiences can process rather than just task based skills be developed. Action learning provides an opportunity for such a combination in a format highly relevant to the prime issue – the business launch.

THE ACTION LEARNING MODEL

Boddy (36) suggested that there is 'no universally appropriate way of designing an action learning program' and that the strength of the approach was in its flexibility to cater for the needs of a variety of managers in different organizations. However he went on to argue that action learning was not a soft option compared with designing a formal program and that attention must be placed on the complex processes and components of a program. These key components and processes of the action learning model are described in this section with reference to new starter training.

Individual Development Projects

The project is the main vehicle to facilitate learning activity. Without a Project that involves working with and on an unprogrammed situation there is likely to be less opportunity for action, reflection and modified behavior. Although it is impossible to be prescriptive about the nature of projects, a key characteristic appears to be the type of learning it generates. In a large company context the project may be a topic involving strategic, functional or organizational issues where ownership and responsibility for implementation are clearly defined. In a small firm context, the start up process involving planning and implementation can parallel the large company situation. The process of starting a business is a complex, turbulent and iterative affair involving high degree's of personal risk and uncertainty. Rarely do expected and actual outcomes match, reflecting the need to adapt and change to evolving circumstances.

In reality the start up process is not one discrete activity but a series of sequential or complementary decisions involving products, premises, legal forms, markets, etc. Therefore the project is in fact likely to be a series of 'mini projects' that transforms the idea into a business form over time. Each problem area faced is likely to demand action if progress is to be maintained, although of course some are likely to pose more serious obstacles than others and may at times result in the abandonment of the overall start-up project.

Although not all action need be developmental, some managers are often seen to 'do a lot of things, but to learn very little', the process of learning by reflection and questioning of actions is crucial to effective management development. Given the high degree of risk associated with start up, both financial and psychological, new starters may be less prepared to submit their business idea to critical appraisal and to take on board criticism which could be seen as personal rather than organizational. However overall many of the qualities of a 'good' action learning project seem to be found in the start up process 'project'.

The Action Learning Set
The group meeting or project 'set' of fellow learners is another dimension of the action learning model. It has been argued by Ravens (37) and Leavitt (38) that the environment of 'mutual self help' created by a group of participants working on their respective projects and sharing problems, experiences and values, can actually reinforce both task and behavioral learning. Members of a set involved with start up are likely to be in different stages of development and experience which may provide a source of expertise and encouragement to less advanced members. Regular meetings of the five or six participants does allow an individual to outline progress on the project and to be exposed to alternative, perhaps unconsidered perspectives.

A number of issues concerning structuring and operating action learning sets are worthy of examination.

(a) Composition of the Action Learning Set

The full benefit of 'mutual self-help' and group interaction is unlikely to be achieved unless careful thought is given by the trainer to group composition. Casey (39) suggested that a group benefits from having a rich mixture of personal qualities and skills rather than have a concentration of experience and ability in one group. MacNamara and Weekes (40) also refer to the importance of properly formed groups within which diverse perceptions of situation by different members contributes to the learning process. Gibb (41) in the small firm context suggested that owner managers at different stages of development may assist each other and help overcome problems that had already been tackled by the experienced members. At this stage it would be premature to speculate on the 'ideal' learning set profile given the wide range of personal and environmental profiles to be found with new starters. However there may be merit in considering owner manager learning styles and identifying whether some combinations are better for effective action learning sets (42). Similarly the mix of business types, products, markets etc are also worth considering in the search for the ideally 'balanced' group.

(b) Group Processes

A number of activities take place during set meetings and the set advisor needs to be cognizant of these activities and to ensure a reasonable balance between them during the program. The activities are briefly considered below:

- Task Assistance with the Start Up Project

Regular meetings of fellow new starters creates a forum from which members can learn from each other and to seek direct help from the group. Rather than create tutor or set advisor dependency, the peer group becomes the first line of assistance for the new starter. If new starters are at different stages in their intellectual or business development, a rich source of combined experience is available to the group. The exchange of assistance may accelerate learning through the start up process by identifying problem issues earlier and highlighting a wider range of visible solutions (44). This could be particularly true when blockages are experienced in networking, financial support, premises, or market contacts.

- A Source of Peer Group Pressure and Support

Blockages and unforeseen diversions from the original business idea may be extreme sources of frustration for the new starter. Such frustrations may reduce motivation and commitment as well as potentially impairing the rate of resource flow from the market place (45). The group may act as a source of encouragement and support to sustain momentum and to propose new ideas, as suggested in the previous section, to alleviate the problem area. The role of the peer group as a source of pressure on the new starter to report developments may be more problematic for the small firms trainer. Although there is merit in identifying at an early stage the 'doers from the dreamers', there may be a danger in over-stimulation of a project that may not merit further investment of time or resources. However it can also be argued that some pressure may prompt some momentum during a more difficult period.

- A Forum for Progress Review

In the process of discussing individual developments associated with the start up project, progress since the previous meeting can be reviewed. Whereas managers in large organizations are familiar with the need to regularly review progress, such a discipline is less prevalent in new start situations given the absence of external sources of pressure. This discipline however needs to be accepted and the progress review undertaken in the set may facilitate broader reflective learning on tasks, skills and in how to interact with fellow learners in an unthreatening environment.

- The Role of Formal Inputs

Set meetings provide an opportunity for formal inputs to be presented to the group. Action learning in its 'purest' sense may have little time for knowledge based inputs but there are obvious dangers with new starters having no conceptual frameworks to guide their business development (46). The contrasting experiences of the group can assist in the building of such a framework but formal inputs may speed up the process. Action learning programs for new starters are likely to vary considerably in the nature and extent of formal introduction to business skills, techniques etc. For example one program might adopt a problem rather than subject orientated approach with a focus on such issues as finding appropriate markets, formulating and implementing growth strategies, building a team and managing change. Meanwhile Lessom (47) reported on the URBED new starter program that a four day intensive program of business techniques was introduced to the action learning activities.

(c) The Role of the Set Advisor

Harries (48) states that the set advisor's role is to help members benefit fully from the learning opportunities generated from the action and in the set meetings. Being an outsider, without a project is, he suggests, a strength that enables the set advisor to more easily take a detached perspective that those more closely involved with the process cannot have. The justification for the advisor's presence is that of the calm focus of a coaching referee and the objective is to facilitate the learning process.

Again Casey (49), along with his view that the peer group is the prime source of help in Action Learning, emphasizes the need for a set advisor as a special member of the set whose rule is to facilitate learning. Both he and Harries (50) comment on the semantic problem of the title 'set advisor' and make clear the point that the advisor does not have project expertise. He construes a duality within the roles: facilitating giving and facilitating receiving. This reflects the need to help members give to each other by asking questions - "generous questioning" aimed to help the person being questioned rather than to score debating points and also to help members give out their opinions in a frank and open manner. Another aspect of 'giving' is to encourage members to give emotional support and backing to others in an unselfish manner. Facilitating receiving is more difficult than facilitating giving. The task is to try and reduce the defensive barriers of resentment and rejection that quickly develop in a member when doubts are expressed by others. It is unlikely that new starters would adopt the giving and receiving roles without the guidance of the set advisor unless they have developed interpersonal skills.

The role of the set advisor is crucial to the satisfactory establishment and operation of action learning programs. Tutors more familiar with traditional approaches to management education may be uneasy with a role that does not draw upon their business expertise and skills. It may well be that tutors trained in group dynamics and interpersonal skills are more appropriate as set advisors for action learning sets and that the business specialist should be left to perform a counseling or formal input role. However some contextual understanding of business by the set advisor will be necessary in order to identify critical blockages of a task rather than a behavioral dimension and to exercise a facilitating role to enable the group to overcome these. A degree of business expertise is also required to support the group in its process of helping individuals to deal with external network relations such as liaison with potential financial sponsors, support agencies or trade contacts.

There is not one prescribed way to work as a Set Advisor for small firm. Some may contribute to the business aspects of the start up project, others may act only as a prompt when considered necessary. As more centers experiment with action learning so there will be more opportunities to share experiences on the type and extent of intervention. Having considered the general background to action learning for the new starter and in describing the key components and processes of the model, attention will now turn to the direct experience gained at Teesside Polytechnic with Action Learning programs over a four year period.

THE TEESSIDE EXPERIENCE

The Small Business Action Learning Programs

The Teesside initiative was to obtain approval to implement their own design of a Small Business program to be based fundamentally on Action Learning and outlined as follows.

Twelve selected new business starters are split into two groups or Action Learning 'sets' with a tutor as 'set advisor' or leader for each group of six. For the 3-month period of the program they meet as separate discussion groups for one and a half days each week and join together for approximately half a day per week to hear various tutors and small business experts give talks and presentations about the knowledge and skills required to start and run a business. For the rest of the week the participants are taking individual action to get their own small business start up projects off the ground. The set or group discussion is concerned essentially with generating behavior to this end. This paper now reviews our experience in operating 8 such Action Learning Small Business Programs over a period of approximately four years between 1983 and 1986.

Recruitment and Selection
Recruitment and selection of participants is by advertising, explanatory presentations, application forms and an activity based selection process. Typically advertising would yield 120 initial responses with 45 of these going on to complete an application form. Approximately 16 of these applicants would be selected for interview on the criteria of good potential business viability and potential for employing other people. The remainder would probably qualify for a Self Employment Program. These candidates for the Small Business Program would then participate in a one-day group selection process which may raise doubts about some of the business proposals or perhaps about the applicants themselves and which enables the final 12 participants to be selected.

The selection day comprised a series of tasks and group discussions associated with product and customer issues of marketing, assessing business viability, personal issues and learning needs. Observations were noted by staff tutors attached to the groups who met later on to discuss marginal cases. The main reasons for rejecting candidates as a result of these personal interaction processes were doubtful market or business viability, low employment potential, or lack of real intent to start a business. More rarely candidates appeared who had had their earning needs already fulfilled by other means or who seemed to lack learning ability.

Composition of the Action Learning Set
How were the issues of structuring the Action Learning set that we have already referred to handled in the Teesside programs? The process of forming the 12 selected participants into two sets or groups was a combination of self determination by participants with some influence by tutors. The participants were encouraged to move into the mode of group dynamics by taking some action for themselves. On the other hand by suggesting a nucleus of perhaps two people around which the set could be formed and by negotiating a rounding off of the final decision the tutors or set leaders hoped to finish up with some balance in personal and environmental profiles within each group. Rarely is it possible to generate ideally balanced groups so how did this application of social engineering work out?

Our groups had an age distribution which avoided either predominantly young groups on the one hand or older groups an the other and each group was likely to have 1 - 3 females. The age distribution was often allied with a useful spread of experience. Too much concentration of experience of business, whether large or small, was to be avoided and difficulties could arise if two or three such people were located in one set. These difficulties were more associated with closed minds and an over confident unquestionable offering of advice in the one group rather than the consequent lack of mature opinion in the other group. Given our avoidance of groups that were all potential retailers or all setting up as manufacturers there was merit in having pairs or triads of businesses of similar type, products offered, or markets served. Sometimes an abrasive or even idiosyncratic participant prompted the need to implant in the group a person with good social skills in handling people as a suitable counterbalance.

PROGRAM CONTENT

Formal Inputs

A number of general questions have been raised in this paper about the role of formal inputs and their structuring within the action learning model. How then were these issues resolved in the Teesside Program? The early pilot programs were inclined towards a purist approach and no formal inputs were offered during the first few weeks. The idea was that the sets themselves would through their analysis and reflection of progress in their start up projects and arising from encounters with those parts of the complex and turbulent environment that affected them individually, discover and evolve a pattern of formal inputs to meet the learning needs of the two sets. These needs might vary of course from program to program and hence would only be planned as they emerged from set discussions. Essentially there were two main problems with this approach. It was difficult to plan inputs by outside experts at very short notice and the perceived needs of participants were of a short term horizon taking no account of the medium term future. In the event the formulation and sequence of presentations that was distilled to match the most typical pattern of action stages that had emerged experientially from our start up clients are summarized in Fig 2.

FIGURE 2

Products/Services-Pricing-Market Research-Assessing Business
Visibility-Cash Flow Techniques-Premises
|
\|/
Advertising and Promotion-Source of Finance-
Sources of Information-Insurance
|
\|/
Books & Record Keeping-Accounting-Control Systems-
Profit & Loss-Business Organization-Employing People

Group Processes

During the implementation of the programs what variety of activities actually took place during set meetings? The overall structure of set activity comprised two sets of 6 participants and a set leader who met each week for a day and a half. Each participant had his own 'air time' exclusively devoted to discussion of his situation. This air time varied between one and four hours according to the needs of individuals and their situations which changed over the life of the program. The variety of activities, topics, situations which were executed or discussed are considered below.

(a) Task Activity

The prime interest of the group was obviously the start-up project of each participant. The activities and steps necessary to further the project which were taken week by week out in the field comprised the vital action component of Action Learning. This range of individual practical tasks and activities included of course investigation, research, analysis and review, decision making and planning activities.

The working process of the set in relation to these action areas started with a presentation review by the individual whose turn it is for air time. This was followed by analysis and questioning by set members, generation of ideas and suggestions and a consensus plan for the participants' next action steps. Thus in the first week or so of the program initial stances or proposals of the range of products/services offered and the customer groups to be targeted were presented and examined, possible problems identified and alternative solutions offered before resources were committed. Later on the set typically assisted in the interpretation and reflection process as feedback was obtained from a basic market research or from a search for appropriate retail premises.

As the project action widened in its scope, set activity was likely to be concerned with the complexity of interrelated factors and the relative uncertainty of external events and decisions. These factors included, sales revenue, capacity of equipment or of people in response to varied and uncertain patterns of customer orders, cash flow, or amount of finance required. The group constantly sought to prevent the individual being overcome by what he saw as a tangled web of complexity and helped him calmly plot out the pattern and its key cross influences.

(b) Behavioral Processes in the Set and Participants' Development

Throughout each program several behavioral processes were taking place within the Action Learning mode and particularly within the set activity which encouraged and enlarged learning behavior in different ways. Participants learned how to organize their thoughts so as to start their allocation of air time with an articulate verbal statement of the current state of their project. We found they were prepared to risk exposing their position and its weaknesses and admitting their doubts and problems to fellow set members. Be they optimistically confident in their expectations of customers banging on their door to buy their services or coy and guarded about their real level of technical or trade skills they responded to challenging questioning and analysis by the set and learned to adapt and modify their thinking. In contrast to a passive learning situation other set members did not simply remain interested in their own business project but assumed the mantle of analytical investigator of the problems and situations outlined by means of good questioning. They then accepted responsibility for thinking out and generating solutions be they suitable alternative sources of finance, additional suppliers or modifications to product range or market segments.

The value systems acquired by some participants from within their employee culture background produced negative attitudes to such factors as price and profit or to aggressive business practice and these attitudes were challenged by the groups. Again both personal and business objectives and the degree of motivation to achieve them were put under the microscope with the consequence that potential owner managers increased their self-understanding of their personal motives.

Both peer group pressures and peer group support were strongly manifest behavioral processes in the sets. The pressure was on from day one as participants took up their air time, made their presentation to an audience of their peers and then endured their critical response. Whereas managers in large organizations may have grown up in such a climate for most of our potential owner managers, coming from a much wider cross section of the population, this pressure was a formidable and often uncomfortable experience. Although as employees they had achieved targets or levels of performance, they still experienced difficulties and frustrations in coping with the complex and uncertain world of starting a small business. An essential corollary to this pressure was of course peer group support. From the beginning problems and doubts were shared with others and set members were no longer "The lonely entrepreneurs" as suggestions and ideas were offered by the group alongside help and encouragement to improve limited skills or abilities in say cash flow forecasts or market investigation. The groups often sustained momentum when frustration with set backs or ambiguities were rampant or restored confidence when initial market response was poor. Groups also gave moral and personal support when as a result of the set processes and the overall action learning methodology a participant decided to terminate his start-up project.

REVIEW OF PERCEPTION OF PARTICIPANTS

A number of variables of the Action Learning process and its outputs as perceived by small business participants were appraised. The survey strategy was to mail a questionnaire in late 1986 to those people who had participated in the four programs completed in 1985/86. From the 44 available to be contacted 30 questionnaires were completed. The results of this survey together with interpretive comment are outlined below.

The Questioning Process

Pedler (53) and Casey (54) both emphasize that Action Learning attempts to tackle problems of uncertain outcome by asking good questions. Managers should ask discriminating questions about plans and situations as a means of reflecting on and evaluating action. A probing review increases the ability to tackle future problems. The survey results showed that 80% of respondents agreed with the statement that "Everyone in the group joined in questioning other members of the group and their situations", whereas 19% disagreed and 1% remained neutral. The overall average recorded by participants was that less than 1 person per group asked comparatively few questions. There was clear indication of extensive cross questioning between set members about their respective situations as these changed and developed through the course.

The Listening Process

A complimentary process to questioning is that of listening not only to questions but to opinions. The degree to which individuals enjoyed listening and to which they were not very interested in listening to others were the instruments used to measure the listening process. 76% of respondents agreed 16% were neutral and 8% disagreed with the statement "I enjoyed listening to the questions and opinions of others". 80% disagreed, 14% were neutral and 6% agreed with "Listening to the questions and opinions around the group was not very interesting". These results were better than we had expected given the expressed views of set advisors that it was easier to facilitate the giving than the receiving process. Even the groups themselves became frustrated with certain members who were unresponsive to questions and ignored opinions.

Generation and Acceptance of Ideas

Measurement of the process of generation and acceptance of ideas gives some indication of the sharing of experience and of the learning from and with fellow learners. 76% of respondents perceived that a range of useful suggestions and opinions was generated in the set to a considerable or greater extent, 20% to some extent and 4% to a little or low extent. 66% perceived that the Action Learning process was useful to a considerable extent in getting members to accept different suggestions and opinions, 34% to some extent and 0% to little or low extent.

There was then a high degree of ingenuity and spontaneity within the groups and a good level of acceptance. This part of the Action Learning process was mostly concerned with expanding the thinking about product range, with problems of finding and reaching customers, and difficulties with suppliers or resources in the business.

Development of Confidence

It is suggested that when faced with ambiguous and turbulent situations Action Learning develops indigenous forms of self help such as self reliance and confidence. In the survey 76% agreed, 20% were neutral and 4% disagreed with the statement "The Action Learning process improved my self confidence". 56 % disagreed, 14% were neutral and 30% agreed with "The Action Learning process did not change my lever of self assurance". As some participants were self reliant when they started the program it seems that many of the others were helped emotionally to cope with ambiguity and uncertainty.

The self reliant starters tended to be males with either extensive knowledge or experience of their product/service and also perhaps with marketing it from within a large company. Many females were initially less confident about whether their product/service would sell. They were hesitant in facing up to people, confused by the ambiguity surrounding such matters as premises or sources of finance and nervous in coping with the pressures of their new turbulent existence.

Independence and Action
According to Casey (55) the Action Learning process should lead to independent thought and action as distinct from prescriptions. or edicts from trainers and counselors and that it should catalyze action within the work situation. 70% of respondents agreed, 15% were neutral and 15% disagreed with the statement that "The Action Learning process helped members decide for themselves rather than rely on others". Furthermore 86% agreed, 14% were neutral and 0% disagreed with "The Action Learning process chivied members along into taking action for themselves rather than depending on other people.

Having drawn out the strengths and weaknesses in a situation comments would arise from the set such as "The choice is yours only you can decide" with reference to marketing plans, business location or business organization. Again members of the program were in practice inclined to be slow in taking the essential steps towards getting their businesses off the ground having a preference for assimilating knowledge rather than taking action. Accordingly the process going on in the set was frequently concerned with prodding people into action. Following the premise that managers learn from doing then an outcome of the process was that both action and learning were accelerated and became less dependent on others. New starters had realized that they owned the problems.

Self Understanding
Casey (56) also raises the issue of "ownership" of objectives and differentiates between the duty or requirement of a job and the personal and emotional commitment to getting something done. Our set advisors from a behavioral science background emphasized the importance of participants understanding their personal motives. 80% of respondents agreed, 10% were neutral and 10% disagreed with the statement "The Action Learning process helped me to sort out my own personal reasons for wanting to do certain things". 70% of respondents agreed, 15% were neutral and 15% disagreed with the statement "The Action Learning process helped me to sort out my own personal reasons for not wanting to do certain things". Clearly a large majority of new starters had increased their understanding of their own reasons for and emotional commitment to either action or no action.

In terms of action this was manifest in personal influences affecting product/service choice or where the business was to be located - it was action they felt happy or comfortable with. In contrast a few participants recognized their reasons for starting a business came close to desperation given high levels of unemployment. Being afraid of making a fool of oneself or a lack of confidence constrained the actions of many, a few had an adverse view of profit. At the end of the day some members clarified their motives for not taking the final action steps to launch the business as having no commitment, no "fire in the belly" or having a preference for a more settled less turbulent life style.

Analysis and Reflection
Intellectual development of managers in terms of analytical and reflective skills is an expectation from engaging in Action Learning as a process based on scientific inquiry. In the case of our new start owner managers 80% of respondents agreed 10% were neutral

and 10% disagreed with the statement that "The Action Learning process improved my ability to weigh up and assess situations more thoroughly than before". Clearly journeys through the reiterative cycle had achieved a marked step forward in their development. They improved their abilities to analyze the feedback and reaction from customers to products or services offered. They were able to sort out and cope with the ambiguities of officials, policies or attitudes they encountered. Reaction to rapid change became calmer and more reflective and owner managers were able to assess carefully the consequences of sudden success in the market place, of an overwhelming response from customers.

Challenge and Support

Faced with complex turbulent situations in a stressful environment managers need not only challenge and critical comment but also emotional support and encouragement all of which are expected outcomes of the Action Learning process. The combined response to the statements "There was little attempt made by the group to rigorously examine my ideas and activities" and "To what extent did the group challenge or question your actions or plans" indicated that 65% of respondents had experienced challenge or rigorous examination of their various proposals and actions, 25% were neutral on this matter and 10% had not experienced challenge. The combined result of responses to the statements "The group encouraged me in my efforts towards starting a business" and "I received very little support and encouragement from the group during the action learning process" indicated that 70% felt they had received support and encouragement from other members of the group, 15% were neutral and 15% had not experienced support.

CONCLUSIONS AND RECOMMENDATIONS

This paper has sought to establish a rationale for the transfer of action learning methodologies from its origins in large organizations to the context of new start up programs. Although the contribution of traditional teaching methods is recognized, especially in developing frameworks and concepts to guide the entrepreneur through the start up process, action learning may offer a 'richer' experience to the participants. If the benefits claimed for action learning can be realized in the start-up situation the entrepreneur may be better prepared to cope with the complexity, ambiguity and turbulence they are likely to face through the pre and immediate post launch period.

A limitation which must qualify the survey data is that completion of the Action Learning experience of the four programs surveyed was spread over a twelve month period giving rise to possible degradation in perceptions. As a check the data for the 1985 groups was compared with the 1986 groups and there were no consistent differences from question to question. Given this qualification it is suggested that the findings from the survey when integrated and combined with the experience of faculty members experience support the following hypothesis as being worthy of more detailed and scientific investigation by researchers concerned with small business training methodology.

1. The owner manager initial start up plan is equivalent to a typical management development action learning project in its demand for realization of ownership, personal risk and commitment.

2. Owner managers are prepared to share their own experiences and problems with fellow new starters in the supportive environment of the set.

3. Owner managers learn well from and with fellow owner managers.

4. Owner managers can improve their ability to reflect on and analyze the feedback from task based experience as a result of the process.

5. The action learning experience can accelerate learning and generate action associated with starting the business.

6. That owner managers can develop confidence to cope with ambiguity, uncertainty and personal risk associated with their business project and with the action learning environment itself.

Action learning is no panacea for small business trainers. First, it requires careful structuring and management to ensure a high degree of group determination within the program while encouraging the use of external facilities in order that overall training objectives can be achieved. This requires 'learning by doing' not only for participants but also trainers and organizers who need to operate in an unprogrammed manner within essentially programmed institutions (timetables, budgets, etc). Secondly, action learning is resource intensive. There are clear differences between working with an action learning set of 6 participants for 2 hours and presenting to a class of 20 or 30 new starters for a similar period. In a period of apparently increasing supply of prospective entrepreneurs and paradoxically resource constraints within academic institutions, additional funding for a more resource intensive process may be problematic. Finally the trainer skills required to successfully operate action learning may not be readily available within the faculty. This may be due to differences in background, interest and aptitude of staff in dealing with the conventional kinds of intervention typically associated with lectures, seminars, etc.

Perhaps one final question remains. Is action learning right for new starters given the variety of profiles and environmental situations that participants bring to a program? The findings presented in this paper suggest that there is a role for action learning and that the experiences generated are perceived as being worthwhile by the participants. Whether action learning is more appropriate than traditional approaches still needs further investigation. It could be argued that the solution depends upon objectives. If short bursts of training are required to develop quickly business understanding among large groups of entrepreneurs, traditional methods may be highly appropriate. But if deeper, or substantive learning is required on the basis for ongoing management development there may well be a future role for action learning at the outset of an entrepreneurial career.

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A PROCEDURE FOR SCREENING SBA CLIENTS WHO REQUEST FEASIBILITY STUDY ASSISTANCE

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ABSTRACT

Business counselors are approached on a daily basis and asked to assist with feasibility studies. Most often the clients do not have business experience and may have other difficulties which make it doubtful that the operation will ever materialize. Yet numerous hours will be spent evaluating the proposal to no avail. If the clients are not provided with the requested assistance, they will claim that SBA is not fulfilling its' mission. This paper suggests that a screening procedure be developed which includes "blocking factors". A "blocking factor" is a business requirement which must be completed before additional analysis can be accomplished.

INTRODUCTION

On a typical business day, individuals throughout the nation are approaching representatives of SBI, SBDC, SCORE or SBA and asking "will you help me with a feasibility study to determine if my business proposal will work?". Visions of countless hours for market and financial analysis fill the representatives mind! The client is often asked a few questions about their personal experience and financial position and then given a "going into business checklist" to complete. Little, if any follow-up assistance is provided and the client often feels that they have not received any help at all.

This paper outlines a very simple means of screening individuals who request feasibility studies to determine their preparedness to enter business and also precludes developing extensive studies for businesses that will never materialize. It can also be a training tool to assist the client in understanding what is necessary to enter business and where they may have limitations. Finally, it serves as documentation for the client, the counselor and SBA to record the findings of the counseling session(s). The procedure outlined here is intended for the review of new venture proposals, however with slight modification, it could be used for reviewing going business or franchise purchases.

The terms feasibility study, business plan, business proposal and market analysis are often used interchangeably with perhaps other terms by clients, consultants and academicians with the same outcome in mind. That is, to evaluate all aspects of the proposed business to determine if it can succeed.

Counselors assisting with initial studies of this nature must be aware of the high mortality rates for new businesses, the reasons for failure and that the risk of failure cannot be eliminated. This information should be impressed upon the client at the outset to reduce the often present emotionalism which tends to translate any encouragement offered by a feasibility study into a business start-up.

Since most clients who approach SBA or SBA associated assistance centers appear to be interested in starting what Karl Vesper [6) refers to as, "low pay, stably small ventures", they will be the major emphasis of this paper. The low pay, stably small venture includes one-man shows, mom n' pop ventures, taverns, restaurants, small retailers and trade-related services. They often have a modest investment in equipment and inventory, few employees, generate limited amounts of revenue and have little potential for future sale of all or part of the business.

LITERATURE REVIEW

General-

A substantial review was accomplished of literature pertaining to business feasibility studies and also business planning. In all instances, three major areas of analysis were prescribed. These are: (1) the personal characteristics of the potential owner(s), (2) the projected market for the products or services and (3) the financial aspects of the business. Most authors had additional factors that they proposed to evaluate with operations and management suggested by many and customer profiles and location evaluation being highlighted by others.

Olm and Eddy [3] are the only authors to suggest a two step approach to a feasibility study. In brief they suggest that evidence of a market segment for the product or service should be provided as well as the development of a preliminary strategy for market capture. In addition, they call for an evaluation of the entrepreneurial team and projected needs for capital.

Personal Characteristics-

Virtually all of the authors discussed the characteristics of the potential business owner when evaluating business feasibility. Ashley and Arnold [1] Welsh and White [5] and Timons et. al. [7] all indicate that the background of the potential owner(s) is a primary factor in getting the business started. Many of the authors quote venture capitalists who indicate that the personal history of the management team is the first and primary consideration in financing a business. Several integrated experience, personality and financial characteristics in determining credibility.

Projected Market-

Market and/or customer availability are factors touted by all of the authors as a critical part of business feasibility. Customer profiles, potential sales, market segmentation, competition, site location and advertising requirements are topics that most experts feel must be addressed in any study. Ronstadt [4] suggests a number of questions for environmental assessment that should be answered prior to starting a business. Timmons et. al. [5] have an extensive checklist of both quantitative and qualitative marketing questions that should be answered before implementing the business plan. Finally, on a more traditional basis, Ashley and Arnold [1] suggest certain questions concerning population, competition, sales and supply that should be answered in determining if the idea represents a real business opportunity.

Financial Aspects-
Timmons et. al. and most other authors [5] suggest specific calculations which will address rather traditional economic issues such as gross margins, cash flow, profit streams, break-even analysis and profitability after taxes. They also provide outlines for documenting start-up capital requirements. John Burch [2] outlines the Proctor & Gamble, Westinghouse and the Hanan Potentionmeter methods of evaluating potential products or services. Although rather complex in their computation, the Burch approaches do provide additional sources of information that can be used for determining feasibility.

THE SCREENING PROCESS
Advanced Preparation-
The screening process suggested here would be similar to the first step of the Olm and Eddy approach [3]. That is, a cursory check should be made of the business proposal and more significantly, of the clients' preparedness to enter business. It is proposed that this be accomplished through a relatively short personal interview.

A rather basic list of key questions should be developed which test the clients knowledge of marketing and finance and also review his or her qualifications to operate the business. Certain "blocking factors" should be determined in advance which when detected, would preclude the preparation of an expanded feasibility study until corrected. Some "blocking factors" such as a more, definitive description of the products to be sold, could be corrected rather rapidly. However, a client who has declared bankruptcy in the past year, may not be able to overcome this "blocking factor" for many years. It is important that the list of basic questions be developed in advance and be standardized. These questions should be designed to be answered with very specific quantitative or qualitative responses. Personal opinion or preference questions would not be appropriate.

The Interview-
An appointment should be made at a time and place where both the client and counselor can meet uninterrupted for approximately one hour. Sufficient information can be exchanged between the parties in an hour to determine if an expanded study is warranted. The client should be encouraged to bring data they may have collected about the proposed business to the interview.

During the course of the meeting, care should be taken not to embarrass the client if they do not appear to have an understanding of the potential business or have specific data that is requested. The counselor should only take brief notes concerning "blocking factors" and these should not be discussed with the client during the interview. Additionally, no explanation should be given for the type and depth of information that is being requested since this often leads to disagreement or rationalization on the part of the client.

At the end of the interview period, both the client and the counselor will have a better understanding of the feasibility of the business and the additional preparation required (if any) before action is taken to develop a detailed feasibility study or final business plan.

However, no commitment should be made by the counselor during the interview. Rather, the client should be informed that they will receive a written report within a week.

Training and Experience Considerations-
Technical training and experience of the potential owner(s) in similar businesses are prime personal factors in determining the feasibility of a proposed business. A negative response to questions concerning training and experience should be an automatic "blocking factor" for completing an expanded feasibility study.

Personal Financial Factor Considerations-
A second critical area concerns the personal finances of the potential owner. Individuals who have declared bankruptcy in recent years or who a recurrently experiencing financial difficulties are not good candidates for starting a business. Further, anyone who would experience severe financial problems if they give up present employment to start a business should be eliminated. An outstanding credit rating and the ability to invest personal equity into the business are also critical attributes which if not present would constitute "blocking factors".

Market and Financing Considerations-
Market and financial projections are factors that can be synthesized in performing the first phase of the feasibility study. A line of questioning can be designed to determine the clients understanding of business management and also make a preliminary determination if there is a market for the product or service and if the proposal makes financial sense.

The client should be first asked what dollar amount they expect to realize from the business in the first year of operation. A key follow-up question would be what level of sales would be required to generate a profit of that magnitude. An inability to respond to these questions could serve as "blocking factors" for further progress in the feasibility study.

If the client is able to respond positively to questions concerning revenue and profit, further questions can be asked about market and financial requirements. The client should be asked to quote figures concerning average sales per customer, the number of sales projected per month and for the year. This projected annual sales figure should closely correlate with the annual revenue figure requested in the first series of questions. Again, an inability to see the correlation between individual sales, aggregate revenue and profit can be considered a "blocking factor". If the client appears to have an understanding of the sales/profit relationship the next step would be to determine their understanding of the costs of doing business. The individual should be asked to list all of the possible categories of expense they would incur in operating a business. In most instances, they will not be able to list all of the expenses but key ones such as inventory, payroll, rent, utilities and advertisement should be mentioned. A follow-on question would be to estimate the annual amount of each category of expense. The results should correlate well with the annual revenue and profit figures that were projected.

Positive responses to questions concerning revenue, expenses and profit would justify further questions concerning the potential market before agreeing to an expanded feasibility study. The potential business owner should have at least a general understanding of the marketing factors pertaining to the products or services. He or she should be asked to describe potential customers for their business (customer profile). They should be able to provide some information concerning sex, age, income, education or other key demographic factors. Location considerations should be reviewed as well as modes of advertising to determine if the client understands the power of these factors. A listing of competitors and their market advantages should be solicited.

Finally, a series of questions can be asked about the financial requirements of the business. Often, the client will provide a dollar amount that they feel is needed to start the business. A detail breakdown of the initial figure should be requested. Follow-on questions can be asked about initial requirements to start the business and cash requirements at key points in the future. Queries should also be made about how the client perceives the financing of the potential business. Important factors pertaining to owner equity, collateral and the ability to pay back loans can be brought out by the questioning.

THE FOLLOW-UP REPORT

A written follow-up report should be prepared by the counselor shortly after the meeting which summarizes the qualifications and preparation of the client. "Blocking factors" should be explained which must be eliminated before an expanded feasibility study will be undertaken. The report should be kept short, factual and should offer encouragement to the client only if the counselor feels that the "blocking factors" are relatively minor and can be practically overcome.

The report provides a record of the meeting for both the counselor and the client. If the client appears to be qualified (no blocking factors) and has accomplished preliminary planning for the business, the counselor can suggest further steps in developing an expanded feasibility study or business plan. If "blocking factors" exist, the counselor should insist that they be eliminate before providing any additional assistance.

SUMMARY

This procedure is designed to screen SBI clients who request assistance with feasibility studies, but may have limitations that will prevent them from starting a business. Countless hours can be saved by both the client and the counselor in preparing studies or plans for businesses that have virtually no chance of being initiated. The procedures provide an organized approach to documenting the limitation for both the client and the SBA counselor. The counselor should understand that the screening will offer the rational client an objective insight into the feasibility of their proposal. However, there are always those clients who are seeking a positive endorsement of their proposal and will express displeasure if they are not provided with further assistance in developing an expanded feasibility study.

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DISCRIMINATION IN THE WORK PLACE RELATED TO PREGNANCY, CHILDBIRTH, AND CHILD CARE

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ABSTRACT

Discrimination related to pregnancy, child birth and child care is an issue of growing relevance and concern in the United States. This concern is largely a result of the changing demographics of the work f orce. As the number of working women has grown, legislators and employers have been faced with the dilemma of how to provide equal opportunities for pregnant women, non-pregnant women and men. The Pregnancy Disability Act of 1978 was a major step towards defining fair practices in regards to pregnancy that left many unanswered questions and opened up new arguments concerning discrimination based on sex. The various arguments over what is fair and what is discriminatory treatment of workers and their employers will be addressed in the following paper.

INTRODUCTION

"It shall be unlawful employment practice f or an employer to fail or refuse to hire or to discharge any individual, or otherwise to discriminate against any individual with respect to his compensation, terms, conditions, or privileges or employment because of such individual's race, color, religion, sex or national origin . . ." (4) The previous statement is an excerpt from the Civil Rights Act of 1964 (Title VII), and has been subject to a multitude of interpretations in the U.S. judicial system since its enactment. The underlying dispute is in determining what is fair, and what constitutes "discrimination." In recent years, this question has been increasingly asked in regards to maternity leave policies. (12) The manner in which American businesses handle pregnancy, childbirth, and child care has fallen prey to public and legal scrutiny. How are today's businesses coping with pregnancy? What has happened in federal and state courts up to date? Exactly who is crying, "discrimination?"--how are legislators responding? The following discussion will concentrate on providing answers to these questions and on developing a comprehensive view of the difficulties involved in defining "discrimination" on the basis of sex.

BACKGROUND

Three trends in America are behind the recent interest in maternity leave and child care policies: (1) the percentage of working women in the work force rose from 43 percent in 1970 to 60 percent in 1987; (2) the number of households headed by single women increased by 88 percent between 1970 and 1982; and (3) 50 percent of all working mothers in 1987 were back at work before their children were a year old. (24;12;15) Learning to deal with these trends in fair and nondiscriminatory ways has become a difficult challenge for employers, legislators and the judicial system. The proverbial question of what is fair and what is discriminatory remains largely unanswered. (12)

Is the exclusion of pregnancy from sick leave and disability benefits program discrimination? This was the new question of the seventies. However, before the question could be answered, pregnancy had to be defined in terms of either a sickness or a disability. Both issues were addressed by the Supreme Court in the 1976 case, *general electric v. Gilbert,* in which the Court defined pregnancy as a disability. Though all the justices agreed that pregnancy was a disability, the Court went on to conclude by a 6 to 3 vote that exclusion of this one type of disability was not "discrimination based on sex" (4) and thus did not violate Title VII. (18)

Justice John Stevens, in support of the dissenting opinion argued that General Electric's disability program's regulations placed pregnancies in a class by themselves and "by definition, such a rule discriminates on account of sex: for it is the capacity to become pregnant which primarily differentiates the female from the male." (18) Justice William Rehnquist's majority opinion quoted a passage from the 1974 geduldig v. Aiello decision which also held that the exclusion of pregnancy from benefit programs was not illegal discrimination. The following is an excerpt from that quote:

The California insurance program does not exclude anyone from benefit eligibility because of gender but merely removes one physical condition--pregnancy-- the list of compensable disabilities. While it is true that only women can become pregnant, it does not follow that every legislative classification concerning pregnancy is a sex-based classification pregnancy-related disabilities constitute an *additional* risk, unique to women, and the failure to compensate them for this risk does not destroy the presumed parity of the benefits, accruing to men and women alike, which results from the facially evenhanded *inclusion* of risk. (18)

Congress disagreed with both the holding and the reasoning of the Court in the Gilbert decisions. This disapproval was clearly expressed in 1978 with the passing of the Pregnancy Discrimination Act (PDA). (7) The PDA is an amendment to the Civil Rights Act, specifically prohibiting sex discrimination by employers on the basis of pregnancy and thus requires pregnancy to be treated like any other disability. (9;10;14) The PDA requires that pregnancy and maternity be included in a company's disability plan if that employer has a plan. There is no stipulation that the organization must have such a plan to begin with. (6) In a

1983 decision in *Newport News Shipbuilding & Dry Dock Co. V. Equal Employment Opportunity Commission,* the Supreme Court stated the following: By enacting the PDA, Congress overturned the specific holding in *General Electric v. Gilbert* and also rejected the test of discrimination employed by the Court; thus any lower court relying on Gilbert is in error. (10)

THE PREGNANCY DISCRIMINATION ACT OF 1978

To provide the reader with a more thorough understanding of the 1978 Amendment, the first sentence of the Pregnancy Disability Act is provided:

The terms "because of sex" or "on the basis of sex" include, but are not limited to, because of or on the basis of pregnancy, childbirth, or related medical conditions; and women affected by pregnancy, childbirth, or related medical conditions shall be treated the same for all employment-related purposes, including receipt of benefits under fringe benefit programs, as other persons not so affected but similar in their ability or inability to work, and nothing in Section 703(h) of this title shall be interpreted to permit otherwise. (10)

Practices which are regarded as discriminatory according to the PDA were confronted in a suit brought against Westinghouse Electric Corporation in 1974. Westinghouse was found in violation of Title VII on the following counts: Westinghouse did not credit seniority to employees when they were on maternity leave; denied certain health benefits to pregnant workers; and forced them to take unpaid maternity leave after a certain time, regardless of the employee's desire and physical capacity to work. (5) In 1974 when this suit was originally brought to court these practices were questionable; the 1978 Amendment clarified them as discriminatory.

Despite the unambiguous nature of this statute, employees continue to discriminate against female employees. One example is provided in the case *Maddox v. Grandview Care Center* Mrs. Maddox, on the advice of her physician, requested an unpaid leave of absence for the remaining months of her pregnancy. She was informed that company policy only permitted a three-month maternity leave of absence. However, for illnesses other than pregnancy, the policy provided that leaves could be granted on a doctor's recommendation and with the administrator's approval. Mrs. Maddox formally filed a request for a six-month leave of absence and did not return to work due to complications in her pregnancy. Mrs. Maddox' request was never addressed because she was terminated for missing three consecutive work days without arranging for a substitute worker. Her employer, Grandview Care Center, was found to be in violation of Title VII of the Civil Rights Act. (16) According to the PDA, any benefits offered to nonpregnant employees must also be extended to pregnant employees.

A more recent development in the courts, *California Federal Savings 9 Loan Association v. Guerra,* addressed two additional issues arising from the PDA in 1987. The first issue deals with the possible contradiction of state and federal law. California law requires that female employees be allowed to take a maximum of four months leave on account of pregnancy, and to be reinstated to the same or a similar position at the end of that period. (1;21;23) California Federal Savings & Loan challenged this state law when the firm was sued by an employee who was denied her prior position upon returning from maternity leave. The employer claimed that the California law was preempted by federal law and was supported by the ruling of the district court. However, the court's decision was overturned by the Ninth Circuit Court of Appeals which held that the two laws could coexist. The Supreme Court affirmed that the intent of Congress in passing the PDA was to construct a floor for pregnancy disability benefits, not a ceiling. (1;21;22;23)

The second issue arising from California Savings & Loan is the possibility of "reverse discrimination." (1) The district court supported the employer's argument that the laws were incompatible on the basis that California law constituted "preferential treatment" (23) and in itself violated the Civil Rights Act. (20;23) Thus the state law potentially subjected employees to discrimination lawsuits by temporarily disabled men who did not have the same guarantee of job reinstatement. In dispute of the district court's view, the Ninth Circuit panel stated that "Congress sanctioned the expenditure of more dollars on medical coverage for female employees than for male, in order to achieve equally complete health benefits for both." (1) Supreme Court Justice Marshal further refuted the accusation of reverse discrimination, in pointing out that California statute allows employers to provide comparable benefits to other disabled employees, and thus not to treat pregnant workers better than other disabled workers. (3)

The issue of reverse discrimination is by no means settled. A coalition of employers in California are currently seeking a rehearing before the Ninth Circuit, claiming that the California law is in conflict with equal-employment laws, by discriminating against men. (1;25)

CURRENT POLICIES

Three types of leave are most commonly associated with pregnancy, birth, and child care. "Disability" leave, paid (or not paid) according to state law, covers the time in which a woman is physically disabled as a result of pregnancy and childbirth. "Maternity" leave is usually an unpaid leave granted to mothers and covers an extended period in which the mother can care for her infant. The maternity leave usually begins at the end of the disability leave period (though the term is frequently used to refer to both the period of disability and the extended leave in combination). "Paternity" leave is usually a paid leave of a day or two given to the father at the time of birth. (14) Many current disability, maternity, and paternity leave policies are illegal. For example: consider a maternity leave which begins after the period of disability and permits a mother time to care for and develop a relationship with her infant; if this same leave is not offered to a father who wishes to provide care for his infant, the employer is in violation of Title VII. Thus the type leave described would be more appropriately termed "child care" leave. The federal law does not require employers to offer any leave; but in accordance with Title VII principles, any leave for child care purposes must be granted to both sexes on the same basis as leave which is granted for other nonmedical reasons. (13;14) Employers must take extreme caution in determining leave policies to ensure that not only are they nondiscriminatory according to federal law, but are also in accordance with any state laws. (1;10;13)

MATERNITY LEAVE STUDIES

A survey of small businesses in Amarillo and Hereford, Texas, was conducted by this author in 1987. The purpose of the research was to present an objective representation of pregnancy-related leave policies in the area. The survey was conducted in March and April of 1987, using telephone interviews. Twenty-one of the thirty-two businesses contacted took part in the Amarillo and Hereford area. The interviews began with open-ended questions; the researcher then asked structured questions in order to fill in areas which the respondent neglected to cover and to clarify statements made by the respondent. The line of questioning varied slightly from one interview to the next, depending on the details given by the respondent. A general outline of the interview questions is presented in Table 1.

TABLE 1: SURVEY QUESTIONS

What is your policy on maternity leave for employees?

How long may a woman take off work due to pregnancy and childbirth and still return to her previous position or a comparable position?

Is her leave paid while she is medically unable to return to work?

Are there any provisions for those who wish to extend their leave beyond the period that is medically required? (i.e., a child care leave)

If so, f or what length of time is her position or a comparable position guaranteed?

Does she receive any pay during this period?

Does the company have a paternity leave policy? If so, what are the provisions?

Texas has no laws concerning pregnancy and child care leaves, with the exception of a law stating that unemployment benefits cannot be denied on the basis of pregnancy. (11) All of the businesses surveyed claimed to treat pregnancy and childbirth as any other disability, in compliance with federal law. However, the study revealed certain policies that, if enforced, would be in violation of the Civil Rights Act. For example, 39 percent of the businesses allowed women to take between 6 and 24 weeks leave associated with pregnancy and childbirth, without medical certification of illness. However, 80 percent of those surveyed responded that a father's only option was to use his accrued vacation, with only 14 percent offering the same leave as offered mothers. According to the Civil Rights Act, an organization must extend the same disability policy to a pregnant employee as to any other disabled worker in order to be nondiscriminatory. On the other hand, so must an organization extends the same child care leave policy to new fathers as it offers to new mothers. Most of these policies have never been discriminatory towards men in practice because, as is indicated in the survey, 60 percent claimed to have never received a request from a man for a child care leave. Seventy-six percent of the businesses allowed those on leave to use accrued vacation and sick pay for the duration of the actual physical disability; 5 percent provided up to 6 weeks of partial salary; and 29 percent provided full salary for a specified period. (17) The details associated with pregnancy-related leaves, such as pay status and leave beyond the period of medical proof of disability, varied widely from organization to organization. There are no state laws in

Texas mandating child care leaves, or requiring disability insurance policies that would pay some percent of the employee's salary during pregnancy. Thus, any extended leave for either sex, with or without pay, is a fringe benefit offered voluntarily by the company. (See Tables 2 and 3.)

[TABLE 2: MATERNITY LEAVE POLICIES SURVEY RESULTS omitted]

[TABLE 3. PATERNITY LEAVE POLICIES omitted]

A more comprehensive study which included 153 companies was conducted by Bernard Hodes Advertising and indicated much higher compensation rates than the Texas study. The following practices were reported: half of the companies paid employees their full salary on maternity leave, about 25 percent did so for 16 weeks or less; companies with 500 or more employees are more likely to grant fullypaid leaves than those in the 100 to 499 range; 75 percent of the businesses offered a return-to-work guarantee for women on maternity leave (typically no longer than four months). (15) Paternity benef its were found in only one out of seven companies. The most frequently offered benefit is unpaid leave with just two percent offering a paid leave. Though these percentages seem very small, when compared to a generation ago when the concept of paternity leave was virtually nonexistent they indicate the growing interest of fathers in child care. (12)

FAMILY AND MEDICAL LEAVE ACT

The discrimination against fathers who wish to take leave f or child care is evidenced by numerous studies. (12; 15; 16) Pregnant women continue to point out unfair labor practices of employers. One study by The Economic Policy Council, a nonprofit group that studies labormanagement practices, found that 60 percent of U.S. women aren't guaranteed their old jobs back after they give birth. (19) The United States is, in fact, the only industrialized nation without some type of federally mandated leave policy which requires the employer to guarantee the parent's job. (6;24) In Europe, many countries not only guarantee reinstatement, but also provide 26 to 52 weeks leave while paying anywhere from 69 to 100 percent of full salary. (2;3)

America may be following Europe's lead. Representatives Patricia Schroeder of Colorado and William Clay of Missouri introduced a bill that would require employers to offer 18 weeks of unpaid leave for parents of newborn, recently adopted, or seriously ill children. (19) All regular full-time and part-time employees who have worked at least three months for an organization employing 15 or more people would be covered by the bill. (6) All benefits would be continued and the same or equivalent position held before the leave would be guaranteed. The bill (H.R. 925) is presently in the House and a similar bill (s.249) is up for hearing in the Senate. (20) The Senate refers to this proposed law as the Family and Medical Leave Act (FMLA). (6)

FMLA addresses the reality of the demographics of the work force of the eighties. Close to 70% of mothers with children under 14 are now working outside the home. (6;24) Two out of three of these women are either the sole provider for their children or have husbands earning less than $15,000 a year. Caring for very young or ill children is becoming a problem with few solutions for a growing number of Americans. (6)

Supporters of FKA contend that the bill is not only pro-family, but also probusiness. Companies with parental leave policies are better able to attract and maintain valuable employees. Businesses that have made some type of arrangement for child care boast reduced turnover and absenteeism. Parents lose, on average, eight days of work a year due to child care problems. By providing parents with legal support, FMLA may allow them to perform better as employees. Parents will be able to devote more energy to the work place if some of the stresses related to child care are alleviated. Proponents of the bill see it as a nondiscriminatory approach to improving the situation for both families and businesses. (6;24)

There are, of course, some who disagree with the proposal, and among them is The United States Chamber of Commerce. The Chamber agrees that the concept is admirable, but opposes that it be mandated. Much of the concern is focused on small businesses. The Chamber feels that Congress is ignoring the fact that all employers do not have the necessary resources enabling them to provide such benefits. Susan Hagar, testifying on behalf of the Chamber, provided her own small company as an example. The company makes every effort to accommodate parental leave needs; yet Ms. Hagar asserts that if 342 the proposed bill had been in effect two years ago when the firm was having problems, the company would have gone under. (8) In such cases, the proposal might be unjustly treating one group in favor of another. In the attempt to lighten the burden of working parents, the law may place financial and logistical hardships on small businesses that actually threaten their survival.

Small businesses may not be the only recipients of negative effects resulting from the proposed legislation. The very group that the bill was meant to protect may be hurt. The parental bill would effectively transfer some of the burden of child care to employers and taxpayers, and the legislation would undoubtedly raise the total cost of employing young women with children. It is possible that the bill would make employers reluctant to hire women with young children and women likely to have' children. 'If so, the results would be increased unemployment and lower earnings for women. Indeed the overall effect might be contrary to that intended. (2)

CONCLUSION

The dispute over the proposed Family and Medical Leave Act bill goes back to the original dilemma: exactly what constitutes discrimination? In passing the proposed bill would Congress be legalizing the discrimination of small businesses? Is it a choice between fair treatment of one or the other; the parent or the employer? Hopefully legislators can find some middle ground that will improve the plight of new parents without contributing to the demise of those companies with limited resources.

Another question of discrimination relating to pregnancy involves state laws such as California's which mandate extended maternity leaves for mothers of newborns. Do such laws discriminate against male employees by giving females preferential treatment? The Ninth Circuit said no, but certain groups are inclined to believe the ruling was misguided.

The Pregnancy Discrimination Act of 1978 defined many grey areas but still left room for debate over how an employer should provide equal opportunities for pregnant women, non-pregnant women and men . The difficulties involved in defining discrimination on the basis of sex are extensive as is indicated by the previous discussion. Whatever steps are taken in Congress in regards to pregnancy, childbirth and child care will surely be followed by a barrage of lawsuits, new legislative proposals and, of course, new claims of discrimination.

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PATH TO OWNERSHIP AN INDICATOR FOR FUTURE SUCCESSFUL GROWTH?

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ABSTRACT
The following paper looks at three types of business owners, the entrepreneur, the purchaser, and the inheritor. It examines their attitudes toward risk, leadership, and resource constraint. Finally, the author theorizes that the way a person acquires a business will be a critical determinant in a company's ability to expand successfully.

INTRODUCTION
On May 31, 1985, John Scully signed the paperwork to remove Steve Jobs as Executive Vice President of Apple Computer Company. Once a classic Harvard Business School example of a successful small company, Apple's stock had plummeted from $32 to around $7. Apple's experiences are not unique. Popular literature is full of stories about companies that run into difficulty when they start to expand. As a result, isolate factors which predict successful growth and profitability.

The following paper looks at three types of small business owners: the entrepreneur, the purchaser, and the inheritor. It examines their attitudes toward risk, leadership, expansion, and resource constraint. From this study, a theory is presented to account for the variations in performance among growing firms. It is this author's contention that the path people follow in acquiring businesses is an important determinant in the company's ability to expand successfully. This leads to the hypothesis that entrepreneurs will be the least capable group for managing growth.

The U.S. Small Business Administration defines a small business as any concern that is independently owned and operated and which is not dominant in its field of operation. For several years, researchers viewed small businesses as insignificant in comparison with large corporations. Times have changed. As Robinson and Pearce stated, there are multiple reasons for studying small businesses (16). First, small firms dominate several business sectors. For example, 82% of all retailing establishments employ less than 100 people (9). Second, many capital intensive, manufacturing industries depend on small businesses as suppliers. Third, small businesses have consistently proven to be a major source of innovation. Finally, businesses with less than five million dollars in annual sales employ over 60% of the U.S. workforce. Currently, at least one in every four private sector workers find themselves in companies with less than 20 employees, one in two people are in firms with less than 100 employees and more than four in five workers are in establishments numbering less than 1000 people (9). Actually, at no point in the twentieth century has there been more than one in three workers employed in manufacturing establishments of more than 1000 employees (9).

Since only 54% of small businesses survive after the first year and a half and only one quarter survive after six years, there is a significant need to determine which factors lead to successful small business expansion. Previous organizational studies examined competitive strategies (15), analyzed external environments (21; 11), and addressed internal factors such as leadership (24), resource allocation, and technological change. However, these studies were oriented toward larger businesses and paid little attention to small companies. This is not adequate. Environments are strikingly different between large and small businesses. In 1971 Peter Blau and his associates at the University of Chicago conducted a large project to study organizational characteristics. They concluded that size is the most important condition affecting the structure of organizations (12). Their contribution emphasizes the need to conduct empirical research that specifically focuses on small businesses.

Paths to Ownership

In 1986, Cooper and Dunkelberg stated that the way a business is acquired is critical to understanding an organization's development. They focused on three different categories of owners: those who started firms themselves, those who purchased an existing firm, and those who inherited a company. (1) A review of the literature suggests that these three "types" of owners are not only significantly different in the way they acquired their businesses but also different in terms of risk aversion, expansion needs, leadership style, and resource dependency. (1) Cooper and Dunkelberg also included those people who are brought in to manage firms.

One way to own a business is to start a new company. This is characteristic of the classical "entrepreneur" who conceives an idea, gathers the resources, and initiates the venture. It is risky to start any new business. Even though Brockhaus (1) found no statistical difference in the risk preference patterns between entrepreneurs and other managers, other studies (19; 23) asserted that risk bearing is a primary characteristic of the entrepreneur. Risk is associated with the willingness to allocate personal income and time to running a business. Interestingly, although entrepreneurs do commit a large share of their own resources to an organization, they uniformly report low levels of perceived risk. This supports previous research that found that entrepreneurs see the success of their business as being under their control (20).

Growth is an important goal for the entrepreneur. Mintzberg (14) refers to this quest as part of a personal, unarticulated vision. On a more practical side, Braden discovered that entrepreneurs are motivated by their desire for economic gain to expand the organization. Regardless of motivation, entrepreneurs will use a variety of means to achieve expansion. They may attempt to hire the best personnel available, introduce new goods, open up new markets, or use new methods of production (22).

Entrepreneurs also exhibit an internal locus of control, a need for independence, responsibility and power (2). In addition, studies ranging from Schumpeter to McClelland found that innovation is a central characteristic of the entrepreneur. There appears to be a correlation between innovation and independent leadership style. Mintzberg (14) proposed that innovative thinking is often the product of single individuals and only appears in organizations with strong leadership. In an organization's early stages, this strong leadership style is critical for creating a culture that fosters innovation, and for establishing structure (20). The fact that entrepreneurs have the lowest percentage of partnerships among small business owners is additional evidence that these people prefer to have sole control of their organization (5).

In comparison with other means of business acquisition, entrepreneurs have the least resources at the onset of operations. This is important because the availability of resources gives organizations time to initiate changes with respect to the external environment. Resources also give an organization the power to interact with other organizations on a more equal basis (10).

The second way to acquire a business is to purchase an existing operation. Similar to the entrepreneur, the purchaser is also a risk-taker, but to a lesser degree. Although they have had to commit their financial resources, the business can provide an asset base. In addition, reports of company performance may make investment more attractive to outside investors (5). Moreover, purchasers have had the advantage of seeing how the business has performed operationally, financially, and strategically. Therefore, although they have had to take the initiative to find the business and negotiate a purchase, purchasers do not have to be as creative in exploiting an opportunity. Instead a purchaser's task often involves restructuring the organization, repositioning the firm in its marketplace, or revitalizing a slipping organization (10).

Purchasers are interested in expanding their organizations only if it increases profitability. As with the entrepreneur, the purchaser's personal objectives are intertwined with the goals of the organization. However, this group shows a tendency to expand at a slower rate than startup owners. There may be a multitude of reasons for this slower growth. First, the business at the time of purchase is in a more mature organizational stage. Second, decisions to expand are based upon the company's past performance (17). If the company has a history of little or no successful expansion, the new owner will be less likely to pursue rapid growth. On the other hand, if the company has a pattern of successful growth, the owner will be more confident to continue expansion.

Also, Collins and Moore (4) found that purchasers had more supervisory experience than entrepreneurs. They are older and have spent more years working in full-time jobs. They are also more likely to have partners (5). This may be due to the initial need to raise money to purchase the organization. Whatever the reason, the very nature of a partnership permits the risk of ownership to be diffused. At the same time, it may limit the extent to which the owner can make independent decisions concerning the organization's direction.

There are more resources available to the purchaser. Regardless of the economic conditions which provoked the initial acquisition, an existing firm does have physical and human resources. Consequently, even if the new owners have to evaluate priorities and eliminate less vital elements, there is a richer internal environment. An important concern at that stage becomes how to allocate existing resources rather than just finding resources.

The third group are the inheritors. These people are engaged in the least risk taking of the three groups. Often they have not had to commit much of their own personal resources in acquiring the business. For some inheritors, it may not even be necessary to change the organization or to make major additions (5).

Although there is wide variation among different inheritors, this group tends to be the most likely to feel that "making a comfortable living" is enough incentive (5). Their personal goals are not intrinsically tied to the goals of the organization. Instead they emphasize family preferences and needs. Consequently, they are less willing to look towards expansion as a necessity for business survival. In fact, many business owners never intend for their businesses to grow beyond what they consider a controllable size (22). This was supported by Cooper and Dunkelberg's study which ranked inheritors first as having the largest percentage of firms with less than 100 employees.

Since inheritance often results in a person becoming an owner at a younger age (5), people in this category tend to have less experience in working in full-time jobs. Nevertheless, they have been exposed to business ownership by "role models" within the family (18). It was an educational experience. Inheritors have often interacted with people both inside and outside the organization. In fact, because inheritances often involve other family members, this group is second only to purchasers in number of partnerships (6).

Factors Involved in Managing Growth

Strategic management is the future and present environments formulating the organization's objectives and making, implementing, and controlling those decisions to achieve objectives. As this definition suggests, an owner must address a multitude of issues when planning a firm's direction. This is especially true if a growth strategy is planned. The success or failure of the expansion is related to a number of factors. First, a strategy for growth involves risk. As Mintzberg stated, "it (strategy) deals not just with the unpredictable but also with the unknowable. No analyst can predict the precise ways in which all impinging forces can interact with each other, be distorted by nature or human emotions, or be modified by the imaginations and purposeful counteractions of intelligent opponents (14)." One of the factors that distinguishes among entrepreneurs, purchasers, and inheritors is their degree of risk-taking. Although entrepreneurs do not see themselves as taking on considerable risk, they are more risk oriented. By the very nature of a startup firm, entrepreneurs have had to enter into a situation where they are responsible for setting objectives and orchestrating the company's activities. To accomplish their goals, they have expended their personal and financial resources. Purchasers take on less risk than the entrepreneur. They have the advantage of entering into an organization which has physical, financial, and human resources. Inheritors show the most risk aversion. Researchers found that the personal needs of inheritors emphasize security and comfort as opposed to financial accumulation and expansion. These observations lead to proposition one:

P1a: Regardless of the firm's profitability, entrepreneurs are more risk oriented than purchasers.
P1b: Inheritors are the most risk averse.

Any strategy will be guided by the owner's own vision. Because entrepreneurs establish a business for the principal purpose of growth and profit, they are motivated to actively pursue expansion. By definition, the entrepreneurial organization focuses on opportunities; problems are secondary. As Peter Drucker stated, entrepreneurship requires that the few available good people be deployed on opportunities rather than wasting time "solving" problems (14).

Purchasers also pursue a growth strategy, but the literature tends to support the view that this growth will occur at a steady, stable rate. The owner focuses on what is familiar, considers the alternatives and looks at strategies that are only slightly different from the status quo. Consequently, the firm moves forward in incremental steps, so that feedback can be received, and strategy can be adjusted along the way (14).

Inheritors are more intricately bound to family needs and, as a result, may forego expansion in favor of a maintenance strategy for their organization. These three different orientations toward expansion for the basis for the second proposition:

P2a: Entrepreneurs pursue aggressive growth strategies.

P2b: Purchasers follow a steady, incremental growth strategy.

P3c: Inheritors rely on maintenance with little significant growth.

Organizational structure is important for any company. It becomes especially critical if the firm is pursuing a growth strategy. Centralization of authority is significantly different among the three categories of small business owners. The entrepreneur is the most likely to be the single person in command. Collins and Moore wrote that the "entrepreneur is characterized by an unwillingness to submit to authority, an inability to work with it, and a consequent need to escape from it" (4: p. 45). Often the owner rules by fiat, relying on personal power and sometimes charisma (14). Both purchasers and inheritors come into organizations that already have formal structures in place. In the beginning, these groups have to rely on input from others just to understand the firm's day-to-day functioning. Although the purchasers, and to a lesser extent, the inheritors, may later alter the environment, they must rely on and delegate responsibilities to others. This is similar to the management found in larger organizations. Also, the people within the acquired and inherited organizations already have a culture. The more institutionalized this culture is within the organization, the less likely participants are going to rely on centralized authority (25). This observation leads to proposition three:

P3a: Entrepreneurs rely on centralized power. They are less likely to delegate responsibility than purchasers or inheritor.

P3b: Purchasers will have the most decentralized organizations.

Finally, no firm can expand without resources. Resources allow one to have the manpower and finances necessary for planning. Resources are much more constrained for the entrepreneurial firm than they are for either the purchaser or the inheritor. As a result of this resource scarcity, the entrepreneurial firm experiences a higher degree of uncertainty. Purchasers, on the other hand, have a greater opportunity to obtain financial resources through venture capitalists and lending institutions. Even though inheritors may not have excessive resources, they are the most likely to have sufficient resources to maintain their businesses. Consequently, proposition four becomes:

P4: Entrepreneurs are more constrained by a lack of resources than either purchasers or inheritors.

It is difficult to specify exact differences in risk aversion, need for expansion, centralization of authority, and resource constraint among different types of owners. Nevertheless, the ordering of these types in respect to the four following table illustrates the preceding propositions:

TABLE 1
PATH TO OWNERSHIP AND FACTORS RELATING TO GROWTH

	TENDENCY TOWARD RISK-TAKING	EXPANSION ORIENTATION	CENTRALIZED AUTHORITY	RESOURCE AVAILABILITY
ENTREPRENEURS	1	1	1	3
PURCHASERS	2	2	3	1
INHERITORS	3	3	2	2

1 = high, 2 = medium, 3 = low

Currently, there is no data indicating which group, purchasers or inheritors, would have the most resources. In this table, these two groups have been arbitrarily ranked in this order. This order may change after empirical research of small businesses has been completed. Lack of resources is a critical issue in terms of expansion. Smaller firms frequently cannot afford to hire the necessary specialized staff to perform the accounting, personnel, or legal functions necessary to implement a growth strategy (7). Chakravarthy (3) asserted that when there is no slack in resources, the firm is so concerned with conserving resources, that its strategic choices are constrained. Consequently, the firm is less able to pursue divergent goals and supply the means for achieving those ends (8). Entrepreneurs want to explore all opportunities regardless of the risk involved but, of the three groups, they are the least likely to have the resources necessary to pursue growth. Because of their aggressiveness, they tend to use up company resources faster than they can replace them. This leads to proposition five:

P5a: Entrepreneurs will be the least successful in managing growth within their organization.

P5b: Purchasers will be the most successful in managing growth.

CONCLUSION

Popular magazines such as Fortune and Forbes devote a number of articles every month to the entrepreneurial manager that made the courageous move and succeeded against all the odds and all advice. What these magazines often neglect to relate are the countless stories of entrepreneurs, who successfully started organizations, only later to either go out of business or to be forced out of the organization by the board of directors or stockholders. It has been this author's position that the path a person follows to acquire a business will be an important indication of his/her ability to manage the firm during growth. An entrepreneur's orientation toward centralized authority, aggressive risk taking, drive towards expansion, and resource constraint may be appropriate for a startup firm. These same characteristics can prove detrimental when the firm starts to expand. Work is currently being conducted to see if the data supports this hypothesis. Such research is particularly critical to small businesses since the impact of strategy can be assessed in a short time period. Also, while larger organizations often have sufficient resources to recover from poor decision, small organizations do not. Consequently, an error in strategy that may wound a large business may be fatal to the small business. The more information that researchers can supply to lessen the chances of costly errors, the better the chance small businesses have to survive and grow.

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PROFESSIONALS' USE OF AND ATTITUDES TOWARD MARKETING STRATEGIES

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ABSTRACT
Until the nineteen-seventies, professional organizations had regulations which forbade the use of advertising by their members. Court rulings forced these groups to reevaluate their procriptions, with the result that, within certain limits, professionals may now advertise. This study among dentists, lawyers, and mental health practioners in the Pasadena, California area sought to evaluate professionals' attitudes towards advertising and marketing and the extent to which they employ marketing tactics.

The results suggest that professionals accept the idea of marketing but not advertising. However, they do not actively engage in marketing activities, preferring to let their practices market themselves. Reasons for this incongruity may be image fears, lack of expertise and/or time limitations.

INTRODUCTION
For most of the first three-quarters of the twentieth century professional organizations had restrictions against advertising by their members. These groups included the American Institute of Accountants, the American Dental Association, the American Bar Association, the American Medical Association, and the American Psychological Association. In the 1970's a series of court decisions forced these organizations to reevaluate their advertising prohibitions. The most influential of these decisions were Goldfarb vs. the Virginia State Bar (1973) and Bates and O'Sheen vs. State Bar of Arizona (1977). The Supreme Court ruled in the Goldfarb case that banning advertising was a violation of antitrust law because it implied price-fixing. Later, the Supreme Court ruled in the Bates case that restrictions against advertising were a violation of free speech rights. Both decisions involved bar associations but the Court made it clear that they considered other "learned professions" to be subject to their rulings.

Why had these associations felt the need for proscribing advertising in the first place? The general agreement among professionals was that advertising often was misleading and would reap no benefits for the consumer. A. Clayton Ostlund summarized the arguments against advertising in the field of accounting as follows:

- Advertising impairs independence (among clients).

- The credibility and dignity of the accounting profession (would) be lowered by advertising.

- Fees charged to clients (would) increase because the costs of advertising (would) be passed on to them.

- Advertising (would) lower the quality of services rendered.(1)

Similarly lawyers reported they felt advertising would not improve the quality of legal services, nor facilitate the selection of a lawyer, nor decrease legal prices, and would result in eroding public confidence in lawyers.

Allen and Wright suggest "Marketing is often mistakenly perceived as being synonymous with advertising and selling."(2) They continue

> Unfortunately, marketing and advertising both seem to experience an image problem and receive negative reactions when they are generalized to marketplace situations where `professionalism' or the `public interest' is involved.
> This negative response usually arises because frequently the initial aspect of marketing activity to be applied is advertising.(3)

Finally, physicians they surveyed felt "Marketing modalities commonly used in other professions were not acceptable or desirable in medical practice."(4) In summary it seemed as late as 1983 advertising in particular and marketing in general was deemed inappropriate for professionals in practice.

Statement of the Problem

Since the Supreme Court decisions of the nineteen-seventies, professionals have begun to examine the roles which advertising ethically might have in their practices. This has resulted in a new look at marketing in general. Newsletters and journals on marketing for professionals were unheard of just a few years ago but now seem to be thriving. Psychotherapy Finances, the Journal of Marketing for Mental Health, the Journal of Professional Services Marketing, and The Practice Builder are examples of regularly published literature on the subject now available. The newfound interest is reflected by the fact that many professional association journals now also include articles on marketing.

Have professionals truly gained an appreciation for the roles marketing might have in their practices? If the answer to that is "Yes," do professionals actually incorporate marketing efforts and strategies into their practices?

Scope

The scope of this paper is limited to dentists, lawyers, and mental health practitioners in the Pasadena, California area, who are in private practice. The category "mental health practitioners" includes psychiatrists, psychologists, marriage, family, and child counselors, clinical social workers and interns. "Private practice" is defined to be a situation in which the practitioner is self-employed, except in the case of interns. Only interns of self-employed professionals were included.

Methodology

Information concerning the attitudes and marketing practices of Pasadena-area professionals was gathered through the use of two-page questionnaires. One hundred thirty-five were distributed and 64 were returned in time to be included in this report.

Secondary information comes from a review of existing published material. It was used in developing the introductory section of this paper and the questionnaire. Alfred Rosenbloom's "Marketing Readiness Survey" was especially helpful.(5)

Definition
Since dentists and some mental health professionals refer to their customers as patients, and lawyers and other mental health professionals refer to their customers as clients, the term patient/client is used when referring to the consumers in general.

STUDY PARTICIPANTS
Of the 64 respondents included in this study, 27 are mental health practitioner 20 are lawyers and 17 are dentists. All are in the Pasadena area although a few lawyers also have offices in Los Angeles.

Participants were asked to identify the status of their practices by indicating how long they had been in private practice and by choosing statements which most closely described their practices.

Years in Practice
The professionals in this study have been in private practice from one year to 42 years. The mean length is 11.8 years but the median is eight years. This reveals that many respondents have been in practice for just a few years.

Description of Practice
Thirteen professionals indicated that they are fairly new in private practice. They represent 20.3 percent of the respondents. However, 51.6 percent said they have a full schedule and seek new patients/clients only due to turnover. Twelve (18.7 percent) said they want to increase their practices. Three mentioned that they sought referrals to provide work for interns. The "Other" category shown represents one practitioner who gave this descriptor only. Figure 1 illustrates the results.

Recommended Methods
In order to rank the methods chosen, first choices were assigned scores of ten, second scores of nine, and so on. If a method was not chosen at all it was assigned a zero. Therefore if all respondents had chosen one particular method as being the best it would have received a score of 640 (60 x 10).

In the survey the highest ranked method was to increase social contacts. It received 344 ranking points. The next most frequently chosen was to join professional organization. Figure 2 on the next page gives the complete results.

FIGURE 1
Description of Practice
(From Question 2)

```
Fairly new             | ----------------> 20.3%
As much as I am able   | -----> 7.8%
Replace turnover       | ------------------------------> 51.6%
Would like to increase | -----------> 18.7%
Too much competition   | 0%
Other                  | --> 1.6%
                       |_________________________________________
                              |        |        |
                              10       20       30
                              Number of Respondents
```

PROFESSIONALS' ATTITUDES

Question 3 asked respondents to rank methods they would recommend for increasing a private practice. Question 6 asked them to indicate their agreement or disagreement with certain statements using a Likert-type scale. These responses should reveal some of the attitudes professionals have regarding advertising and marketing. Advertising in newspapers was recommended least. This was true of each group as well as the overall result. As groups, the mental health practitioners, the lawyers, and the dentists ranked ads in newspapers as the least favored method. As a matter of fact, the three groups were rather similar in their recommendations with the exception of surveying customers and using brochures with potential contacts. Dentists recommended "survey patients for effectiveness" more often than the other groups. They ranked it as the second best way to increase a practice. Mental health professionals recommended the use of brochures with potential patients/clients and potential referral sources. They ranked it third whereas the other two groups ranked it sixth and seventh. Table 1 shows each method and the rank it was given by each group.

FIGURE 2
Ranking of Methods Recommended
(From Question 3)

```
Newspaper Ads                  | ------->
Social Contacts                | --------------------------->
Professional Organizations     | ------------------->
Newsletters                    | --------------->
Public Speaking                | ----------------->
Yellow Pages                   | ------------>
Brochures: Existing Contacts   | ----------->
Brochures: Potential Contacts  | ------------->
Survey Effectiveness           | -------------->
Other                          | ------>
                               |_______________________________________
                                        |        |        |
                                        100      200      300
                                        Rating Points
```

Table 1
Ranking of Methods Recommended
By Groups

		RANK	
	MHP	ATT	DDS
Newpaper Ads	9	9	9
Social Contacts	2	1	1
Professional Organizations	4	3	3
Newsletters	5	4	5
Public Speaking	1	2	4
Yellow Pages	7	5	7
Brochures: Existing Contacts	6	6	8
Brochures: Potential Contacts	3	7	6
Survey Effectiveness	8	8	2
Other	10	10	10

Attitudes Towards Statements
Question 6 asked respondents to indicate the amount of agreement or disagreement they felt about fifteen statements. Points were assigned to responses in the following manner:

Strongly Agree	-	2 points
Agree	-	1 point
No Opinion	-	0
Disagree	-	-1 point
Strongly Disagree	-	-2 points

Points for each statement were summed and divided by n (64). With this method perfect strong agreement would have a score of 2.0 and perfect strong disagreement would have a score of -2.0.

Only two statements received a score of 1.00 or more. "I believe the most effective 'marketing' I do is offering quality care to my patients/clients" scored 1.66. "I always try to find out from my patients/clients the complete reason he/she terminated my services" scored 1.02. No statement scored -1.00 or more. Table 2 shows the percentage of respondents who strongly agreed or agreed with each statement. Figure 3 on next page represents the complete results.

Table 2
Percentage of Respondents
In Strong Agreement or Agreement
With Statements

	percentage
Quality care is effective marketing	93.7
I ask patients/clients	75.0
I know what's best	50.0
I have a marketing plan	18.0
I don't offer fee information	28.1
Advertising is unethical	12.5
Marketing helps quacks	25.0
I keep statistics	15.6
Advertising demeans the image	40.6
Marketing is the same as advertising	32.8
I find out about terminations	95.3
Marketing costs would not have to be passed on	54.7
I have thought about a marketing plan	28.1
There are too many professionals	32.8
Consumers would like more advertising	28.1

FIGURE 3
Attitudes Toward Statements
(From Question 6)

```
Quality care is effective marketing....……………………...| --------------->
I ask patients/clients...……………………………………...| ------------>
I know what's best......……………………………………...| ----->
I have a marketing plan.………………………………<---|
I don't offer fee information…………………………..<----|
Advertising is unethical………………………………<----|
Marketing helps quacks……………………………..<------|
I keep statistics.…………………………………….....<--|
Advertising demeans the image....………………………....| ->
Marketing is the same as advertising..…………………...<-|
I find out about terminations....……………………………..| ------------->
Marketing costs would not be passed on....………………...| ------->
I have thought about a marketing plan..…………………<-|
There are too many professionals.……………………....<--|
Consumers would like more advertising……………........<-|
                                  ______________________________
                                       |     |     |     |     |
                                      -2    -1     0     1     2
```

Examining the responses by group reveals some differences in attitudes. Mental health practitioners agreed more strongly with the statement "I make it a point to ask my patients/clients if they feel they are getting what they need from my services." Attorneys tended to agree with "As a professional I probably know best what my client's needs are." Mental health professionals and dentists opinions balanced almost to zero on these statements. Dentists were the only group to agree that they had a written marketing plan. Each of the other groups disagreed with that statement. Mental health practitioners slightly agreed that they kept statistics while the other groups disagreed. Therapists were also more likely to agree that they knew why patients/clients terminated. Interestingly, only therapists disagreed with the statement that advertising demeans the image of the profession and only attorneys disagreed that consumers would like more advertising. Table 3 on next page summarizes attitudes by groups

CURRENT MARKETING PRACTICES

Professionals were asked to indicate which methods of practice building they currently use or have used and their best sources of new patients/ clients.

Table 3
Agreement and Disagreement
By Groups

	MHP	ATT	DDS
Quality care is effective marketing	1.64	1.65	1.76
I ask patients/clients	1.21	.60	.82
I know what's best	.04	.60	.06
I have a marketing plan	-.29	-.35	.53
I don't offer fee information	-.79	-.85	-.47
Advertising is unethical	-1.04	-.70	-.18
Marketing helps quacks	-1.00	-.75	-.94
I keep statistics	.11	-.79	-.59
Advertising demeans the image	-.68	.35	.41
Marketing is the same as advertising	-.57	-.10	-.18
I find out about terminations	1.50	.80	.53
Marketing costs would not have to be passed on	.75	.20	.06
I have thought about a marketing plan	-.39	-.40	.0
There are too many professionals	-.43	-.30	-.59
Consumers would like more advertising	.11	-.30	.59

(-2.00 represents total disagreement; 2.00 represents total agreement)

Methods Used
The most frequently used method for building practices was increasing social contacts. Of all respondents 82.8 percent reported that they used this method. "Join professional organizations" was indicated by 75.0 percent and "Yellow pages" were checked by 62.5 percent. Figure 4 summarizes the results.

FIGURE 4
Practice-Building Methods Used
(From Question 3)

```
Newspaper Ads                   | --> 10.9%
Social Contacts                 | --------------------------> 82.2%
Professional Organizations      | ------------------------> 75.0%
Newsletters                     | ----> 23.4%
Public Speaking                 | ---------------> 54.7%
Yellow Pages                    | --------------------> 62.5%
Brochures: Existing Contacts    | -----> 28.1%
Brochures: Potential Contacts   | --------> 32.8%
Survey Effectiveness            | -------> 31.3%
Other                           | ---> 18.8%
                                |___________________________________
                                   |    |    |    |    |    |    |    |
                                  10   20   30   40   50   60   70   80
                                        Number of Respondents
```

Among groups, more dentists used newspaper ads (23.5 percent) than others. Attorneys surveyed their clients least (15 percent). Mental health professionals were the highest in using public speaking, yellow pages, and brochures to existing as well as potential contacts. Table 4 illustrates the findings.

Table 4
Methods Used By Groups

		Percentage	
	MHP	ATT	DDS
Newspaper Ads	7.4	5.0	23.5
Social Contacts	85.2	75.0	82.4
Professional Organizations	74.1	65.0	82.4
Newsletters	29.6	15.0	23.5
Public Speaking	88.9	35.0	23.5
Yellow Pages	74.1	50.0	58.8
Brochures: Existing Contacts	51.9	15.0	5.9
Brochures: Potential Contacts	55.6	10.0	23.5
Survey Effectiveness	29.6	15.0	47.1
Other	14.8	25.0	17.6

Best Sources of New Patients/Clients
By assigning three points to a first choice, two to a second and one to a third, responses to Question 5 concerning new patient/client sources could be ranked. The first ranked source was "Former and current patients/clients" with a score of 162 out of a possible 192. Second was "Professional referrals" and third, "Friends and other social contacts." Other choices were ranked well below these three. Figure 5 illustrates all the responses.

FIGURE 5
Ranking of Best Sources
Of New Patients / Clients
(From Question 5)

```
Former and Current patients/Clients  | ---------------------->
Professional Referrals               | -------------->
Location                             | ->
Professional Directory               | ->
Yellow Pages                         | --->
Friends and Social Contacts          | ---------->
Other                                | ->
                                     |_______________________________
                                             |        |        |        |
                                             50      100      150      200
```

CONCLUSIONS

One of the most striking characteristics of the results of this study is how closely the stated opinion and attitudes of these three groups coincide. Even methods used and best sources of patients/clients were very similar. Apparently these professional groups are more alike than they are different.

The attitudes reported here suggest that some of the biases held by professionals in the past are disappearing. Only 12.5 percent said they thought advertising is unethical and only 25.0 percent believed marketing helps it quacks" build a practice. Nonetheless, 40.6 percent still believed that advertising demeans the image of a profession and only 28.1 percent believed that consumers would like more advertising. It seems there is a distinction made between marketing and advertising which belies the idea that professionals do not make that distinction. (Only 32.8 percent agreed that "Marketing is just a jargon word for selling and advertising.")

In practice, it appears that these professionals do very little internal or external marketing. Only 18 percent have a written marketing plan and only 15.6 percent keep statistics on the people who use their services. Less than one-third use brochures or newsletters and only 10.9 percent ever used advertising in newspapers. Their marketing efforts go into social contacts, professional organizations, yellow pages, and public speaking.

The seeming incongruity of attitudes and behavior may have many explanations. First, individuals may not realize that marketing and even advertising are becoming more acceptable among their peers. Acting out their attitudes may be mitigated by erroneous impressions on how such activities would be received.

Secondly, business practices of any kind are not included in professional curricula. Therefore learning about such things as marketing would be the result of conscious efforts to obtain such information. The sources would be seminars, publications, and other professionals (as well as trial and error). These efforts are in direct competition with actual case work and staying professionally current when professionals budget time. It may be that marketing takes a low priority.

Professionals may simply be at a loss as to how to implement programs which suit their particular practices. They know they should be marketing but, despite all the seminars and publications, cannot come up with plans they find acceptable or cannot find the resources to implement the plans.

Finally, agreement with the "quality care" statement suggest that professionals choose the minimal marketing approach. They expect their practices to market themselves. While it is true that you can't maintain a practice without quality services, professionals seem hesitant to accept the concept that a "better mousetrap" may not be enough to be successful.

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PRACTICE BUILDING QUESTIONNAIRE

1. How many years have you been in private practice?

2. Place a check by the statement which best describes your practice.

_____My practice is fairly new and I am still working to establish it.

_____I have as much work as I am able to handle and I do nothing to increase my practice.

_____While I have a fairly full schedule I still work at obtaining new clients because of natural turnover.

_____My practice is healthy but I would like to increase it somewhat.

_____I have been unable to build a good practice and I am considering moving to an area where there is less competition.

_____Other____

____

3. Rank in ascending order (1 for highest) methods. you would recommend to increase a private practice.

a._____Advertise in newspapers.

b._____Increase social contacts (e.g., join clubs, take referrals sources out to lunch, etc.)

c._____Join professional organizations.
d._____Mail newsletters to existing and former clients.

e._____Do more public speaking.

f._____Advertise in the yellow pages.

g._____Advertise with brochures to existing conta cts.

h._____Advertise with brochures to existing referral sources and potential clients.

i._____Survey the effectiveness of services with current clients.

j._____Other.____
____

4. Go back to Question 3 and circle the letters of all the methods which you have actually used.

5. Indicate the three best sources of new clients in your practice. Use 1 for the best, 2 for second best, and 3 for third best.

_____Former and current clients.

_____Professional referrals

_____Location (walk-in business)

_____Professional directory

_____Yellow pages

_____Friends and other social contacts

_____Other ____
____

6. Indicate how you feel about the following statements by using SA (strongly agree), A (agree), NO (no opinion), D (disagree), and SD (strongly disagree).

_____I believe the most effective "marketing" I do is offering quality service to my clients.

_____I make it a point to ask my clients if they feel they are getting what they need from my services.

_____As a professional I probably know best what my client's needs are.

_____I have a written marketing plan for the next year (or six months).

_____I don't offer fee information to prospective clients unless asked.

_____Advertising legal services is unethical.

_____Marketing is a way quacks and incompetents can build a practice.

_____I keep statistics such as age, relative income, geographical location, occupation, etc. on clients in my practice. (In summary form, not individual files.)

_____Advertising by attorneys may be legal but it demeans the image of the profession.

_____"Marketing" is just a jargon word for selling and advertising.

_____I always try to find out from the client the complete reason she/he terminated my services.

_____Marketing costs would not have to be passed on to my clients because increased business would cover the costs.

_____I have not thought about developing a written marketing plan.

_____I have thought about developing a written marketing plan but I just haven't gotten around to it yet.

_____There are too many attorneys for us all to thrive in private practice.

_____As a rule, consumers would respond favorably to more advertising by attorneys.

Thank you for participating in this survey.

Please complete the following and be sure to check the last line if you would like the results of the study among attorneys. Again, I assure you that the information here is confidential and after the results have been gathered and replies sent, names will be severed from the questionnaires. Thank you again.

____
Name

____
Street address

____
City Zip

_____ Please send me a copy of the results.

E-SWOT ANALYSIS: AN EXTENSION OF A PRACTICAL TOOL FOR SMALL BUSINESSES

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ABSTRACT
This paper develops and illustrates a workable, systematic mechanism designed to help small business owners in their strategic planning efforts. Although the basic SWOT matrix provides an excellent tool for planning, the extended SWOT (E-SWOT) matrix enriches the basic matrix without adding undue complexity. The major advantage of E-SWOT is that it encourages consideration of multiple combinations or matches of key factors and therefore enhances the generation of strategic alternatives.

INTRODUCTION

Many small business owners and managers are constantly on the alert for practical techniques and approaches that can improve and/or simplify their job. The critical sphere of planning and analysis has received a great deal of attention in recent years. With the multitude of decisions the small business owner makes on a daily basis, very often the planning function is neglected. The long term survival and health of the organization depends on the owner's ability to develop new strategic plans to meet and cope with the ever changing environment in which he or she operates. Although a host of new planning and analytical techniques and approaches have been spawned, few meet the real needs of the small business owner. The small business owner often lacks the time and/or resource base (i.e., manpower and computer support) needed to use many of the newer techniques. Consequently, planning and strategy formulation are too often based on subjective information and too little analysis.

One of the more promising planning and analysis techniques is SWOT analysis (also referred to by some authors as TOWS or WOTS). SWOT is an acronym for Strengths, Weaknesses, Opportunities, and Threats. As the term implies, SWOT analysis focuses on evaluating various combinations of strengths, weaknesses, opportunities, and threats.

The purpose of this manuscript is to (1) describe the basic SWOT analysis concept, (2) illustrate an application of SWOT analysis with "real world" example, (3) describe and illustrate ESWOT, an extended version of SWOT analysis.

Conventional SWOT Analysis

This section describes the conventional approach to SWOT analysis and illustrates the basic approach with an application.

The Basic Concept

The general purpose of SWOT analysis involves generating ideas for alternative strategies or game plans. Once generated, these alternatives must be evaluated and appropriate ones selected, which is beyond the scope of this discussion. SWOT analysis consists of three steps or phases. First, lists of the firm's key strengths, weaknesses, opportunities, and threats must be generated. Second, a SWOT matrix is developed to match up relevant factors. Third, strategic alternatives are generated for each match. Each of these activities is discussed below.

Before using the SWOT matrix, the planner must identify the firm's strengths, weaknesses, opportunities, and threats. This process focuses on the internal workings of the firm to generate strengths and weaknesses and on external issues beyond the direct control of the firm to generate opportunities and threats. Although some rather sophisticated techniques can be used for this activity, a practical process such as the following can be used:

1. a. Generate a list of strengths by listing your firm's strong points, such as strong cash position, good advertising skills, high quality product and so on.
   b. Develop from this list a pool of 3-5 of the most vital strengths. The owner's intimate knowledge of the business can be used as a base for this activity, but his or her perspective should be supplemented by soliciting observations from others, such as employees, managers, suppliers, and so on.
2. a. Generate a list of internal weaknesses by listing your firm's deficiencies, such as weak cash flow, lack of marketing skills, erratic product quality, and so on.
   b. Develop from this list a pool of 3-5 of the most critical weaknesses. The owner's intimate knowledge of the business can be used as a base for this activity, but his or her perspective should be supplemented by soliciting observations from others, such as employees, managers, suppliers, and so on.
3. a. Generate a list of opportunities that exist in the firm's external environment. Opportunities are those factors outside the direct control of the firm that have a potential positive impact on that firm's success. Such factors might include a new plant opening, federal grant money received for the community, or the potential for Blue Law abolishment. In order to generate this list the planner may need to talk with other business people, Chamber of Commerce representatives, SBDC representatives, and others.
   b. Develop from this list 3-5 of the most promising opportunities as determined through discussions with others and in consideration of the factors identified as they specifically relate to your firm's situation.
4. a. Generate a list of threats that exist in the firm's external environment. Threats are those factors outside the direct control of the firm that have a potentially damaging impact on that firm's ability to survive and thrive. Such factors might include a local plant closing, new tax laws, or a new mall being built. To generate this list, the planner must seek information in the same way he or she sought it for opportunities.
   b. Develop from this list 3-5 of the most important threats as determined through discussions with others and in consideration of the factors identified as they specifically relate to your firm's situation.

The primary strength of SWOT analysis arises from matching the specific internal and external factors and evaluating the multiple interrelationships involved. The matching process can be greatly facilitated by construction of a SWOT matrix. It is constructed by first listing the strengths, weaknesses, opportunities, and threats in the appropriate cells (see Figure 1).

Next, you should methodically compare each relevant pair of lists to generate logical matches. This matching process generates four basic categories of matches for which strategy alternatives can be considered.

First, S/O matches result from matching the firm's major strengths with key opportunities. Essentially, the firm should attempt to use its strengths to exploit opportunities.

Second, S/T matches result from matching the firm's strengths with major threats. The firm attempts to use its strengths to avoid or defuse threats.

Third, W/O matches result from matching the firm's weaknesses with major opportunities.

The firm attempts to overcome its weaknesses by taking advantage of opportunities.

Fourth, W/T matches result from matching the firm's weaknesses with appropriate threats. Essentially the firm attempts to minimize its weaknesses and avoid threats. These strategy alternatives are generally defensive.

Analyzing each of the four SWOT cells should yield a variety of matches that will help generate strategy alternatives. Table 1 shows a simple form containing a variety of strategic alternatives (these alternatives are discussed in the next section).

Application of Conventional SWOT Analysis

To help illustrate the application of conventional SWOT analysis and the SWOT matrix, a real situation is described below.

The Hayden Company, located in a southern state, is a small manufacturer of high quality fiberglass bass boats. The firm was owned by a successful local physician. A consultant was brought in because the firm was having such severe problems that it was a strong candidate for bankruptcy.

The consultant found a firm in chaos. The plant manager had left for a better job several months earlier, leaving all planning and supervisory activities up to the owner. The owner was attempting to direct all activities while carrying on with his professional practice.

Figure 2 is an abbreviated version of a SWOT matrix prepared by the consultant. The four categories were then used to generate strategy alternatives such as those shown in Table 1.

TABLE 1
SWOT GENERATED STRATEGIC ALTERNATIVES

1. S/O: S-product quality, O-increased spending on leisure.
   a. to tap the increased demand, develop a comprehensive marketing program that emphasizes superior product quality
   b. reduce product quality and, therefore, price

2. S/T: S-product quality, T-strong competition.
   a. develop a comprehensive marketing program that emphasizes superior product quality
   b. seek a special market niche, such as with a new product development strategy

3. W/O: W-no new products, O-increased spending on leisure.
   a. develop a marketing program that emphasizes the "traditional high quality" of products
   b. acquire rights to new products

4. W/T: W-no new products, T-consumers want different hull designs.
   a. increase emphasis on acquiring or developing new hull designs
   b. diversify into other, simpler product lines

As can be seen from the strategy alternatives generated, SWOT analysis can help provide a useful framework for generating strategic alternatives. Once these alternatives are generated, the planner must carefully evaluate them, eliminate those that are redundant or will not work, and finally select one or more compatible strategies that will work effectively.

Extended SWOT Analysis

Although the conventional version of SWOT analysis can be quite useful, it possesses one major limitation. It assumes that the only matches that merit consideration are S/O, S/T, W/O, and W/T The extended SWOT analysis described in this section is designed to overcome this limiting assumption.

Extended SWOT analysis (E-SWOT) provides the small business planner with the mean for considering all possible matches. The basic E-SWOT analysis is shown in Figure 3. As can be seen, the E-SWOT matrix uses the SWOT matrix as its core, but adds seven new cells for matching purposes. Each of these cells allows for potentially critical matches that merit further discussion.

O/T Matches

An opportunity and a threat may sometimes need to be considered together. A primary reason for this match is that opportunity not pursued can sometimes turn into a threat. For example, a new local mall may look for a sporting goods store to fill one of its vacant spots. This may represent an opportunity for a local sporting goods store. However, if the local store does not go into the mall, a competitor might make the move, thereby representing a threat to the local store owner. Note that when O/T matches such as this occur, the planner is often forced to consider his or her firm's ability to address the match by adding strengths (the S/O/T cell), weaknesses (the W/O/T cell), or both (the S/W/O/T cell) to the O/T match.

S/W Matches

Considering a match between a strength and a weakness can sometimes help pinpoint a potentially beneficial compensating strategy. A compensating strategy involves focusing or deploying a strength so that it compensates or masks a potentially damaging weakness. A firm, for example, could have a high quality product (a strength) but a limited and unexpandable production capacity (a weakness). One possible compensating strategy could involve prestige pricing and promotion that emphasizes quality and exclusiveness. Note that discovering an S/W match such as this would likely force the planner to continue on this analysis path by considering opportunities (the O/S/W cell), threats (the T/S/W cell), or both (the S/W/O/T cell).

S/O/T Matches

The S/O/T match is the first of four possible three-way matches. Recall the sporting goods store location example discussed relative to O/T matches above. Once the retailer recognizes that the location opportunity could evolve into a threat (the O/T match), he or she must decide on an action plan. Evaluating various S/O/T matches could indicate that a move is a viable strategy due to sufficient strengths, such as cash position, projected cash flow, ability to obtain financing, and so on.

From a different perspective, consider the potentially appealing S/O match between a strong present cash position and the opportunity to relocate in an attractive new mall. These two factors indicate that a "move strategy should be strongly considered. However, what if the threat component adds consideration of factors such as an imminent and potentially costly law suit or other large cash drains? Such factors would change the recommended action to a "no move strategy."

W/O/T Matches

The sporting goods retailer described above may also need to expand the O/T match by considering weaknesses -- W/O/T matches. Weaknesses that would support a "no move" decision could include attitudes of employees, inadequate cash, and so on.

In a different context, addressing the W/O matches only could result in damaging strategies. For example, a poor present location (weakness) matched with the opportunity to move into a mall implies a relocate strategy. However, expanding the evaluation to include consideration of threats such as economic instability, residential areas moving in the opposite direction, and so on could reverse the strategy. Note also that other threats, such as the anticipated rezoning of the presently occupied neighborhood, could lend support to the relocate strategy.

O/S/W Matches

Three-way O/S/W matches can also provide advantages over the three relevant two-way matches. To illustrate, let's focus on the small manufacturer discussed above which had a high quality product (a strength) but a limited and unexpandable production capacity (a weakness). Recall that this S/W match could indicate a strategy that involves (1) prestige pricing and (2) promotion that emphasizes quality and exclusiveness. Consider the implications of adding a third component -- an opportunity – to the S/W match. If the opportunity involved a "seller's market," the initial strategy would be supported. However, if the new component involved the opportunity to obtain an additional production facility or to quickly and inexpensively expand the present production facility, a different set of strategy alternatives could be relevant.

Now consider a two-way O/S match. If the opportunity involves a strong seller's market and the strength is a high quality product, an aggressive market penetration strategy would be indicated. However, adding a weakness such as limited production capacity to create a O/S/W match would indicate that market penetration is not feasible.

Lastly, consider a two-way O/W match in which the manufacturer has an opportunity to purchase an additional production facility, but has a critical weakness -a temporary shortage of cash on hand. This match could imply a lost opportunity. However, if the manufacturer could tap a major strength, such as an otherwise strong financial history and present position that would enable the firm to raise the money by borrowing, adding a partner, or selling stock, the opportunity could be pursued.

T/S/W Matches

The last three-way match -- T/S/W -- can sometimes help create additional enlightenment relative to the three component two-way matches: S/W, T/S, and T/W. The manufacturer example can also be useful for illustrating the advantages of the T/S/W match.

First, assume that the S/W match still involves a high quality product but a limited and unexpandable production capacity, and a resulting strategy of (1) prestige pricing and (2) promotion that emphasizes quality and exclusiveness. Assume, however, that a significant threat is detected -- new production technology has been put on line by a major competitor that improves product quality and lowers production costs. Such a threat could negate all aspects of the initial strategy. Other strategies would therefore have to be considered, such as new product and/or process development, diversification, and so on. Now assume that an attractive T/S match has been discovered, such as a new competitor has entered the market with a high quality product (threat) and the planner's firm has a high quality product. The strategy to combat this threat might involve launching a new advertising campaign. Assume, however, that a significant weakness is discovered -- the lack of promotion and advertising skills. This weakness could undermine the proposed advertising strategy.

Lastly, assume that a T/W match involves a competitor launching a major advertising campaign that emphasizes low prices (threat) and the planner's firm cannot match the low prices and remain profitable because of a high cost of production. The planner could ignore the threat, try to match prices temporarily, or attempt to lower the cost of production. But, what if the manufacturer has some strengths that match up well, such as a high quality product and a high quality sales force? The suggested strategy would be to maintain present price levels and have salespeople emphasize the high quality and "you get what you pay for."

S/W/O/T Matches
The S/W/O/T match is the only possible four-way match. It is particularly useful for encouraging planners to extend their analysis of highly significant two-way and three-way matches and, thus, consider additional components.

To consider just one example, assume that while analyzing the external environment, the owner of a construction firm discovers the following T/O match:

O = new industries moving into area have created unprecedented demand and, therefore, long waiting lists at all local apartment complexes

T = four large apartment complexes are now being planned by other builders

Such a match implies that the owner should be cautious regarding building a large apartment complex. Before launching such an effort, the owner must carefully consider the firm's major strengths and weaknesses to determine whether the firm can compete in the promising, but highly competitive, market. Consider the implication of the following items:

Strengths
1. skill and knowledge needed to build apartment complexes
2. large cash inflows anticipated during the next 3 months

Weaknesses
1. building crews are committed to finish present projects and will not be freed up for 4-5 more months
2. firm is behind on interest payments on a series of interim construction loans, thereby reducing the likelihood of obtaining adequate financing

As can be seen from this example, the planner must often consider each of the four components in a logical, integrated framework.

Note that three-way matches will not always need to be expanded because there may not be a reasonable and relevant fourth component. For example, the construction company discussed above may not have any meaningful weaknesses or there may not be any significant threats.

CONCLUSION
This paper has developed and illustrated a workable, systematic mechanism designed to help small business owners in their strategic planning efforts. Because the small business owner must oftentimes be all things in his or her firm, planning is frequently left to circumstance, if it happens at all. Yet, it is the ability to recognize those factors internal

and external to the firm and to proactively integrate such factors into strategic plans of action that will ensure the firm's success.

SWOT analysis can serve as a useful tool for the small business planner. Because Of its simplicity, it can be readily used. It can also foster the objective integration of key factors of success or failure for the firm.

Although the basic SWOT matrix provides an excellent tool for planning, the extended SWOT (E-SWOT) matrix enriches the basic matrix without adding undue complexity. For example, no additional informational input is needed. The major advantage of E-SWOT is that it encourages consideration of multiple combinations or matches of key factors and therefore enhances the generation of strategic alternatives. Essentially, E-SWOT can help the small business owner generate creative new ideas needed for the long term survival and health of the firm.

FIGURE 1
BASIC SWOT MATRIX

	OPPORTUNITIES	THREATS
SWOT MATRIX	1. 2. 3.	1. 2. 3.
STRENGTHS 1. 2. 3.	O/S MATCHES O1 AND S2 O3 AND S3	T/S MATCHES T2 AND S1 T2 AND S1
WEAKNESSES 1. 2. 3.	O/W MATCHES O1 AND W1	T/W MATCHES NONE

FIGURE 2
ABBREVIATED SWOT MATRIX FOR HAYDEN COMPANY

SWOT MATRIX	OPPORTUNITIES	THREATS
	1. Many lakes in area 2. Increased spending on leisure	1. Strong competition 2. Consumers want different hull designs
STRENGTHS	**S/O MATCHES**	**S/T MATCHES**
1. Product quality 2. Government assistance 3. Personnel	1. S-product quality O-increased spending on leisure	1. S-product quality T-strong competition
WEAKNESSES	**W/O MATCHES**	**W/T MATCHES**
1. No new products 2. Poor marketing skills 3. Weak finance	1. W-no new products O-increased spending on leisure	1. W-no new products T-consumers want different hull designs

FIGURE 3
MATRIX FOR EXTENDED SWOT ANALYSIS

E-SWOT MATRIX	OPPORTUNITIES 1. 2. 3.	THREATS 1. 2. 3.	O/T MATCHES 1. 2. 3.
STRENGTHS 1. 2. 3.	S/O MATCHES 1. 2. 3.	S/T MATCHES 1. 2. 3.	S/O/T MATCHES 1. 2. 3.
WEAKNESSES 1. 2. 3.	W/O MATCHES 1. 2. 3.	W/T MATCHES 1. 2. 3.	W/O/T MATCHES 1. 2. 3.
S/W MATCHES 1. 2. 3.	O/S/W MATCHES 1. 2. 3.	T/S/W MATCHES 1. 2. 3.	S/W/O/T MATCHES 1. 2. 3.

THE EFFECT OF EXPLICITLY STATED STRATEGIC GOALS ON THE FINANCIAL PERFORMANCE OF SMALLER COMPANIES

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ABSTRACT

This field study investigates the degree to which smaller companies establish strategic goals and whether there is an important relationship between the intensity of this behavior and the financial performance of the firm.

The results of this research demonstrates that there is a statistically meaningful linkage between strategic goals that are formalized and financial performance as measured red by the average increase in annual sales. A significant relationship was also found to exist between sales increases and goals designed to bring about discontinuous change. Strategic goal setting behaviors were not, however, significantly associated with the profitability of the firm as measured by ROA.

INTRODUCTION

The funnel of business entities narrows dramatically as the millions of firms dwindles to the thousands for middle size companies, and to only five hundred for the largest corporations in America. It is appropriate that small and medium size firms be studied together since, "The small and the fair-sized business belong essentially in the same category" (5, p. 659). As a group the goal setting behavior of these organizations has been given relatively little scholarly attention to date.

The purpose of this research is to classify the strategic goals ***(1)*** of small and medium-size companies, to measure the component intensities of the resulting goal structures ***(2)*** and to determine whether the composition of these goal structures affects the financial performance of the firm.

The study is designed to answer three specific research questions:

1. To what degree do small and medium size companies establish strategic goals which can be classified as explicit (vs. non-explicit) and/or dynamic ***(3)*** (vs. non-dynamic or routine)?

2. Are the type and number of strategic goals formulated a function of...

   a) the number of strategic planners (#PLANR)
   b) goal related financial incentives (BONUS) or,
   c) the use of written strategic plans? (WRITPLN)

3. Is the financial performance ***(4)*** of small and medium-size companies significantly influenced by the type and/or number of strategic objectives developed, or by the use of monetary incentives for goal achievement?

The assumption underlying these questions is that the strategic planning behavior of smaller corporations is essentially rational. The expectation was that most firms do create strategic objectives, and that there would be a significant relationship between the composition of the strategic goal structure of a firm and its financial performance.

METHOD

The research project was designed as a three stage, expost facto, cross-sectional study. Stage one consisted of two pilot studies to refine the 49 item survey instrument. In stage two the questionnaires were mailed to the sample frame and the responses were tabulated and analyzed. In the final phase of the study, the research findings were reviewed by a group of practitioners in order to enhance the qualitative dimension of the final report.

The set of sample firms had the following common characteristics:

1. The companies were located in Connecticut and had been in business for at least three years.

2. The core businesses of the firms fell within one of the following SIC major group index codes: 15, 27, 30, 34, 35 and 73.

3. Annual sales were between $500,000.00 and $70,000,000.

RESULTS

The overall response rate was just under 25%, however only 21% of the returned questionnaires were usable. The spread of response rates among the six industries surveyed was fairly narrow ranging from 33% for Business Services (SIC 73) to 19% for Rubber and Plastics (SIC 30).

General Findings

The results indicate that the majority (84.7%) of the firms surveyed did establish same type of strategic goal system which included one or more explicit goals (EGO) in 81% of the observations. A slightly smaller percentage (73%) of the sample companies formulated at least one or more non-explicit goals while dynamic objectives (DYN) were created by 65% of the respondents.

The most striking result was the very strong relationship ($p<.001$) that was found between the use of a written strategic plan and the average rate of sales increase achieved, which is interesting in view of the fact that only one third of the sample companies formalized their strategic plans.

Descriptive Findings

The average company in this study (see Table I) had somewhat more than 100 employees, was well established (16.25 years), and had an experienced chief executive officer (14.07 years). Approximately four managers participated in the process of setting strategic goals. Although the largest company in the sample had sales of $69 million, the size distribution (SIZE) had a positive skew of 2.71 which indicates that most of the data points were located on the lower side of the curve. Only 34% of the 85 companies in the study had a written strategic plan (WRITPLN). The average planning horizon for the sample group was approximately 1.5 years.

Thirteen firms indicated that they did not have any strategic goals. Telephone calls were made to the senior managers of these companies in order to be sure that the survey questions were not answered incorrectly. It was found that they were answered properly in all cases. In addition, the telephone interviews provided the researcher with much qualitative information which helped to explain their rationale for not developing strategic objectives.

The sample firm established an average of 6.04 explicit goals per planning year, which compares with a mean of 4.12 non-explicit strategic goals. A total of 23 firms (27%) stated that they did not create any non-explicit strategic goals while four companies (4.7%) relied exclusively on the use of general or open-ended strategic goals. Most of the respondents developed some combination of explicit and non-explicit strategic objectives.

In addition, 55 of the sample firms (65%) reported that they developed sane strategic goals that were dynamic in nature (DYN). An average number of 2.78 dynamic goals were formulated per year. A financial incentive (BONUS) was given for goal achievement by 50 (59%) of the companies in the study.

Inferential Findings
The correlation matrix (Table 2) indicates the 1 relationships between the variables of interest were sufficient to warrant further statistical analysis.

Although correlation measures the intensity of the relationship between two variables, it does not explain the variability in the dependent variable. Regression analysis was used to identify those independent variables which explain some of the variability in financial performance as well as the variance in the formulation of explicit and dynamic strategic goals.

TABLE 2
CORRELATION MATRIX

SLSINC	1.00							
ROA	.19	1.00						
#PLANR	.31	.12	1.00					
WRITPLN	.45	.18	.53	1.00				
EGO	.33	- .03	.62	.44	1.00			
NEGO	- .04	.03	.24	- .08	.23	1.00		
DYN	.29	- .02	.41	.25	.53	.11	1.00	
BONUS	.31	.02	.47	.37	.54	.11	.47	1.00

TABLE 3
MULTIPLE REGRESSION ANALYSES

(A) Explicit Goals (EGO)

Independent Variables	Regression Coefficient	t	p
(Adj. R(2)=.49)			
# Planners	0.81	4.55	.005
Dynamic Goals	0.38	2.72	.005
Bonus	0.49	2.51	.01

(B) Dynamic Goals (DYN)

(Adj. R(2)=.25)	Regression Coefficient	t	p
# Planners	0.38	2.28	.025
BONUS	0.47	3.34	.005

(C) Average Sales Increase (SLSINC)

(Adj. R(2)=.22)	Regression Coefficient	t	p
Written Plan	14.75	4.07	.005
Dynamic Goals	0.96	1.87	.05

A forward stepwise procedure, similar to that outlined by Afifi and Clark (1) was used to develop the final multiple regression model for each dependent variable. In this approach different explanatory variables are added incrementally to the regression equation until the value of R-square is maximized.

Strategic Goal Formulation

Table 3A shows that almost half of the total variance in the propensity to develop explicit goals is explained by three independent variables; # of planners, dynamic goals and the use of financial incentives for goal achievement. In addition, the p-values for each of the individual parameters in the multiple regression model are .01 or less. The number of planners participating in the goal setting process was clearly the dominant factor influencing EGO.

Although the correlation coefficient for EGO and WRITPLN is .44, the regression coefficient for WRITPLN lost its significance when this variable was inserted simultaneously with #PLANR in the final multiple regression model. This suggests that there is a significant collinear relationship between WRITPLN and #PLANR and that the latter variable provides more explanatory power for EGO than does WRITPLN.

The data also support a finding that the formulation of dynamic goals (DYN) is partially influenced (p <025) by the number of planners involved in the goal-setting process. It may be that personal risk is lessened for each manager when discontinuous change is considered by a group of managers. Same empirical support for this speculation is given by Jones (7, p. 17) who reported that planners in small firms were more likely to engage in group discussion before reaching decisions than non-planners," and that they had a lower perception of environmental risk. Jones (7, p. 18) also concluded that planning firms were more dynamic than non-planning firms in, scanning the environment for opportunities."

The strong linkage between DYN and BONUS (Table 3B) was not unexpected since this finding is well supported in the literature (8, 10, 13). For example, Lorange (11, p. 53) states, "Incentives must be tied to performance as reflected in the achievement of objectives, strategic programs and budgets."

Dynamic Goals Are Usually Explicit Goals

The survey results demonstrate that when dynamic goals are created they tend to be made explicit. A strong linear relationship (p <.005) was found to exist between dynamic goals and explicit goals. The relatively weak correlation (.11) between DYN and non-explicit goals was tested and the variables were not found to be significantly related.

The regression statistics for DYN and EGO suggest that when accelerated change is desired, managers state these objectives in specific rather than vague or general terms. There is intuitive appeal in this finding since the requirement for coordination among company managers when accelerated change is desired would be even greater than that needed to achieve routine or maintenance goals.

Financial Incentives Increase Goal Specificity

The qualitative data collected from the survey and especially from post-survey discussions was heavily weighted in favor of attaching financial incentives (BONUS) to strategic goal achievement. In fact, there was not a single comment opposing the use of bonuses. One CEO of a $40 million company said, "Bonuses are key." Another manager stated, "Personally, I believe in bonuses. I get my bonus when the strategic plan has come to pass."

Attaching a bonus to goal achievement suggests that growth in either sales or profitability, or both, is a major corporate objective. The survey results demonstrate that a financial incentive system has a significant influence on the creation of objectives that are stated in explicit terms and are often dynamic in nature.

In summary, the results for the first two research questions show that the specificity of strategic goals formulated by smaller companies should increase when these goals are:

a) developed by several planners

b) dynamic in nature

c) tied to financial incentives.

It was also found that the creation of dynamic goals is significantly influenced by:

a) the participation of several managers in the formulation of these goals

b) the attachment of financial incentives (BONUS) to the achievement of these objectives.

NO-GOAL COMPANIES

Fifteen percent (N=13) of the sample firms asserted that they did not develop any strategic goals for their organizations. A descriptive analysis of these companies reveals that their average size of $4.5 million is less than half the size of $9.48 million for the entire sample.

A marked contrast in operating performance is found when the No-Goal firms are compared with the majority of companies that formulated strategic goals setting companies achieved an average rate of sales increase that was 321% greater than the No-Goal companies (18.57% vs. 5.79%). This very significant difference is even more meaningful when the average size of the corporations in each group is considered. It is more likely, ceteris paribus, that the rate of sales growth (as a percent of sales) would be greater for smaller companies as a group than larger firms as a group which was not the case.

FORMAL GOALS INFLUENCE PERFORMANCE

One of the most useful findings of this research is that revenue growth may be significantly improved when strategic goals are made explicit through written rather than, or in addition to, verbal communication. In addition, some of these objectives should be dynamic, whereby accelerated or discontinuous change is sought. The multiple regression model generated (Table 3C) shows that 22% of the variation in SLSINC is explained by the development of written plans and dynamic goals. This suggests that there is an important linkage between strategic goal structures that are formalized and corporate performance as measured by SLSINC.

RETURN ON ASSETS (ROA)
No relationship was found between strategic goal setting behavior and ROA. This conclusion is consistent with the results of Bourgeois (2), Robinson and Pearce (16) and Ronchi (17) who found no difference in performance between formal planners and non-formal planners for three different measures of profitability.

This result might mean that smaller corporations focus their efforts more on sales growth than on profitability. There is a greater requirement for operational control to achieve profitability, i.e. efficiency, and based on the author's observations and experience smaller firms tend to be deficient in this managerial function.

DISCUSSION

Strategic Goal Setting Behavior

The data show that the majority (84.7%) of the firm surveyed did develop one or more strategic objectives. The combined average number of explicit and non-explicit goals (10.16) is generally consistent with the prescriptions of Drucker (5) and Shetty (19) that objectives be established for each activity that is critical for the business. The finding that the sample companies set a variety of strategic goals also adds empirical support to the assertion by Richards (14, p. 41) that, "a single goal does not very well represent the kinds of objectives that organizations actually set."

An average of 6.04 goals were explicit statements of desired results. According to Drucker (5), clearly specified or actionable objectives allow managers to do the work that is needed to translate corporate intentions into results. It is difficult to create and consider workable solutions (strategies) to a problem if the problem (objective) has not been adequately defined.

The development of a strategic goal system is indicative of rational behavior. According to Locke (10, p. 595), "rational" human action is goal directed." From a conceptual point of view the 13 companies (15%) that failed to establish strategic goals conducted their operations in a non-rational manner. It is possible, however, that the orientation of these managers was toward setting tactical or routine operational goals. For example, in a post survey telephone interview, one participant said, "We simply operate on a day to day, week to week basis."

Very few studies of the strategic planning practices of smaller corporations their capture their goal setting propensities and then systematically describe and quantify these behaviors. Some of the research that partially addresses this issue (5; 7; 15; 18) suggests that small companies, because of their limited resources, set very few, if any, strategic objectives. Keusch (8), however, who focused on the planning practices of 92 small and medium-size firms in Florida found that objectives were established by 50% of organizations in the sample. He also reported that in most cases these goals were formulated prior to developing a strategy to achieve these desired results. This finding, which supports the conclusions of the present research, was developed at a time when strategic thinking was just beginning to influence managerial practices.

The lack of clearly stated, or even generally stated goals causes undue dependence of subordinate managers on the president and/or owner of the firm. Coordination and commitment among employees tends to diminish when company objectives are not known and understood. As a result, organizational effectiveness often is reduced. This expected consequence did, in fact, occur. The negative impact of a no-goal policy upon company performance was evidenced by the results of this study. In addition, the findings demonstrate that the formulation of nonexplicit goals (NEGO) has no apparent effect on company performance. The correlation coefficients of -.04 for NEGO and SLSINC and .19 for NEGO and ROA were not statistically significant.

Number of Planners

The finding that the development of explicit and dynamic goals is significantly influenced by the number of planners participating in the decision process is supported by the argument of Cyert and March (4) that the dominant coalition of the company determines the objectives for the firm. They also suggest that the aggregate goals for the organization actually represent a compromised version of each planners personal goals. Mintzberg (12, p. 18) adopted the same theoretical position when he stated, "organization consist of multiple actors, but have no goals."

The ownership of strategic goals is a moot point since, from a practical point of view, it matters only whether they exist or not, and whether their existence is related to organizational performance. Thurston (22, p. 184) argues that those "individuals who hold management responsibility for carrying out the plan should share some level of responsibility for developing the plan." In smaller companies virtually every manger shares some of the implementation responsibility for whatever type of plan that has been formulated. Another argument for including operational managers in the planning process is the risk of alienating them if they are excluded.

One of the several potential benefits of involving line managers in the strategic goal-setting process is that the quality of the decision may be improved. Jones (7) found that manager participation was greater for planner companies than non-planner firms. When operational managers participate in the goal setting process, information is shared. According to Thierauf (21) information is (or should be) a corporate resource. Information is the basis upon which goal setting decisions are made. The logic is that participative planning increases the number of explicit and dynamic goals that are set, which in turn can have a positive effect on company performance.

Formal Goals

When strategic goals are formalized by stating them in writing, the probability that these objectives will be understood by the implementing managers is greatly increased. For example, Level (9) who studied the communication behavior of 72 business managers, found that oral explanations, followed by written communication was more effective than oral communication alone. The results, however, show that 66% of the companies in the study did not state their goals in written form. Stoner (20), p. 164) observes that, “Frequently small business owners believe that a plan can be stored in their mind and still give them direction and guidance. This is a dangerous assumption."

WRITPLN was the dominant variable in the multiple regression equation for performance since it explained 19% of the variance in SLSINC. This result is supported by a number of related research finding. For example, Bracker (3), p. 116) whose research focused on small companies in the dry cleaning industry reported that, "Firms employing structured strategic planning were statistically more effective...than forms using any other type of planning." Structured strategic planning was operationalized as "formalized, written long range plans."

The empirical evidence indicating that some degree of planning formality has a beneficial effect on organizational performance implies that written plans can contribute significantly to the motivation and effectiveness of line managers.

CONCLUSIONS

Several normative conclusions emerge from a synthesis of the data and the strategic planning literature. First, there is a need for the entrepreneurial CEO to have a set of non-explicit or general goals that reflect his or her vision for a long term growth and development. This is evidenced by the fact that the sample companies maintained an average of 4.12 non-explicit goals (NEGO) per planning year. However, the absence of a significant correlation between NEGO and the performance variables SLSINC and ROA indicates that at some point in time these very general objectives must be translated into understandable and actionable goals. This conversion process is needed so that the "doers" (6) of the organization can have a reference point for their implementation efforts.

The first level of doers below the CEO in most small and medium- size companies are the functional managers. Collectively, these managers share much of the responsibility for implementing whatever type of strategic plan may exist. A clear statement of desired outcomes (WRITPLN) encourages relevant communication and allows managers to integrate and coordinate their efforts. The synergistic consequences of articulating strategic goals tends to prove organizational effectiveness.

The results of this research indicate that effectiveness, as measured by SLSINC, does improve when strategic goals are made explicit by stating them in writing. Effectiveness may also improve because explicit goals serve as constraints for managerial behavior since they implicitly define the boundaries beyond which action should not be taken (11). The result is a more focused effort on the part of all the managers of the organization. One survey participant who was interviewed stated, "The most important reason for having explicit goals is to get my managers to do the right work." Another executive offered, "Everybody has to understand what you are trying to accomplish."

The set of strategic goals developed by the sample firms reflects an aggregate state of required action. The results suggest that when company founders fail to develop an appropriate number of formalized strategic goals (e.g. NO-GOAL Companies) they may retard revenue growth for their firm.

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NOTES

(1) In this report the terms goals and objectives are used interchangeably.

(2) Goal structure, as used in this study, refers to the discrete set of categorized goals of a firm.

(3) A dynamic goal (DYN) is designed to bring about accelerated or discontinuous change in the process, products or performance of the enterprise. This type of goal, as defined in this study, entails non-routine activities and can also be described as developmental for the organization. See Max Richards (13) for a further discussion of developmental goals.

(4) Financial performance is operationalized as the average return on assets (ROA) and the average sales increase (SLSINC) over a two year period.

EMERGING FROM THE HIGH TECH REVOLUTION: OPERATIONS ANALYSIS FOR THE SMALL BUSINESS

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ABSTRACT

This paper describes the development of an applications software package for business performance analysis and diagnosis which meets important criteria for applicability in the small business environment. Thus, the high tech microcomputer is made available to the small business owner/manager to perform this important function in-house, using available data. The development of a ten item criteria list is described. This list includes hardware compatibility, data availability, selection of a standard of comparison, analytical techniques employed, ease of operation, keypunch error checking, report formatting, availability of a computerized analysis with corrective suggestions, and cost. Details of program development are presented, including exhibits of data entry and analytic/diagnostic output.

INTRODUCTION

The recent revolution of high technology computing equipment at affordable prices has brought generic big business operating systems into the reach of the small business. The last few years have witnessed the development of practical, affordable software for such applications as payroll systems, point-of-sale inventory control, receivables and payable systems. It has also seen the integration of these systems into practical general ledger packages. Now, it is feasible for the single-person office to generate a full set of ledgers and operating reports automatically and accurately, with little or no routine professional help.

This revolution is just now beginning to be fulfilled. And, as it finds its place in the small business, it gives them the same level of efficient record keeping ability that big business has enjoyed for decades. More important, it also generates the potential for spawning a whole new family of offspring.

This new outgrowth of the high tech revolution is the family of analytic/diagnostic software for generating management reports. Inventory analysis, sales analysis, productivity reports and financial statement analysis are examples. Whether this outgrowth will be a revolution in its own right, only time will tell. But, in the meantime, it is a major potential yet to be exploited by the small business.

Big business has been doing this type of analysis for decades on their mainframe computers. Thus far, in the small business arena, the need has been there but the offerings have been few and inadequate to the task. Analytic/diagnostic software today stands where operational software (payroll, general ledger, etc.) stood five to ten years ago. The offerings are few, those that are available are hard to use, and the output is poorly formatted. It is important to separate the analytical software tools (spreadsheets, databases, and word processors) from analytic/diagnostic programs. Lotus, dBase, and Multimate are the tools. They do well what they were designed to do. But they are not the solutions we seek because, although it is possible to do so, few, if any, small business managers are developing practical business diagnostic programs from these software offerings. They don't have the time, the knowledge, or the inclination to do so.

What is needed is generic, simple, menu driven, easy-to-operate analytic/diagnostic systems derived from these tools.

This paper describes one such system, a program that has proved itself by success in the marketplace. Its development principles and features are explored in detail. It is our hope that this system will serve as a model for others and that describing its development will help future diagnostic software developments for small business to proceed more quickly and practically than they have in the past.

The software program we will be describing is "fisCAL". It was developed by The Halcyon Group, located in Charleston, South Carolina.

DISCUSSION

fisCAL is a business financial analysis system that diagnoses business performance based on financial statement analysis. One of its key features is that it computes key indicators of financial performance and compares them to an industry norm or in-house standard. Thus, performance is always measured against some goal or standard.

Developing the Criteria

In developing fisCAL, we were concentrating on a package that would be attractive to the generic small business marketplace, while also being rigorously accurate, well founded and properly documented. To achieve these ends, we established the following principles:

1. It had to operate on a computer that is popular, economical, and generally found in the small business office.

2. It had to use readily available data from standard financial reports.

3. It had to use a standard, well recognized and current data base as the comparative. No narrowly based standards or outdated data were to be allowed.

4. It had to rely on well recognized, accepted analytical techniques that could be supported by full disclosure in the documentation.

5. It had to be fully menu-driven, easy to learn and easy to use. Data input had to be 100 per cent prompted. There could be no reference to documentation or user manuals after the initial boot-up.

6. It had to have a simple but effective method to check for keypunch and worksheet errors.

7. It had to generate reports in a format that the small business owner/manager could understand and use.

8. It had to readily direct the analyst/owner/manager to discrepant areas of business performance.

9. It had to suggest corrective action through a computer-programmed analytical routine.

10. It had to meet the above criteria and still be able to be sold at an affordable price.

Now, these ten points provided us with a tall order. But, in reviewing each one, we felt there as no compromise that could be made on any of them, if fisCAL was to serve as a model approach to developing practical diagnostic software for the small business.

The Market Search

The first step in develpment was to search the market for available commercial software that would meet these criteria. The search led down many blind paths, but none was fruitful. We searched commercial market sources, libraries, and software sources catalogs (1). They led nowhere. We eventually employed the services of the NASA STAC at the University of Florida to do a thorough nationwide search. Their conclusion: "...portions of your specifications can be found in available software, but nothing that we have found meets even a majority of your criteria."

Our conclusion was that all commercial software purporting to do financial analysis suffered from four or more deficiencies on our list of ten criteria. More important, almost all of them were lacking in four of our most important criteria: (1) use of an appropriate standard of comparison, (2) ease of learning and operation, (3) keypunch and worksheet error check, and (4) generating suggestions for corrective action.

It was also obvious that the spreadsheet and database software, such as Lotus and dBase III, did not meet our criteria. It takes days of study to learn how to use them and additional weeks of programming to get them to do a sophisticated set of computations. Then, specific operating instructions are required to assure the operations are carried out appropriately.

So, having concluded that nothing was available in the commercial market that met our criteria, the development project was on!

Developing the Program

As we developed the program, we proceeded down the criteria list:

First, what hardware should it be developed for? It wasn't hard to see that the business world was quickly converting to IBM compatible microcomputers. We contacted numerous hardware and software dealers and distributors. We also reviewed catalogs and available publications. Dual-drive IBM compatible machines with 512K memory using 5 1/4 inch disks were fast becoming the standard in business applications. Thus, we chose 512K, IBM compatible machines for our development. It is interesting to note that this is already rapidly changing. Larger machines and 3 1/2 inch disks are here!

The second criterion: What financial data would we utilize? The two basic statements that are the standard output of the accountant's trade are the Income Statement and the Balance Sheet. Any firm, no matter how small and no matter whether using internally generated or externally generated financial reports, will obtain these two statements. Other statements, such as cash flow, sources and uses, etc. would also be helpful in diagnostic activity. But their general lack of availability would severely restrict the base of applicability of the program we were developing. So, we chose to concentrate on the Income Statement and the Balance Sheet.

The third criterion: What database of industry norms to use? We found four databases which met our criteria for recognition and statistical significance. They are:

1. Robert Morris Associates (2)
2. Financial Research Associates (3)
3. Dun & Bradstreet (4)
4. U.S. Department of Commerce (5)

Department of Commerce data was eliminated because it is a minimum of three years old when it is first published so it did not meet the currency-of-data requirement.

Dun & Bradstreet data was eliminated because the standard publication does not include all the data we needed to do a full analysis.

Financial Research Associates data was eliminated because it is poorly documented and narrowly based, though it does have some valid features for small business application.

Robert Morris Associates data is published annually. It is the best documented of all the data bases. It is statistically accurate and reasonably complete. And, it is accepted by banks, CPA's and consultants nationwide as a standard. We chose it as a base and obtained a license to use this data in our program.

However, there was a deficiency. It is impossible to find a database to fit all possible industrial classifications. Yet, one of the basic principles of the development program was that there had to be a standard to measure against.

Thus, we determined that it was necessary to allow the manual input of either a budgeted, historical, or in-house standard. We included this capability in the final version of fisCAL.

The fourth criterion: What are to be the analytical techniques that form the basis of the reports? We reviewed numerous texts on the subject of financial performance analysis (6;7;8) and combined this with our own, in-house system of performance diagnosis. The final list of techniques forming the complete report are:

a. Breakeven Analysis.
b. Degree of Operating Leverage.

c. Financial Statement comparison to standard by Percentages and Dollarized.
d. Financial Ratio comparisons, using the 14 most highly accepted ratios.
e. Analysis of Operating Capital Requirements.
f. Cash Market Value computation.
g. Z-Score Bankruptcy Predictor.

There are numerous other reports and analyses that could be generated. But these form the basis of a well-founded analysis, and additional reports add nothing of significance to the diagnosis. A complete report is presented in Appendix I.

The fifth criterion: The program must be fully menu-driven. It was our observation that the analyst, the small business manager, or any of those using our program would be busy people; that taking extended periods out of their schedules to learn how to use a program and then additional time to relearn after a layoff would be unacceptable nuisances. These nuisances would lead to reduced use of the program. So, our goal was to have a program so user friendly that all that was required of the operator was to know the boot-up instruction. The operator was not to be intimidated by the need to memorize or look up extensive protocol in order to fully utilize the program.

This level of friendliness has been achieved with fisCAL. Pertinent operating screens are presented in Appendix II. The program can be run completely without referring to the documentation manual. All necessary instructions are on the screen. The operator is prompted at every data entry point.

As a result, fisCAL can be operated equally effectively by the owner/manager who is a computer novice, by a clerk who has no business experience, or by the knowledgeable consultant who has both business and computer experience.

The sixth criterion: Checking for data entry errors. This is one of the most important necessities in any data processing activity. It is easy to install complicated methods of making these checks. One of the better systems is double-data-entry followed by a computerized comparison. This is effective but double-data-entry is time consuming. For fisCAL, we conceived of a simple and effective system. On entering the income statement data, the computer calculates net profit. If this computed value does not agree with the operator's work papers, the operator is prompted to find the error before proceeding.

The same system is used on the Balance Sheet data. After entering the data, the computer computes net worth. It prompts the operator to compare this value to the work papers. If they don't agree, the error can be corrected.

Thus, our system forces correction of both keypunch and worksheet addition errors.

The seventh criterion: Reports must be formatted for easy understanding by the small business manager. The small business manager is busy and is not necessarily equipped to extract the essence from obscure financial reports. To address this problem, fisCAL has several features (Refer to Appendix I):

a. The Financial Statement comparison is reported in dollars as well as percentages. The dollarized version vividly brings out major dollar variances from the standard. Discrepant items are easy to find and deal with.
b. The Operating Capital Analysis reports cash items (cash, accounts receivable, inventory, and accounts payable) in terms of days of sales on hand. This is a handy way to analyze these items, and is more effective than dollar variances.
c. Wherever comparisons to norm can be made, the degree of variance is reported.
d. The Breakeven Analysis details variable and fixed expenses and reports the percentage contribution to coverage of fixed expenses.

Thus, in developing fisCAL's reports, considerable thought was given to making them friendly for the person who would be reading and using them, whether that person is the analyst or the business owner.

The eighth criterion: The analyst must be directed to areas of discrepant performance. For the busy small business owner/manager or analyst, this need is apparent. Pouring over eight or ten pages of detailed reports is not a task that the busy manager or analyst cherishes. So, we addressed this principle in three ways with fisCAL:

1. Variances from norm are shown in each report. The largest percentage or dollar variances are easy to spot.

2. A one page Summary Report, as presented in Appendix I, outlines the major results of each of the detailed reports. For the busy manager, a quick overview can be had.

3. A coding system is used on the Summary Report. It points our favorable and unfavorable variances and, by code, indicates the degree of the variance.

Thus, the busy manager or analyst can key in on discrepant performance factors quickly, leaving more time to study possible solutions.

The ninth criterion: The program must suggest corrective action for improving discrepant items. This is one of the most important parts of the fisCAL repertoire. Many business managers, and even analysts, having found the problem, are hesitant as to the proper way to approach a solution. And, of course, there is often more than one solution set. So, fisCAL includes a Narrative Analysis, as presented in Appendix I, which suggests solutions to discrepant items. This computer-generated solution at least provides a starting point for the analyst. Often, when there is more than one solution possible, fisCAL will suggest more than one.

Of course, no single analyst, including fisCAL, can foresee all possible solution sets. Thus, the analyst or manager should stilluse external knowledge to add to fisCAL's built-in brain. The tenth criterion: The established market price had to be affordable. The small business is not able to afford analytical programs that are priced in the thousands of dollars. So, fisCAL's price had to be in the hundreds. This issue shot through the entire fisCAL development program because it required that the source code be an efficient one for programming. But, once a source code was chosen, we would have to deal with its good and bad features throughout the rest of the development effort.

We needed a system that was efficient to program, quick and efficient in operation, and to handle our programming goals. The ideal in efficient operation and overall programming capacity and flexibility would have been a language system such as Basic. However, the programming costs would have been prohibitive as measured against the projected sales price. A database handling system was the next best approach, but the operating requirement of these systems is such that the data handling capacity for a floppy disk program is severely limited.

Therefore, our choice was to program in one of the better database systems, dBase III Plus, and compile the program on Clipper, dBase provided the advantage of efficient programming capability. Speed, efficiency, and system capacity were obtained by compiling on Clipper. The overall result was a speedy, efficient program that sells in the range of $500.

CONCLUSION

fisCAL, then, has addressed each criterion that was originally established as important to analytic/diagnostic software development. To summarize, a good, useful program must:

1. Operate on hardware most often found in the small business environment.
2. Utilize readily available operating data.
3. Use norms and standards of comparison that are readily available, statistically accurate, and verifiable.
4. Use standard analytical techniques.
5. Be easy to operate, menu-driven.
6. Have a simple, direct means of checking for keypunch and worksheet errors.
7. Generate reports that the small business manager can understand and respond to.
8. Direct the manager quickly and efficiently to discrepant items.
9. Provide suggestions for corrective action.
10. Sell for a moderate price that the small business can afford.

At least one system that was developed on the foregoing principles, fisCAL by Halcyon, has met the ultimate test of success: marketability. Even before it was ready for market, fisCAL was in demand. It has continued to be a market success through Version 3.1, the current version. More enhancements are on the way, responding to feedback from the banks, CPA's, consultants, and individual businesses that are communicating their desires to Halcyon.

SUMMARY

The advent of high tech equipment for data processing at affordable prices has brought a consequent revolution in the ability of small business to process operational data.

The next wave of this technological revolution - as yet not fully exploited will be functional, generic software programs for analytic/diagnostic reporting. Few of these exist. And the features required to make them attractive to the small business have not been developed.

This paper has described one successful analytic/diagnostic program, fisCAL by Halcyon. It has described the ten features that formed the foundation for its development and has discussed why they were chosen. It has also described how each of these features was addressed in the development process.

It is the hope of the developer that reporting details of the development of this successful program will spur others to utilize similar or superior criteria, thereby enhancing the development of practical analytic/diagnostic software for small business analysis.

APPENDIX I
FISCAL SAMPLE REPORTS
BREAKEVEN ANALYSIS STUDY FOR GENERIC RETAIL RETX20

ANALYSIS PROCESSED ON 12/7/1987 FOR INCOME/BALANCE ON 12/31/00

	($)	(%)
SALES/REVENUE	1,900,881	100.00
VARIABLE DISBURSEMENTS		
Cost of Goods Sold/Cost of Contracts	966,280	50.83
Advertising	18,853	0.99
Bad Debts	12,079	0.64
Car/Delivery	40,481	2.13
Commissions	713	0.04
Freight	0	0.00
Taxes/Licenses	3,300	0.17
Travel and Entertainment	13,903	0.73
Other Expenses (Variable)	0	0.00
Other Expenses (Variable)	0	0.00
TOTAL VARIABLE DISBURSEMENTS	1,055,609	55.53
CONTRIBUTION	845,272	44.47
FIXED DISBURSEMENTS		
Bank Services Charges	0	0.00
Depletion/Amortization	0	0.00
Depreciation	42,121	2.22
Dues & Publications	0	0.00
Employee Benefit Program	0	0.00
Insurance	29,788	1.57
Laundry & Cleaning	0	0.00
Leased Equipment	7,850	0.41
Legal/Professional	16,263	0.86
Office Expense	0	0.00
Outside Labor	0	0.00
Pension/P.S./Payroll Taxes	32,850	1.73
Rent	41,091	2.16

Repairs & Maintenance	8,484	0.45
Supplies, Operating	33,500	1.76
Utilities	20,166	1.06
Salaries - Officers	75,000	3.95
Payroll	397,494	20.91
Other Expenses (Fixed)	57,137	3.01
Other Expenses (Fixed)	0	0.00
Interest	10,014	0.53
Miscellaneous Expenses/(Income)	0	0.00
TOTAL FIXED DISBURSEMENTS	771,760	40.60
PRETAX PROFIT	73,512	3.87
DOLLAR SALES BREAKEVEN	1,735,565	
DEGREE OF OPERATING LEVERAGE	6.01	
Z-SCORE BANKRUPTCY PREDICTOR	3.06	

FINANCIAL STATEMENT COMPARISON
BY PERCENTAGES
STUDY FOR GENERIC RETAIL RETX20
ANALYSIS PROCESSED ON 12/7/1987 FOR INCOME/BALANCE ON 12/31/00

	RETX20	SIC# 59431	PERCENT VARIANCE
ASSETS			
Cash and Equivalents	1.1	7.3	-84.8
Accounts Receivable - Trade (net)	25.6	29.3	-12.6
A/R Progress Billing	0.0	0.0	inf
A/R Current Retention	0.0	0.0	inf
Inventory	30.8	40.1	-23.1
Cost & Est Earnings in Excess of Billings	0.0	0.0	inf
All Other Current	2.7	1.1	148.8
TOTAL CURRENT	60.3	77.8	-22.5
Fixed Assets (Net)	39.6	17.1	131.7
Joint Ventures & Invest	0.0	0.0	inf
Intangibles (net)	0.0	0.6	-100.0
All Other Non-Current	0.1	4.6	-98.3
TOTAL ASSETS	100.0	100.0	
LIABILITIES			
Notes Payable - Short Term	23.1	12.2	89.1
Current Matured Long Term Debt	16.6	5.3	212.7
Accounts Payable - Trade	3.4	21.6	-84.4
Accounts Payable - Retention	0.0	0.0	inf
Billings in Excess of Costs & Est Earnings	0.0	0.0	inf
Income Taxes Payable	0.0	1.2	-100.0
All Other Current	2.6	9.4	-72.1
TOTAL CURRENT	45.6	49.7	-8.2
Long Term Debt	33.8	15.0	125.5
Deferred Taxes	0.0	0.5	-100.0
All Other Non-Current	0.0	2.3	-100.0
Net Worth	20.5	32.4	-36.6
TOTAL LIABILITIES & NET WORTH	100.0	100.0	
INCOME DATA			
Net Sales	100.0	100.0	
Gross Profit	49.2	37.1	32.5

Operating Expenses	44.8	33.8	32.5
Operating Profit	4.4	3.3	33.2
All Other Expenses (net)	0.5	0.8	-34.1
Profit Before Taxes	3.9	2.5	54.7

FINANCIAL STATEMENT COMPARISONS
BY DOLLARS
STUDY FOR GENERIC RETAIL RETX20
ANALYSIS PROCESSED ON 12/ 7/1987 FOR INCOME/BALANCE ON 12/31/00

	RETX20 ($)	SIC* 59431 ($)	VARIANCE ($)
ASSETS			
Cash and Equivalents	8,679	57,269	-48,589
A/R - Trade (net)	201,012	229,860	-28,847
A/R Progress Billings	0	0	0
A/R Current Retention	0	0	0
Inventory	241,929	314,586	-72,657
Cost & Est Earnings in Excess of Billings	0	0	0
All Other Current	21,466	8,630	12,837
TOTAL CURRENT	473,088	610,344	-137,257
Fixed Assets (Net)	310,792	134,150	176,641
Joint Ventures & Invest	0	0	0
Intangibles (net)	0	4,7O7	-4,707
All Other Non-Current	625	36,087	-35,462
TOTAL ASSETS	84,5O4	784,5O4	
LIABILITIES			
Notes Payable - Short Term	181,O21	95,71O	85,311
Current Matured Long Term Debt	130,000	41,579	88,421
Accounts Payable - Trade	26,423	169,453	-143,030
Accounts Payable - Retention	0	0	0
Billings in Excess of Costs & Est Earnings	0	0	0
Income Taxes Payable	0	9,414	-9,414
All Other Current	20,541	73,743	-53,202
TOTAL CURRENT	357,985	389,899	-31,914
Long Term Debt	265,307	117,676	147,631
Deferred Taxes	0	3,923	-3,923
All Other Non-Current	0	18,044	-18,044
Net Worth	161,213	254,179	-92,967
TOTAL LIABILITIES & NET WORTH	784,504	784,504	
INCOME DATA			
Net Sales	1,900,881	1,900,881	
Gross Profit	934,601	705,227	229,374
Operating Expenses	851,075	642,498	208,577
Operating Profit	83,526	62,729	20,797
All Other Expenses (net)	10,014	15,207	-5,193
Profit Before Taxes	73,512	47,522	25,990

FINANCIAL RATIO COMPARISON
STUDY FOR GENERIC RETAIL RETX20
ANALYSIS PROCESSED ON 12/7/1987 FOR INCOME/BALANCE ON 12/31/00

	RETX20 (%)	SIC# 59431 (%)	PERCENT VARIANCE (%)
LIQUIDITY RATIO COMPARISON			
CURRENT RATIO	1.3	1.6	-17.4
QUICK RATIO	0.6	0.7	-16.3
SALES/RECEIVABLES	9.5	10.7	-11.6
COST OF SALES/INVENTORY	4.0	5.0	-20.1
COST OF SALES/PAYABLE	36.6	10.7	241.8
SALES/WORKING CAPITAL	16.5	10.5	57.3
COVERAGE RATIO COMPARISON			
EBIT/INTEREST	8.3	3.1	169.1
CASH FLOW/CURRENT MATURITY (LTD)	0.6	1.9	-70.2
LEVERAGE RATIO COMPARISON			
FIXED/WORTH	1.9	0.5	285.6
DEBT/WORTH	3.9	2.1	84.1
OPERATING RATIO COMPARISON			
% PROFIT BEF TAXES/NETWORTH	45.6	21.9	108.2
% PROFIT BEF TAXES/TOTAL ASSETS	9.4	6.9	35.8
SALES/NET FIXED ASSETS	6.1	25.0	-75.5
SALES/TOTAL ASSETS	2.4	3.1	-21.8

OPERATING CAPITAL REQUIREMENTS ANALYSIS
STUDY FOR GENERIC RETAIL RETX20
ANALYSIS PROCESSED ON 12/7/1987 FOR INCOME/BALANCE ON 12/31/00

	RETX20 ($)	SIC# 59431 ($)
SALES/REVENUE	1,900,881	1,900,881
ACCOUNTS RECEIVABLE	201,012	229,860
A/R PROG BILLINGS	0	0
A/R CUR RETENTION	0	0
INVENTORY	241,929	314,586
ACCOUNTS PAYABLE (TRADE)	26,423	169,453
ACCOUNTS PAYABLE (RETENTION)	0	0
AVERAGE SALES PER DAY	5,208	5,208
(Based on 365 days per year)		
	(DAYS)	(DAYS)
CASH ON HAND/AVERAGE DAYS SALES	1.67	11.00
RECEIVABLES/AVERAGE DAYS SALES	38.60	44.14
INVENTORY/AVERAGE DAYS SALES	46.45	60.41
TOTAL TRADING CYCLE	86.72	115.54
PAYABLE/AVERAGE DAYS SALES	5.07	32.54
NET CASH CYCLE	81.64	83.00
OPERATING CAPITAL REQUIRED	$ 425,198	$ 432,262

CASH MARKET VALUE-ANALYSIS STUDY FOR GENERIC RETAIL RETX20
ANALYSIS PROCESSED ON 12/7/1987 FOR INCOME/BALANCE ON 12/31/00
BOOK METHOD

BOOK VALUE OF ASSETS LESS LIABILITIES	$ 161,213
CAPITALIZATION OF EARNINGS METHOD	
LAST YEARS EARNINGS	$ 73,512
LESS 8.0% RETURN ON BOOK VALUE	- 12,897
EXCESS EARNINGS	= 60,615

VALUE OF GOODWILL (EXCESS EARNINGS/ 0.15)	$ 404,100
BOOK VALUE	+ 161,213
	==========
TOTAL VALUE OF BUSINESS	$ 565,312
STRAIGHT CAPITALIZATION METHOD	
LAST YEARS EARNINGS	
CAPITALIZED AT 15.0% (LAST YEARS EARNINGS/0.15)	$ 490,080
YEARS OF INCOME PURCHASED METHOD	
LAST YEARS EARNINGS	$ 73,512
LESS 8.0% RETURN ON BOOK VALUE	- 12,897
EXCESS EARNINGS	= 60,615
	----------
5 YEARS EXCESS EARNINGS PURCHASED	$ 303,075
BOOK VALUE	+ 161,213
	==========
TOTAL VALUE OF BUSINESS	$ 464,287
PREVIOUS VALUATION METHOD	
PREVIOUS VALUATION	$ 500,000

METHOD	VALUE	WEIGHT
BOOK METHOD	161,213	0.5
CAPITALIZATION OF EARNINGS METHOD	565,312	2.5
STRAIGHT CAPITALIZATION METHOD	490,080	1.0
YEARS PURCHASED METHOD	464,287	1.0
PREVIOUS VALUATION METHOD	500,000	0.5

WEIGHT FACTORED VALUATION FOR RETX20	$ 490,592
WEIGHT FACTORED VALUATION FOR STND # 59431	384,519

COMPARATIVE CASH MARKET VALUE ADVANTAGE	106,072

REPORT SUMMARY STUDY FOR GENERIC RETAIL RETX20
ANALYSIS PROCESSED ON 12/7/1987 FOR INCOME/BALANCE ON 12/31/00

	RETX20 ($)	SIC# 59431 ($)	VARIANCE ($)
ASSETS			
Cash and Equivalents	8,679	57,269	-48,589***
Account Receivables	201,012	229,860	-28,847*
Inventory	241,929	314,586	-72,657**
All Other Current	21,466	8,630	12,837
Total Current	473,088	610,344	-137,257
Fixed Assets (Net)	310,792	134,150	176,641
Intangibles (net)	0	4,707	-4,707
All Other Non-Current	625	36,087	-35,462

TOTAL ASSETS	784,504	784,504	
LIABILITIES			
Notes Payable - Short Term	181,021	95,710	85,311
Current Matured Long Term Debt	130,000	41,579	88,421
Accounts Payable	26,423	169,453	-143,030***
Income Taxes Payable	0	9,414	-9,414
All Other Current	20,541	73,743	-53,202
TOTAL CURRENT	357,985	389,899	-31,914
Long Term Debt	265,307	117,676	147,631
Deferred Taxes	0	3,923	-3,923
All Other Non-Current	0	18,044	-18,044
Net Worth	161,213	254,179	-92,967--
TOTAL LIABILITIES & NET WORTH	784,504	784,504	
INCOME DATA			
Net Sales	1,900,881	1,900,881	
Gross Profit	934,601	705,227	229,374++
Operating Expenses	851,075	642,498	208,577--
Operating Profit	83,526	62,729	20,797
All Other Expenses (net)	1O,O14	15,207	-5,193++
Profit Before Taxes	73,512	47,522	25,990+++
CASH MARKET VALUE	490,592	384,519	106,072++
BREAKEVEN POINT	1,735,565		
OPERATING CAPITAL RQRD	425,198	432,262	-7,064
RATIOS ---			VAR %
CURRENT RATIO	1.3	1.6	-17.4*
QUICK RATIO	0.6	0.7	-16.3*
SALES/RECEIVABLES	9.5	10.7	-11.6*
COST OF SALES/INVENTORY	4.0	5.0	-20.1*
COST OF SALES/PAYABLE	36.6	10.7	241.8*
SALES/WORKING CAPITAL	16.5	10.5	57.3
EBIT/INTEREST	8.3	3.1	169.1
CASH FLOW/CURRENT MATURITY (LTD)	0.6	1.9	-70.2*
FIXED/WORTH	1.9	0.5	285.6*
DEBT/WORTH	3.9	2.1	84.1*
% PROFIT BEF TAXES/ NETWORTH	45.6	21.9	108.2
% PROFIT BEF TAXES/TOTAL ASSETS	9.4	6.9	35.8
SALES/NET FIXED ASSETS	6.1	25.0	-75.5*
SALES/TOTAL ASSETS	2.4	3.1	-21.8*
DEGREE OF OPERATING LEVERAGE	6.01		
BANKRUPTCY PREDICTOR	3.36		

REPORT NARRATIVE SUMMARY STUDY FOR GENERIC RETAIL RETX20
ANALYSIS PROCESSED ON 12/ 7/1987 FOR INCOME/BALANCE ON 12/31/00

+++ Profit Before Tax is 154.7% of Standard. This is Good performance.

-- Net Worth is 63.4% of Standard. Indicates need for improvement.
* Consider reducing debt load by reinvesting profits or additional equity investment.

Operating Capital requirement is 98.4% of Standard. This indicates satisfactory performance.

++ Cash Market Value is 127.6% of Standard. This position can be improved by improving Net Worth and/or Profits Before Taxes.

Your Breakeven Point is greater than 90% of Sales. This indicates a risky position that should be corrected by a strategy of:

* Increasing Sales
* Reducing Fixed or Variable Costs

Study your Breakeven Analysis

** Bankruptcy Predictor is 3.36.
You are in a dangerous position. Take corrective action:

* increase Operating Profits (Earnings Before Taxes and Interest)
* Reduce Total Assets. Use proceeds to pay off debt.
* Increase Sales without increasing Assets or debt load.
* Increase Market Value (or Book Value) of Equity by retaining earnings or investing outside capital.
* Reduce Total Liabilities.
* Retain all earnings in firm.
* Increase Working Capital (Curr. Assets less Curr. Liabilities).

Study the Z-Score Bankruptcy Predictor algorithm for guidance.

*** The following Ratios are poor vs. your Standard:

* CURRENT RATIO
* QUICK RATIO
* SALES/RECEIVABLES
* COST OF SALES/INVENTORY
* COST OF SALES/PAYABLE
* CASH FLOW/CURRENT MATURITY (LTD)
* FIXED/WORTH
* DEBT/WORTH
* SALES/NET FIXED ASSETS
* SALES/TOTAL ASSETS

APPENDIX II
FISCAL OPERATING SCREENS

```
***********************theHALCYONgroup***********************
*                                                            *
*          "fisCAL" - MAIN MENU                              *
*          Select Desired Option                             *
*          ---------------------                             *
*      (1) - EDIT/ADD STUDY CASE                             *
*                                                            *
*      (2) - EDIT/ADD INDUSTRY STANDARD                      *
*                                                            *
*      (3) - PRINT REPORTS                                   *
*                                                            *
*      (4) - DISPLAY LIST OF STUDY CASES/STANDARDS           *
*                                                            *
*      (5) - PRINT LIST OF STUDY CASES/STANDARDS             *
*                                                            *
*      (6) - DELETE STUDY CASES                              *
*                                                            *
*      (E) - EXIT                                            *
*                                                            *
**************************************************************

      ENTER  YOUR SELECTION   [X]


***********************theHALCYONgroup***********************
*                                                            *
*          "fis-CAL" - PRINT MENU                            *
*          Select Desired Option                             *
```

```
*                  --------------------                                    *
*            (1) - PRINT COMPLETE ANALYSIS                                 *
*            (2) - PRINT SUMMARY REPORT                                    *
*            (3) - PRINT INCOME STATEMENT/BALANCE SHEET                    *
*            (4) - PRINT BREAKEVEN ANALYSIS                                *
*            (5) - PRINT INDUSTRY COMPARISONS                              *
*            (6) - PRINT OPERATING CAPITAL REQUIRED                        *
*            (7) - PRINT FINANCIAL RATIOS                                  *
*            (8) - PRINT MARKET VALUE ANALYSIS                             *
*            (9) - PRINT TITLE PAGE                                        *
*                                                                          *
*            (R) - RETURN TO MAIN MENU                                     *
*                                                                          *
***********************************************************

              ENTER YOUR SELECTION   [R]
```

Income Statement Input Screens

```
   INPUT INCOME STATEMENT FOR STUDY CASE RETX2O
 ==================================================
FINANCIAL STATEMENT DATE [12/31/00]          BANK SERV CHARGE [      0.00]
SIC#           [59431]
STUDY CASE NAME         [GENERIC RETAIL]     CAR & DELIVERY   [ 40,481.38]

GROSS SALES             [1,900,881.18]       COMMISSIONS      [    712.74]

DISCOUNT/RETURNS        [        0.00]       DEPLETION/AMORTI [      0.00]

NET SALES               [1,900,881.18]       DEPRECIATION     [ 42,121.28]

COST OF GOODS/                               DUES & PUBS      [      0.00]
COST OF CONTRACTS       [  966,279.82]

OTHER INCOME            [        0.00]       EMPL BENE PROG   [      0.00]

ADVER & PROMO           [   18,853.16]       FREIGHT          [      0.00]

BAD DEBTS               [   12,079.17]       INSURANCE        [ 29,787.91]


    INPUT INCOME STATEMENT FOR STUDY CASE RETX20   PAGE 2

LAUNDRY & CLEANING  [       0.00]      TAXES & LICENSES       [  3,300.43]

LEASED EQPT         [   7,850.30]      TRAVEL & ENTER         [ 13,902.59]

LEGAL/PROFESS       [  16,263.47]      UTILITIES/TELE         [ 20,166.19]

OFFICE EXPENSE      [       0.00]      SALARIES-OFFICER       [ 75,000.00]
                    PAYROLL                                   [397,494.23]
OUTSIDE LABOR       [       0.00]
                    [Other Expense(Fix)                       [57,136.60]
PENSION/PROF. SHAR./ [Other Expense(Fix)                      [     0.00]
PAYROLL TAX         [  32,850.50]   [Other Expense(Var)       [     0.00]
                    [Other Expense(Var)                       [     0.00]
RENT                [  41,090.78]
                     INTEREST                                 [  10,014.25]
REPAIRS & MAINT     [   8,484.26]      MISCELLANEOUS EXP      [      0.00]

SUPPLIES, OPER      [  33,500.18]      TAXES                  [  18,150.00]
```

Balance Sheet Input Screens

INPUT ASSETS SHEET FOR STUDY CASE
====================================

CASH & EQUIV	[8,679.39]	EQUIPMENT	[71,311.80]
ACCTS RECEIVABLE	[201,012.25]	LEASEHOLD IMP.	[0.00]
INVENTORY	[241,929.41]	BUILDINGS	[205,079.00]
OTHER CUR ASSETS	[21,466.49]	LAND	[73,880.80]
FIXTURES	[0.00]	ACC DEPRECIATION	[-139,479.90]
VEHICLES	[0.00]	JNT VENTURES/INVES	[0.00]

INTANGIBLES [0.00]
OTHER N-CUR ASSETS [625.00]

INPUT LIABILITIES FOR STUDY CASE RETX20
==

ACCTS PAY (TRADE)	[26,422.85]	NOTES PAY L-TERM	[265,307.00]
CUR PORTION LTD	[130,000.00]	BANK LOANS PAY	[0.00]
NOTES PAY S-TERM	[181,020.73]	DEFERRED TAXES	[0.00]
ACCRUED EXPENSES	[18,150.00]	OTHER LOANS PAY	[0.00]
INCOME TAX PAYABLE	[0.00]	OTHER LONG TERM	[0.00]
OTHER CUR LIAB.	[2,391.02]	CAPITAL STOCK	[20,000.00]

RETAINED EARNINGS [141,212,64]

Data Entry Error Check Screens

NET PROFIT FOR THIS CASE IS 55361.94
DOES THIS MATCH MET PROFIT ON INCOME STATEMENT (Y/N) [Y]

NET WORTH FOR THIS CASE IS 161212.64
DOES THIS MATCH NET WORTH ON BALANCE SHEET (Y/N) [Y]

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EVALUATION OF SBI STUDENTS IN DISTRICT V

Michael S. Broida, Miami University (Ohio)

ABSTRACT

The execution of the SBI program takes many different forms. Sometimes it is taught as a course, sometimes as part of a course, and sometimes as a seminar and/or irregularly meeting group. The main commonalities include:

supervision by one or more professors, written final report to client, and the students receive a grade for their effort.

Mr. Les Brozman, the deputy director of the Chicago SBA district office, provided addresses of all the District V SBI directors as shown on his records. A simple instrument was developed and mailed to these individuals. Fifteen usable responses were obtained from the 90 mailed. An additional 20 were obtained at the October District V meeting. This sample shows that the written report is far and away the most important component of a student's grade (48%). Other important components include oral presentation in presence of professor (15%), written assignments besides final report (14%), class participation (6%), peer review or peer input (4%), and in class examinations or quizzes (4%). Reasons for a final report receiving a grade lower than "A" are claimed to be lack of sufficient depth with respect to the analysis (on 35% of non-A papers), errors in grammar and/or spelling (on 27% of non-A papers), incomplete research (27% of non-A papers) and analysis incomplete (33% of non-A papers).

INTRODUCTION

An interesting question that is often "kicked around" regional SBIDA meetings concerns the evaluation of students. What else is required of the students? In the grading of the final report, what signals a lack of quality on the part of the students? These and similar questions are often discussed informally, and during new director training sessions.

To examine this issue in a more formal way, a simple questionnaire was developed and sent to each of the approximately 90 SBI directors in District V. This written report will show the sample averages associated with the 35 usable responses. The questionnaire itself could be vastly improved, but that issue is now moot.

EXHIBIT 1

Mean	Category	83% trimmed range
48%	final report to client/professor	30-70
15%	oral presentations in class or with professor	5-25
14%	written assignments besides final report	5-30
	How many? Brief description.	
6%	class participation	0-15

4%	peer review or peer input	0-15
3%	attendance	0-10
2%	client evaluation or client input	0-10
0%	small business administration input	
4%	testing, examination or quizzes	0-25
3%	other (please explain)	

THE QUESTIONNAIRE AND SAMPLE AVERAGES

The first of two questions asked was:

> "With respect to the course which includes the SBI program, which of the following are components in your determination of the grade for a student? List the approximation percentage." (Total = 100%)

The percentages shown are the sample average by question. Another interesting measure would be the range and/or the trimmed range. In this case, the three lowest and three highest observations have been deleted from the set. The result is an 85% trimmed range. Clearly, the final report to the client is the largest component of a student's grade, as represented by the averages. All but two professors used the oral presentation as an evaluation tool, and 24 of the 35 professors use class participation as a component. The averages indicate that these last two categories both have an average 14%-15% impact. Only 1/3 of the professors use peer review as a partial determinant of grades, and about 1/3 of the group use attendance. About 25% of this group incorporate the client's opinion, and 4 of the 35 use examinations as a major component in the grade. Only one of the professors in the sample use input from the Small Business Administration (as 2% of the grade).

The second question deals with defects in final reports which lower the quality (and grade). The question is "with respect to a final report which is, in your opinion, less than "A" in quality, what defects caused you to downgrade the report? Again, what percentage of the time do these defects appear? THESE PERCENTAGES MAY TOTAL MORE THAN 100%.

EXHIBIT 2

Mean	Category	83% trimmed range
27%	numerous errors in grammar and/or spelling	0-30
27%	background research incomplete	0-50
20%	not all relevant problems addressed	0-33
24%	errors in analysis	0-50
33%	analysis of problems incomplete	0-70
17%	level of writing different than expected	0-50
35%	lack of sufficient depth with respect to analysis	10-75
2%	other -- please specify on back of page	

The questionnaire itself lent itself to different interpretations to the above categories, and individual practices also somewhat distort the above answers. For example, one professor who gave a score of 0 to the numerous errors in grammar and/or spelling question also said "I do not allow ANY spelling errors--I keep returning it to them (team) until it is perfect". I am assuming that he does not OFFICIALLY grade the paper until it passes the preliminary grading. In any case, his grading practice makes the question hard to answer as compared to a professor who accepts the student's work and grades it. Likewise, only 17% of the professors reported that the level of writing was different than expected. This result probably indicates that such tight directions are given little leeway exists to disappoint the professor. No other generalizations of this data will be offered.

CONCLUSION

Major differences in the evaluation of SBI students partly reflects the different environments in which the SBI program is housed. Most professors use four or five different components which become major factors in the student's grade The sample indicates that the grade on the final report itself is the largest single determinant, which is not surprising.

VIETNAMESE IMMIGRANTS AND SMALL BUSINESS: A SURVEY OF STRATEGIC CONSIDERATIONS

Robert J. Amann, Florida International University
Alex De Noble, William To and Abraham To,
San Diego State University

ABSTRACT

Immigrants to the U.S. are no strangers to the institution of small business, and those who led what was once the Republic of South Viet Nam have been no exception. This study explored the importance a sample of these individuals attached to certain strategic considerations. Specifically, 30 individuals of Vietnamese descent who owned and/or operated small businesses in the San Diego area provided data on their long term objectives, the importance of different "entry wedges" when they opened their businesses, the "grand strategies" they were following, and the "competitive tactics" they saw as important for success in a changing world. Contextual relationships are discussed and suggestions are offered for more effective SBI involvement with immigrant groups.

INTRODUCTION

The United States of America owes its very existence to the willingness of individuals to immigrate to her shores. Wave upon wave of millions of individuals, who chose or were forced to leave their native lands, have contributed to America's diversity and economic prosperity. Countless immigrants, sons of immigrants and the sons of sons of immigrants have started, nurtured and developed small businesses into some of the Nation's most successful commercial enterprises.

The process continues today, but the ethnic background of these fledgling entrepreneurs has changed. Gone are the large scale migrations of the English, Germans, Italians, Chinese and the Irish, to name a few. Today immigrants from Latin and South America, Mexico, the Caribbean Basin, the Middle East, India and the Far East constitute the bulk of those entering the U.S. Like previous immigrants, however, the love affair with starting one's own business continues to flourish. Anyone familiar with the cities of Dallas, Houston, Seattle, Denver, New Orleans, Los Angeles, San Diego, Miami, New York, and so on, is intimately aware of the growing presence of new businesses with Latin, Oriental, Indian or Middle Eastern names and products.

One relatively large group of immigrants that came to the U.S. recently are those form what was once the Republic of South Viet Nam. This paper describes the findings of a research project that sought to determine how these individuals have adapted for success in a changing world. Specifically, the research involved surveying 30 business persons in the San Diego, California, area who immigrated to the U.S. from South Viet Nam on their perceptions of the importance of certain key strategic considerations. To overcome some of the resistance immigrants typically display in providing survey data, South Vietnamese students interviewed these individuals using a questionnaire designed for this study. Results from this study are used as the basis for offering suggestions for the directors of SBIs.

KEY STRATEGIC CHOICES

An underlying assumption of this research was that strategy counts and that the performance of the firm is an outcome of the strategic choices that an entrepreneur or entrepreneurial team makes. The concept of strategy was broken down for analyses into four types of choices. These choices were: long term objectives; entry wedges; grand strategies; and competitive tactics.

Long Term Objectives

Participants in the study were asked to evaluate seven objectives in terms of their importance to the firm in the next five years. These objectives were: profitability, productivity, competitive position, employee development, employee relations, technological leadership and public responsibility.

Initial Strategic Choices: Entry Wedges

Vesper (3) has conceptualized strategic choice from the perspective of new ventures. He described a typology of "entry wedges" that portrays the different ways a new venture gains a strategic competitive advantage. Table 1 lists and describes Vesper's typology.

TABLE 1
ENTRY WEDGE CHOICES

ENTRY WEDGE	DESCRIPTION
New Product	Invention or commercialization of previously unavailable product, service, or product type.
Parallel Competition	Entry into already established industry or market based on a minor variation of what is offered and/or how it is provided.
Franchise Entry	This employs a proven product or service without variation but in a new geographical area under license.
Partial Momentum	Exploiting the momentum of established enterprises by, for example, filling a supply shortage by tapping underutilized resources.
Customer Sponsorship	Entering at the behest of the customer, for example, with contract in hand or as a second source.
Parent Company	Sponsorship Creation of a new firm assisted by a larger firm with existing resources, for example joint venture, license agreement of spin off.
Government Sponsorship	Creation of a new firm at the behest of the government or to meet The government market, for example, due to a favored purchasing

agreement or a rule change (set aside).

Participants in the study were asked to evaluate Vesper's "entry wedges" in terms of the importance each played in the establishing of his or her business.

Grand Strategies

After a firm has entered an industry as a serious competitor, the firm develops and implements its initial "grand strategy." This grand strategy is the means by which the firm's long-range business objectives will be achieved. Given that a firm's entry wedge has provided a defensible position, the grand strategy defines the configuration of the business to be defended. These grand strategies have been summarized from the works of many authors by Pearce and Robinson (1) and are presented in Table 2.

Participants in the study were asked to evaluate these grand strategies in terms of the extent to which each was expected to be important for the firm's attainment of its long-range objectives.

TABLE 2
GRAND STRATEGIES

GRAND STRATEGY	DESCRIPTION
Concentration	Strategy Increasing use of present products and services in present markets.
Market Development	Selling present products in new markets.
Product Development	Developing new products for present markets and/or geographical area.
Innovation	Ongoing commitment to develop new products.
Vertical Integration	Growth through the acquisition of firms which precede (supply) or succeed (purchase from) your firm in a production sequence.
Horizontal Integration	Growth through the acquisition of firms which are in the same kind of business.
Franchise	Growth of the firms through the sale of the rights to operate extensions of the firm.

Competitive Tactics

The last key strategic consideration examined in this study was "competitive tactics". Porter (2) was not the first to point out that different industries "mandate" different tactical configurations. But his attempts to specify in some detail the nature of the importance stand out as a milestone. Table 3 illustrates these dimensions.

Again participants were asked to evaluate these tactics in terms of each tactic's importance for the business under consideration.

TABLE 3
COMPETITIVE TACTICS CHOICES

TACTIC	DESCRIPTION
Specialization	Degree of focus in terms of width the product line, target customers or geographic market.
Brand identification	Degree of non-price competition achieved through advertising, sales force, etc.
Push versus Pull	Degree of brand identification developed directly with the final consumer.
Channel Selection	Choice of distribution channels or use of multiple channels or innovative channels.
Product Quality	The level of quality in terms of raw materials, features, or reliability.
Technological Leadership	Degree to which the firm is a leader or a follower.
Vertical Integration	Degree to which the firm mitigates buyer or supplier through actual or threat of integration.
Cost Position	Extent to which the firm seeks the low cost position.
Service	Degree to which the firm supplies services such as credit, free gifts for customers, refunds, etc.
Pricing Policy	How important it is to be the lowest

	priced product on the market.
Community Ties	Community relationships with churches and other community organizations.
Leverage	Using loans to finance growth.

Sample Profile

Thirty individuals of South Vietnamese descent were interviewed in early 1987 in the San Diego, California, area. These interviews were conducted by students of South Vietnamese descent enrolled in the undergraduate business administration program at San Diego University.

Table 4 provides a profile of the sample. Entrepreneurs from a variety of businesses were interviewed. Most of the participants were owner/managers, but in some cases employees, usually members of the owner's family, were interviewed because of language barriers, time constraints, or both. The interviewers were assured that these individuals were thoroughly knowledgeable about the history and operations of the business.

TABLE 4
SAMPLE PROFILE

VARIABLE	COUNT	PER CENT
Type of Business:		
Restaurant	11	37
Supermarket	3	10
Jeweler	4	13
Auto Repair	5	17
Video and Other	7	23
Participant Title:		
Owner/Manager	24	80
Other	6	20
Is participant bilingual?		
Yes	24	83
No	6	17
Buy this business?		
Yes	14	47
No	16	53
Start this business?		
Yes	14	47

No	15	50
Other	1	3
	MEAN	STANDARD DEVIATION
Number of employees	9.0	13.7
Years in business	3.6	1.9
Years in U.S.	7.6	2.2
Education	13.1	1.7

Interestingly not all of the those interviewed considered themselves fully bilingual, as alluded to earlier, but few felt that this was a problem because the customer served was bilingual and/or other members of the family or employees were bilingual.

Almost half of those in the sample indicated that they had purchased the business. One individual apparently took over the business from other family members.

The businesses analyzed were small by any standard, with an average number of employees of nine. On average the firms were relatively young with 3.6 years in business.

The respondents had been in the U.S., on average, seven and one half years, and had completed slightly more than a high school education.

RESULTS

Long Term Objectives

Table 5 presents the importance attached to different long term objectives by the sample, and these are presented in their order of importance to the sample. The most important objective, on average, for the sample was "profitability," followed by "productivity" and "competitive position." "Employee development, "employee relations" and "technological leadership" were also given relatively high importance ratings by those in the sample. "Public responsibility" came in last in terms of importance.

TABLE 5
LONG TERM OBJECTIVES

OBJECTIVE (Listed in descending order of importance according to respondents)	MEAN(a).	STANDARD DEVIATION
Profitability	5.00	0.00
Productivity	4.77	.430
Competitive Position	4.23	.728
Employee Relations	3.53	.973
Employee Development	3.30	.877
Technological Leadership	3.27	1.015
Public Responsibility	2.97	.718

a. Respondents were asked to evaluate each long term objective in terms of its importance with "5" = most important, "4" = more important, "3" = important, "2" = less important and "1" = not important.

An analysis of differences in the importance assigned to these objectives with respect to type of business (ANOVA) revealed that "employee development" was the most important for the operators of auto repair firms and the least important for jewelers and the video stores ($p < .003$). The importance of employee relations was also related to type of business with auto repair operations rating this objective the highest, and video store operators giving it the lowest importance rating ($p < .007$). The importance attached to "technological leadership" also varied with type of business. Again auto repair operators rated this objective the highest, and restaurant operators rated it the lowest of the groups ($p < .001$). The importance of this objective was also related to whether an individual had purchased the business. Those who had purchased the business attached greater importance to "technological leadership" than did those who did not purchase the business ($p < .06$).

Finally, the importance attached to "social responsibility" was related to whether an individual had purchased the business. Those who had purchased the business attached greater importance to this objective than those who did not purchase the business ($p < .004$).

Entry Wedges

Table 6 presents the average importance attached to different entry wedges by the respondents, and the wedges have been ranked in terms of their importance to the sample. There were clearly differences in the importance attached to the various entry wedges.

TABLE 6
ENTRY WEDGE IMPORTANCE(a).

ENTRY WEDGES (Listed in descending order of importance according to respondents)	MEAN(b).	STANDARD DEVIATION
Customer Sponsorship	4.6	.556
New Product	4.2	.761
Parallel Competition	3.9	.868
Parent Company Sponsorship	2.8	1.16
Government Sponsorship	2.4	.809
Franchise Entry	2.3	1.02

a. "Partial momentum" as an entry wedge was deleted from the analysis due to measurement problems. b. Respondents were asked to evaluate each entry wedge in terms of its importance with "5" = most important, "4" = more important, "3" = important with "2" = less important and "1" = not important.

The most important entry wedge was "customer sponsorship," followed by "new product" and "parallel competition" (see Table 1 for a description of entry wedges). "Parent company sponsorship," "government sponsorship" and "franchise entry" were seen by the respondents as much less important in their initial attempts to enter the market.

When the importance of different entry wedges was compared across types of businesses (ANOVA), only the difference in the importance attached to the "new product" entry wedge approached significance ($p < .11$). Individuals who operated supermarkets assigned this entry wedge the highest average importance rating, and the operators of auto repair businesses assigned it the lowest rating in terms of its importance as an entry wedge.

Grand Strategies

Table 7 shows the average importance attached to different grand strategies by the sample, and these have been listed in the order of their importance to the sample (see Table 2 for a description of the grand strategies). "Product development" received the highest average importance rating, followed by "market development," "innovation" and "concentration." Vertical" and "horizontal integration" and "franchising" were seen as much less important, on average, by those in the sample.

TABLE 7
GRAND STRATEGY CHOICES

GRAND STRATEGY (Listed in descending order or importance according to respondents)	MEAN(a).	STANDARD DEVIATION
Product Development	4.50	.682
Market Development	4.30	.596
Innovation	3.83	.950
Concentration	3.47	.730
Vertical Integration	2.43	1.040
Horizontal	1.97	1.149
Franchise	1.63	.850

a. Respondents were asked to evaluate each grand strategy in terms of its importance with "5" = most important, "4" = more important, "3" = important, "2" = less important and "1" = not important.

When the importance attached to different grand strategies was compared across types of businesses (ANOVA), "innovation" as a grand strategy was most important for those in the auto repair business, and least important for those in the supermarket business ($p < .04$). Type of business did not relate significantly to differences in importance attached to any of the other grand strategies.

Significant differences emerged in the importance assigned to "product development" as a grand strategy with respect to whether an individual had purchased or started the business under consideration. Individuals who had purchased the business rated "product development" as more important than individuals who had started the business ($p < .03$). Whether an individual had purchased or started the business was also related to respondents' views on the importance of "horizontal integration" as a grand strategy. Although both groups rated this grand strategy as relatively unimportant, those who had purchased their business rated it lower than those who had started their business ($p <.04$).

Competitive Tactics

Table 8 presents the average importance attached to different competitive tactics by the sample, and the list is ranked in terms of importance to the sample (see Table 3 for a description of competitive tactics). "Product quality" received the highest rating, followed by "service," "brand identification," "pricing policy," "technological leadership," "specialization" and "cost position." The remaining tactics were assigned, on average, less than a "3", which stood for "important."

TABLE 8
COMPETITIVE TACTICS CHOICES

COMPETITIVE TACTIC (Listed in descending order of importance according to respondents)	MEAN(a).	STANDARD DEVIATION
Product Quality	4.83	.461
Service	4.07	.740
Brand identification	3.80	.714
Pricing Policy	3.67	.547
Technological Leadership	3.60	1.07
Specialization	3.53	.571
Cost Position	3.20	.714
Community Ties	2.97	.928
Leverage	2.97	.556
Push versus Pull	2.93	.961
Channel Selection	2.87	.681
Vertical Integration	2.60	1.04

a. Respondents were asked to evaluate each competitive tactic in terms of its importance with "5" = most important, "4" = more important, "3" = important, "2" = less important and "1" = not important.

"Specialization" was related to whether the respondent had purchased or started the business. Those who had purchased their business viewed this tactic as more important than did those who had started their business ($p < .03$). "Cost position" and "brand identification" were also related to whether an individual had purchased or started the business at significant and close-to-significant levels ($p < .08$ and $p < .12$), respectively. Those who had purchased the business saw "cost position" as more important than those who had started their business. Similarly, those who had not started the business viewed "brand identification" as more important than those who had.

The importance assigned to "technological leadership" showed differences across types of businesses. Those in the auto repair business saw this tactic as the most important, those in the supermarket business rated it the least important ($p < .03$). "Channel selection" also was found to relate to the type of business ($p < .05$). Again, those in the auto repair business assigned this tactic the highest level of importance, but jewelers assigned it the lowest level of importance, although as table 8 indicates, overall, the sample did not view "channel selection" as very important when compared to the top seven tactics in the list.

PERFORMANCE

At the beginning of the paper we stated that an "assumption of this research was that strategy counts and that the performance of the firm is an outcome of the strategic choices that an entrepreneur or entrepreneurial team makes." Respondents were asked to evaluate their success, and these evaluations were compared across types of business. No significant differences emerged, although jewelers reported the highest average success levels, and supermarkets reported the lowest. Whether an individual had purchased the business or not also did not relate to perceived success.

Of the long term objectives rated by the respondents, only the importance attached to productivity was related to perceived success ($p < .10$). Although no cause-effect relationship can be inferred from this outcome, it is possible that those who perceived their business as successful attributed this to an emphasis on productivity and plan to continue to emphasize this objective, a sentiment heard frequently across the business horizon today.

When success was correlated with the importance respondents had assigned to different entry wedges no significant relationships were discovered. One interpretation of this finding is that the reason(s) which provided the initiative to enter into a business was not, in and of itself, sufficient justification for the risk taken. Follow up questioning conducted during the interview provided some anecdotal insight into the reasons for these choices. For example, a number of the Vietnamese reported that after spending some time in the U.S., they often heard friends and acquaintances commenting on the unavailability of products or services to which they had become accustomed in Viet Nam, or that these products/services were available but not proffered by people with whom the Vietnamese felt comfortable. Vietnamese who did and did not have experience in Viet Nam in these products/services were encouraged by potential customer. They saw the opportunity to offer products/services not available in the U.S. but which had strong demand in Vietnam, or offering these products/services in a manner tailored to the Vietnamese customers. Instead of actually analyzing the potential for the business, they went on the basis of intuition. Professional consultation, for example, through an SBI, was not sought out.

Comparing perceived success to the importance attached to different grand strategies also proved disappointing. Only the importance attached to "vertical integration" was related to success significantly ($r = .46$, $p< .006$). Again anecdotal evidence collected during the interviews provided some insight into this finding. Due to the need for materials that were either not available, not of the desired quality or too expensive (primarily foodstuffs for the restaurants and grocery stores), many of these firms had joined a cooperative which purchased in bulk and from the source directly, usually from a firm in the Far East. In essence, these firms had backward vertically integrated, and as part of their grand strategy they planned to continue or increase in this direction. The students who conducted the interviews put it this way in their report:

> The new entrepreneurs began practicing a new method to overcome their financial disadvantage by asking most of the other new stores to make orders together, as a group, in advance, for the lower price and better quality and services. It worked out well for them to make the larger order directly to the foreign industries, thereby avoiding the middlemen who do the importing. Eventually, these new entrepreneurs built up the credit reputations established firms had.

The importance attached to different competitive tactics and perceived success was analyzed. The sign of some of the relationships was surprising. However, the respondents were asked how important each tactic was to the business under consideration, and not how effective each participant felt he or she was in terms of mastering the tactic. For example, and considering only those relationships which were significant, the importance respondents attached to "specialization" was negatively related to perceived success. This was also true for "product quality" and the use of "leverage." Of the remaining significant relationships, the importance attached to the competitive tactics of "grand identification," "channel selection," "vertical integration," and "service" was positively related to perceived success. In essence, the more successful respondents considered their business to be, the less inclined they were to view the former tactics (negative relationships) as important. The latter tactics (positive relationships) were considered more important by those who saw their business as more successful.

It would be convenient to suggest that the negative relationships indicated areas where individuals saw the need for improvement because they were not happy with the firm's performance and that the positive relationships indicated what individuals saw as the reason for their success. Further research is needed.

DISCUSSION

Vietnamese entrepreneurs proved to be remarkably similar to entrepreneurs of other ethnic backgrounds. The number one objective of the individuals surveyed was profitability, followed by productivity and competitive position. Somewhat surprising was the relatively low level of importance attached to employee-related objectives. Many of the firms examined were owned and run by members of the same family, but this did not lead to more emphasis being placed on the employee than profitability, although individuals who placed more importance on employee-related objectives did report higher levels of perceived success. However, these relationships were not significant.

The entry wedges chosen as most important were "customer sponsorship," "new product" and "parallel competition." "Franchise entry" was seen as the least important, and given the importance of franchising today this outcome was not expected. Also rated as unimportant was "government sponsorship," even though Vietnamese entrepreneurs qualify as minorities and, thus, could qualify for government set-aside programs. Clearly the Vietnamese could benefit from the expertise of SBIs in terms of information on franchising and minority set-aside programs.

The grand strategies identified as most important by those surveyed were "product" and "market development," followed by "innovation" and "concentration." Again "franchising" was rated the lowest in importance, but given that those surveyed were relative newcomers to the U.S. and the businesses were relatively new, it is not surprising that little thought was given to growth through franchising. However, "market development" (attempting to sell present products in new markets) was rated high as a grand strategy, and franchising is currently a very popular method of expansion into new markets. Again, the Vietnamese could benefit from the knowledge SBIs can relay on the franchise alternative.

Even without the aid of experts, for example, SBIs, some Vietnamese had engaged in backward vertical integration, and this action was related to perceived success. As this grand strategy was still considered important by some of the respondents, SBIs could still play an important part in furthering this move on the part of the firms surveyed, and the countless other Vietnamese seeking to gain some control over their sources of supply.

The importance attached to different competitive tactics was discussed, and the relationships between these tactics and - perceived success showed some surprising results. Knowing what is important for success in a given industry is not always obvious (2). Again, SBIs could provide guidance for these fledgling entrepreneurs in selecting what tactics to emphasize in a given industrial setting.

Probably the most important finding of the study, beyond contributing to body of knowledge on strategy, from the perspective of an SBI director is that NONE of the participants were familiar with the SBI programs. This is probably true of many of the "newer" groups of immigrants. Furthermore, even if these entrepreneurs were aware of the programs, language and cultural barriers might have prevented them from seeking out the assistance of an SBI. Perhaps better advertising on the part of SBIs is needed. Moreover, if SBIs desire to serve the ever-growing immigrant population, the directors of these programs should make an effort to incorporate individuals in these programs who speak the language of these immigrant groups. This could involve active recruiting of students who speak different languages to assist the SBIs. Collecting the data analyzed in this study was in large part make possible by the fact that the interviewers were of the same ethnic group as those who were interviewed.

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AN ANALYSIS OF THE ATTITUDE OF MINORITY AND MAJORITY SMALL CONSTRUCTION CONTRACTORS IN THE PUGET SOUND REGION OF WASHINGTON STATE

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ABSTRACT
The acceptance of minorities into the construction industry of the Puget Sound Region (Pugetopolis) of Washington State was the focus of this study. Questionnaires were sent to majority and minority owners/managers. These questionnaires were aimed at determining the perception each had of the other's abilities, skills and knowledge of the trade. This paper also emphasizes the importance of the Northwest Minority Contractors and Business Association as well as governmental agencies.

INTRODUCTION

The latest census conducted in Washington State revealed a population of 4,481,000 people. This population is largely concentrated in the Puget Sound Region. The Puget Sound Region (Pugetopolis) extends south in Western Washington from the British Columbia border to Oregon (Clark, 1979:23). Largest cities in the Puget Sound Region Are Seattle, Tacoma, Bellingham, Everett and Olympa (Tacoma News Tribune, 1987:B4). The population is largely concentrated in the cities of Seattle (490,000) and Tacoma (161,599), counties of King-Snohomish (2,284,500) and Pierce (538,000), respectively. The population in these counties total 2,822,500 which is more than 50% of the overall population of the state. This study is concerned with Minority Ownership in the Construction Industry and the problems encountered in obtaining a proportionate share of contracts resulting in financial stability and success in the Puget Sound Region.

Background of the Problem

During the past decade, the minority population in the state of Washington has shown a marked increase. With the Korean War bringing many military members into the Puget Sound Region, the population which was at one time transient has become permanent (Wade, 1977:2).

In addition to the number of minorities that settled in the Puget Sound Region subsequent to the Korean War, the after-math of the Viet Nam War brought even more minorities.

Each month, an average of 190 refugees arrive in Washington and about 120 settle in the Puget Sound area. The state now has about 38,000 refugees, two-thirds of them living around the Sound. During the past decade, more than 70 percent of refugees coming into the state are from Asia (Tacoma News Tribune, 1986:Al).

Minorities in the Puget Sound Region are a unique group. They have a diversified background and many badly needed skills to boost a floundering economy (Tacoma Facts, 1978:5). Most of the minorities involved in business ventures are classified as small business owners/managers. The ratio or percentage of small businesses in the Puget Sound Region is very close to the national average, that is, 97 small businesses to every large business. Of the 97 small businesses approximately 10% are minority owned and operated.

There are 1054 minority construction firms in the State of Washington as of October 1986 (U.S. Department of Commerce:1986). Of that number 948 are located in the Puget Sound Region. The distribution is as follows:

Minority	**Number of Businesses**
Asian (Chinese, Japanese, Korean and Asian Indian identities)	113
Black	75
American Indian and Alaskan	11
Hispanic	56
Pacific Islanders	59
Others (Not identifiable in the above groups)	125
Women (All ethnic groups)	615

(All women of minority ethnic groups and those considered to be disadvantaged were considered in this group by the United States Department of Commerce).

Minority Business Development Agency reported in the summary of Fiscal Year 1976-1986 that $69 billion of federal funds were obligated for minority business development. During this same period Federal Funds obligated for minority business enterprises increased from a low of $1.5 billion to a high of $12 billion. The summary further showed that minority business enterprises percentage of federal procurement increased from 1.40% to 4.80% over the ten year period. In Washington State total federal procurement for fiscal year 1985 was $4,915,451,000 with $63,415,000 or 1.3% going to minority businesses. In fiscal year 1986, Washington State total federal procurement was $3,706,088,000 with $73,535,000 (2%) going to minority businesses for an increase of 0.7% (U.S. Department of Commerce Report Fiscal Year 1986).

With large sums of money available for loans to minority contractors and other minority businesses in the Puget Sound Region, the anticipated success has not materialized. In May 1975 the United States Commission on Civil Rights found this situation to be prevalent throughout the United States, and attributed it to oversight on the part of contracting officers.

The Federal Government has enacted legislation in an effort to establish equality in dispensing government dollars for work done. The Small Business Administration has served as the "Watch Dog" to assure the small business person and minorities are included in the awarding of contracts and contract dollars. The efforts of the Small Business Administration, Department of Justice, and the Courts System have not been enough to assure equality in business and enforce business ethics (SBA Pam #15:12).

The Problem

Minorities constitute approximately 14% of the total population of Washington State. Yet, there are many areas of employment and expertise that minorities are not welcomed or encouraged to seek a livelihood by persons who have established themselves in the profession (Moss, 1979:3). A limited amount of success has been evident over the past ten or more years. In order to gain insight on how individual owners/managers of construction businesses perceive their position in the Puget Sound Region of Washington State, the following questions were set forth for research:

1. Have Minority Construction Contractors received an equitable share of the business in the Puget Sound Region of Washington State?

2. Does past experience with Minority Construction Contractors reflect an unfavorable opinion in the minds of the Majority Construction Contractors?

3. Are Minority Construction Contractors taking advantage of the many forms of training, seminars and college/university courses available through the Small Business Administration and Department of Commerce at the local, state and federal level?

4. Is the Northwest Minority Contractors and Business Association effective in its attempt to provide needed assistance in the form of counseling, legal service, administration, and training to the member firms?

The Northwest Minority Contractors and Business Association (NMCBA)

The Northwest Minority Contractors and Business Association is an organization whose specific function is to assist minority business persons. This assistance is not limited solely to the construction industry, it provides assistance to all minority owned businesses. The word minority in the title has the following meaning: an individual who has been declared to be Oriental, Chicano, or Spanish Surname, Black or Native American; a non-Anglo-Saxon; the smaller of two groups constituting a whole; a part of a population differing from others in some characteristics and often subjected to differential treatment (U.S. Dept. of Comm., 1982:III)

Related Studies

Some related studies have been conducted by the State of Washington Office of Minority and Women Business Enterprises, The Small Business Administration, The Interagency Committee on Minority Enterprises, The United States Comptroller General and The

General Service Administration. Each of these studies has generated some fallacies in the system, but no one has recommended a solution or a cure for the system that is ailing or has failed. The Federal Contracting Regulations and Executive Orders 11625 and 12432 directed the implementation of the Minority Business Enterprise Programs, but these have not successfully established a system where everyone is in agreement. This includes the President and Congress.

Newspapers, radio, television and other forms of the media have all related cases of unethical practices of awarding construction contracts. There is reason to suspect that minority business persons have been literally locked out of consideration for many contracts and contractual services they were entitled to. The method instituted by large contractors, whereby sub-contracting is utilized, has directly affected the award or buy-in by MBE and WBE. It has also affected the award of construction contracts to minorities as primary contractors.

It also must be considered that some of the minority contractors have been involved in unethical practices also. As recent as July 1987, an article appeared in the Tacoma News Tribune where a minority contractor had been cited for unethical practices. This particular individual had over the years been awarded several construction contracts based on the fact he had assured the contracting agency that he would employee a given number of minorities and disadvantaged persons. He initially employed these persons only to fire them or lay them off two or three days after the project was started. Those that were laid-off were never recalled and the firing occurred without reason. This incident showed that unethical practices do not occur only on the part of majority construction contractors. There are also many similar incidents that have occurred (Tacoma News Tribune, 1987:B1)

DESIGN OF THE STUDY

The study took two different approaches. The evaluation of perception of majority and minority contractors was conducted in the form of a survey. Two sets of questionnaires were prepared. The second approach was through interviews. The Director of Northwest Minority Contractors and Business Association and his staff at the Seattle headquarters were interviewed. Personal interviews were conducted in an office setting with a prepared list of questions focusing on knowledge, experience, and ability to contribute to the success of the membership.

Questionnaires for Minority Owners/Managers

In order to assess the attitude and perception of a representative population of the minority owners/managers the researcher developed and administered a survey of the total membership of the Northwest Minority Contractors and Business Association (See Questionnaires at Appendix I).

The questionnaire was designed to determine if minorities in the construction industry:

a. Have a thorough understanding of their rights under applicable laws.

b. Believe they receive a fair share of the jobs and dollars available.

c. Feel that their success is hindered by the failure at the local, state and federal level to enforce applicable laws.

Questionnaire for Majority Owners/Managers
This questionnaire was designed to test the perception that majority construction contractors have of their minority counterparts. These questionnaires provided an evaluation for an unbiased view of the existing situation (See Questionnaires at Appendix II) The questionnaire was designed to determine if majorities in the construction industry:

a. Are aware of the right of minority contractors under the applicable laws.

b. Believe minorities receive a fair share of jobs and dollars available.

c. Feel that minorities receive preferential treatment in the awarding of contracts.

d. Feel that minorities are qualified to perform as construction contractors.

e. Are willing to share the work on a competitive basis.

Interview of Director and Staff NMCBA
This interview assessed the qualifications of the Director and Staff NMCBA. It focused on:

a. Education preparedness.

b. Experience in the construction industry and other primary areas of responsibility.

c. Contribution to membership, rapport with local, state and federal agencies to include the Small Business, Administration.

The interview sought to determine if the NMCBA staff:
a. Feel that owners/managers are capable of providing competitive leadership in a dynamic industry.

b. Have a thorough knowledge of their responsibilities as trainers and management consultants.

c. Feel the association has contributed in a positive manner to the success of its membership.

Subjects
Questionnaires were mailed to approximately 250 subjects from each group, that is, majority construction contractors and minority construction contractors. Those mailed to the minority contractors included members of NMCBA and non-members.

The interview was conducted at the Seattle Headquarters of NMCBA. Present were the Director, his assistant for Tacoma-Pierce County, and other staff members of the Seattle office. The questions asked were:

a. How does NMCBA contribute to the well being of its members?

b. Has the membership increased or declined during the past 5-10 years? If so why/why not?

c. What qualifies you to function in the capacity/position you now hold?

d. What is the average number of contracts awarded to each member firm on an annual basis, dollar value of each, and profit margin?

e. Has the local, state, and federal governments abided by the applicable laws and regulations in dealing with minority construction contractors? How many challenges have been registered and settled in the courts?

f. Are the owners/managers qualified (academically, experience and expertise) to meet the challenge of a dynamic industry?

RESULTS OF THE STUDY

The data were extracted from information provided from 136 returned questionnaires from the Minority Construction Industry Owners/Managers and 136 returned questionnaires from the Majority Construction Industry Owner/Managers.

Demographic Data

The sample population selected was taken from the respondents of the Seattle-King County and Tacoma Pierce County areas. To eliminate bias in the results of the research fifteen (15) representatives of each type of firm were selected. Consideration was given to the following factors:

a. Years of Experience.

b. Ownership.

c. Number of full-time employees.

d. Number of part-time employees.

e. Annual gross income.

f. Number of contracts received 1975-85, Dollars amount of contracts for same period.

g. Membership in the NMCBA was considered for Minority Contractors.

Type of firms selected for this research analyses were (See Chart at Appendix III).

a. Plumbing

b. Painting

c. Electrical

d. Masonry

e. Mechanical

Of the 272 respondents the five types of firms mentioned above had the largest representation, largest number of employees (full-time and part-time), and the largest number of contracts awarded over the period 1975-85. Heavy construction, highway construction and underground utilities had insufficient number of Minority Contractors to be considered.

From an analysis of the findings of this study four main results are indicated:

1. Minority Construction Contractors must strive to improve their image in the business world in order to become a competitive force. They must take advantage of the opportunities available through education, training and other forms of assistance to improve their knowledge, skills and ability to produce a timely and quality product or service. They must adhere to the attitude of Andrall E. Pearson in his article entitled, The Muscle-build The Organization. Pearson stated, "The only way to make a business live up to its potential is to get tough. Only an aggressive approach can make a difference quickly. The manager who succeeds establishes a higher performance standard across the board."(Pearson, 1987:51)

2. Local, state and federal agencies have enacted rules and regulations that are designed to assist the minority construction contractors. In 1983, Governor Spellman of Washington State informed the Washington State Economic Agencies that, "Owners have to operate their businesses profitably" (WA State Dept. of Comm. & Econ. Dev., 1983:3).

To accomplish this he asked these agencies to provide training and retraining for workers, managers and owners. This was accomplished through the Community College Small Business Program. Monthly, classes were held at the Community Colleges and individual instruction at business location, for small business owners. This was also designed to reduce the 80% failure in the first year of operation (DCED, 1983). In the counties of King and Pierce including the cities of Seattle and Tacoma respectively, Affirmative Action Programs and Human Rights Departments have established policies, written regulations and passed ordinances (King County Ordinance No. 5983 and Pierce County Ordinance No. 81-121) to assist minority business-persons. Sections of these documents pertain only to the construction industry.

The counties and cities have the following established annual goals:

Cities	**Counties**
Seattle	King
MBE goal - 15%	MBE goal - 11%
WBE goal - 3%	WBE goal - 4%
Tacoma	Pierce
MBE goal - 15%	MBE goal - 12.2-15%
WBE goal - 5%	WBE goal - 6.9%

These goals are separate from those for the nonprofit organizations (City of Seattle-King County and City of Tacoma-Pierce County-WMBE Utilization Report, July 1, 1983-June 30, 1984) (HRD, 1984:10).

3. The laws, regulations, ordinances etc., have been enacted but not fully enforced. As late as July 1984, the WBE Program had attained only 78.76% of its goal (WBE Utilization Report, 1984:4). MBE goal was attained for the first and only time in 1984. This was a result of several departments exceeding 100% of the goal whereas others attained 0% of the assigned goal.

4. The majority construction contractors perceive minority construction contractors as lacking ability to perform at an acceptable level and that they, the minorities, receive too many special privileges.

CONCLUSIONS

On the basis of the analysis and findings of this study, the following conclusions can be made:

1. Although there is not total agreement between Minority Construction Contractors and the Northwest Minority Contractors and Business Association on the need for additional training, this researcher thinks that additional training is a necessity for increased success by minority businesspersons. The lack of skills and training in specific areas related to the art of managing in the construction industry has been and continues to be a detriment to the minority contractor.

The needed training is available through the Community College System. There has to be initiative on the part of the minority owners/managers to avail themselves of this training at the colleges or request assistance at the individual business location.

2. The Northwest Minority Contractors and Business Association has to establish a better rapport between its membership and staff. This is necessary for the membership to develop more confidence in the abilities and value of the staff to the organization.

3. The various agencies at the local, state and federal levels have not been successful in their attempt to meet established or mandated goals.

4. There is a lack of confidence in the various programs by the minority contractors. This lack of confidence can be attributed to the fact the present system has only been sporadically successful.

5. Minority Construction Contractors are still experiencing difficulty in finding capital to finance projects, acquisition of surety bonds and successful acquisition of contracts through competitive bidding.

6. Majority Construction Contractors and building unions have presented obstacles to the success of minorities in the construction industry.

7. The attempt of the Improved Construction Practices Committee to increase minority participation in the construction industry by eliminating requirements for payment and performance bonds on public work will increase the number of minorities obtaining contracts. It can also lead to additional incompetency by contracts being given to the lowest bidder.

8. Larger contractors need to take the initiative in implementing Public Law 95-507, which requires them to increase subcontracting with small and/or disadvantaged firms in bidding on federal contracts.

9. It is possible for harmony to exist between the two groups, however, members of each must be willing to accept, assist and trust each other in the effort to provide quality service and be financially successful. With cooperation both groups can succeed and be profitable as stated by a former governor of the state of Washington.

10. Time and success will disprove and eliminate the strained relationship that presently exists between the two groups. This industry in years to come will be a source of pride to businesspersons and political leaders in the state of Washington.

APPENDIX I
Survey of Perception of Owners/Managers

The following statements are intended to assess your perception and understanding of laws and regulations pertaining to Minority Construction Contractors.

This also provides an opportunity to evaluate and express your opinion about the type and nature of assistance available through the Minority Contractors Association, Small Business Administration, and the Government- City, State and Federal level.

There are no right or wrong answers. The correct answers are the ones you feel or think at the time.

Please indicate your agreement, or disagreement with each of the statements by selecting the appropriate response from the following list:

a. Strongly Agree
b. Agree
c. No Opinion
d. Disagree
e. Strongly Disagree
f. Don't Know

Type of Firm____
Years of Business Experience_________________________________
Owner________________________ Manager________________________
Number of full-time employees________________________________
Number of part-time employees________________________________
Approximate annual gross income of your company_______________
Number of contracts awarded 1975-85__________________________
Amount of contracts for the same period_______________________

a. Strongly Agree d. Disagree
b. Agree e. Strongly Disagree
c. No Opinion f. Don't Know

_____1. Being a member of the Minority Contractors Association has been an asset to me as an Owner/Manager.

_____2. Training provided by the Minority Contractors Association has been valuable to the success of my business.

_____3. I have fully used all available training services provided by the Minority Contractors Association.

_____4. I need additional training, but I am unable or reluctant to attend additional courses, seminars, etc.

a. Strongly Agree d. Disagree
b. Agree e. Strongly Disagree
c. No Opinion f. Don't Know

_____5. There is a shortage of needed knowledge and skills among the members of the Minority Contractors Association Staff.

_____6. Assistance provided by the Minority Contractors Association has improved over the past ten years in terms of delivery of service, competency of staff, amount, availability and clarity of information.

_____7. My continued membership in the Minority Contractors Association is dependent on stability of membership cost.

_____8. My membership is based on improvement in organization, training, availability of consultant service and unlimited use of each as needed.

_____9. I have read and understand those provisions of the Small Business Administration 8a Program as they pertain to my business.

_____10. Consumerism is important to the success of the Minority Construction Contractors, therefore, it would be advantageous to be affiliated with an association that represents a contractor's industry.

_____11. Service Corps of Retired Executives (SCORE) has been available to assist Minorities in the Construction Industry through the local Small Business Administration Field Office.

_____12. Sound management recognizes that occasional borrowing is one of the accepted tools of the construction industry. It is therefore necessary that properly prepared financial statements be on hand when negotiating for a Small Business Administration loan.

_____13. Small Business Administration should have authority to audit financial records of businesses listed in the SBA records.

_____14. Financial planning is the prelude to effective borrowing. This planning must be based on facts that come from your records if you are to secure loans and use them profitably.

_____15. Legal Assistance or representation is available to Minority Construction Contractors, through the Federal and Local Government.

_____16. Through the use of SCORE and other agencies the Minority Construction Contractors find it increasingly easier to obtain contracts.

_____17. There is a lack of confidence that is shared by most agencies in awarding contracts to Minority Construction Contractors.

_____18. There are adequate progression opportunities for Minority Construction Business owners.

_____19. The quota system presently in effect for Minority Construction Contractors is adequate.

_____20. A pooling of resources is an effective method to capture a proportionate share of the construction market.

_____21. The success of Minority Construction Contractors is encouraging to new entrants to the industry.

_____22. The Affirmative Action Programs administered by the Federal and local Governments are enforced in accordance with applicable laws and regulations.

_____23. Court cases with regard to suits, mechanics, liens, etc., are handled expeditiously.

_____24. Officials hearing the cases or challenges are sensitive to the needs of the Minority Construction Contractors.

_____25. Appeals are prepared with the assistance of a qualified legal representative from the Small Business Administration Field Office or local legal office.

_____26. Lawsuits, appeals and challenges are a waste of valuable time.

_____27. The appeals or challenges ruled on through the legal system have been in favor of the Minority Construction Contractors.

APPENDIX II
Survey of Perception of Majority Contractors

The following statements are intended to assess your perception of Minority Construction Contractors in the Puget Sound Area of Washington State.

This survey will also assess your perception of the competency of Minority Construction Contractors and their staff as far as quality and timeliness are involved.

There are no right or wrong answers. This survey is soliciting your answers based on experience and or observations.

Please indicate your agreement or disagreement with each of the statements by selecting the appropriate response from the following list:

a. Strongly Agree
b. Agree
c. No Opinion
d. Disagree
e. Strongly Disagree

f. Don't Know

Type of firm____
Years of business experience________________________________
Owner_______________________ Manager_______________________
Number of full-time employees_______________________________
Number of part-time employees_______________________________
Approximate annual gross income of your company_______________
Number of contracts awarded 1975-85_________________________
Dollar amount of contracts for the same period________________

a. Strongly Agree d. Disagree
b. Agree e. Strongly Disagree
c. No Opinion f. Don't Know

_____1. The Minority Contractors Association has been a source of information relating to Minority Contractors.

_____2. I have willingly subcontracted jobs to Minority Contractors.

_____3. Most Minority Contractors produce quality work in a timely manner.

_____4. The quality and timeliness of work performed by Minority Contractors need to be improved.

_____5. There is a lack of knowledge and skills available through Minority Contractors.

_____6. The quality of work performed by Minority Contractors will improve with experience.

_____7. The enforcement of laws and regulations pertaining to Minority Contractors is not one of my major concerns.

_____8. Most Minority Contractors lack the resources, that is, personnel, finances and equipment to perform at an acceptable level.

_____9. I have used competent Minority Contractors in the past and will continue to use their services in the future.

_____10. I am familiar with the laws and regulations that pertain to the rights of Minority Contractors as they relate to the industry.

_____11. There are too many special privileges given to Minority Contractors.

_____12. Federal, State and Local Agencies do not enforce the rights of Minority Contractors.

_____13. Minority Contractors are poor managers and basically poor business persons.

_____14. I do not use Minority Contractors in my business.

_____15. Minority Contractors should be allowed to compete on the same basis as Majority Contractors.

_____16. There are too many Minority Contractors in the Puget Sound Region of Washington State.

_____17. There are too few Minority Contractors in the Puget Sound Region of Washington State.

_____18. I have recommended Minority Contractors for specific jobs.

_____19. I have actively bidded against Minority Contractors for jobs.

_____20. Most Minority Contractors are reliable.

APPENDIX III

The number of years of experience for each group by type of firm was as follows:

Type of Firm		**Minority**			**Majority**	
	Min	Max	Avg	Min	Max	Avg
Plumbing	3	16	8.8	15	38	19
Painting	6	24	9.3	12	23	16.4
Electrical	5	17	8.3	17	35	20.3
Masonry	4	14	6.4	15	37	22
Mechanical	4	9	6	12	27	18

Ownership of each firm was sole-proprietorship.

Number of contracts received 1975-85

Type of Firm		**Minority**			**Majority**	
	Min	Max	Avg	Min	Max	Avg
Plumbing	20	51	30.3	35	87	48
Painting	10	20	14.6	28	46	36
Electrical	6	10	9.8	22	40	31
Masonry	12	18	14.6	38	65	46
Mechanical	10	14	9.4	24	42	26

Number of full-time employees were as follows:

Type of Firm	Minority			Majority		
	Min	Max	Avg	Min	Max	Avg
Plumbing	2	10	9	5	16	15
Painting	1	12	10	9	20	12
Electrical	3	7	4.6	8	12	9
Masonry	8	14	8.6	12	18	14
Mechanical	4	7	6.7	14	20	16

Name of part-time employees were as follows:

Type of Firm	Minority			Majority		
	Min	Max	Avg	Min	Max	Avg
Plumbing	1	3	2	2	6	4.2
Painting	4	6	4	7	12	6
Electrical	1	3	2.1	2	6	3.6
Masonry	4	5	3.8	6	7	5.6
Mechanical	1	2	2	2	3	2.1

Gross Income (1985)

Type of Firm	Minority			Majority		
	Min	Max	Avg	Min	Max	Avg
Plumbing	37K	720K	100K	187K	1.15K	832K
Painting	10K	250K	63K	325K	565K	312K
Electrical	38K	257K	97K	172K	365K	201K
Masonry	150K	420K	153K	325K	580K	332K
Mechanical	120K	214K	95K	425K	808K	473K

Specific ethnic group of the respondents was not considered in this demographic data.

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MEETING THE COMPETITIVE CHALLENGE: GROWTH IN THE MINORITY FIRM SECTOR

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ABSTRACT

This research examines sources of variation for growth in sales, profits, and total assets for minority firms over a three year period. Results show that the three types of growth are influenced differently by various independent variables. Thus strategists need to consider what type of growth is desired before embarking upon a plan of action for smaller firms.

INTRODUCTION

The purpose of this paper is to address the question of growth for small minority businesses, defined as those firms employing fewer than 500 employees (291 p. 25; 30, p. 7) or as firms with sales less than five million dollars annually (16). Our research is intended to explicitly show that growth is multidimensional; therefore, growth as an objective needs to be articulated carefully before either strategy or goal setting can occur.

Increasingly, the small business sector has been viewed as a vital contributor to America's growth in productivity. Some 48% of the nation's private sector gross national product originates in small independently owned businesses (30). About 51% of new employment growth between 1976 and 1980 can be attributed to small businesses (as reported in 3 p. 33,48). Over the last ten years, small business firms have created almost three million new jobs, while the largest 1000 American firms "recorded virtually no net gain" in employment (16).

Some of the increase in productivity of small firms is attributable to new foundings. Birch (11) found that 82% of new jobs were created by small firms, 32% of which could be credited to firms less than five years old. The remaining portion of productive gain, however, must be attributed to growth of older firms. Both types of growth need to be considered; we focus on the latter mare exclusively.

Literature on strategies for growth for small businesses remains scarce. According to Robinson (36), research examining strategic planning/organizational effectiveness has focused almost exclusively an firms with greater than fifty million dollars in annual sales. Especially neglected are growing minority firms. Research on minority firms has tended to focus an the unique character of their markets or products and/or on the ecological niches in which they exist. For example, some minority businesses have been characterized as "middlemen" between higher socioeconomic class producers and lower class consumers (15; 42). Cuban businessmen have been examined from the perspective of their success within "ethnic enclaves" (33; 44). while Blacks and other minorities have been linked to the process of ecological succession and subsequent formation of "protected markets" (5; 1; 2; 4). Such research has provided valuable insight on the characteristics of minority businesses; however, it does little to inform the question of how minority firms can make developmental headway in the mainstream economy.

As part of a larger research project on growth and development of small businesses, this research presents results for growing minority businesses. In later papers, we plan to compare these findings with non-minority firms. The decision to begin our examination with minority firms is prompted by the paucity of research in this area.

THEORETICAL FRAMEWORK

The two most accepted measures of growth are growth in sales and growth in profitability. Robinson (36) believes that growth in sales provides the researcher with a 'compelling' indicator of the effectiveness of a small firm. Accurate sales figures are readily accounted for from individual firms. From a research perspective, he argues that the collection of accurate ROI data would be difficult because it is often not consistently accounted for in the records of a small firm. According to Friedlander and Pickle (25) growth in profitability and sales are the two owner-controlled components that can measure firm effectiveness. In addition, they suggest that financial profitability and sales growth are significantly and positively associated with community, customer, and employee need fulfillment.

In addition to growth in sales and growth in profitability, we include one other measure of growth - growth in size (12). The variable is measured as the difference in total assets between 1980 and 1982. While growth in sales alludes to growth in size, they are not necessarily the same. Growth in sales assumes that a firm has the capacity to produce enough goods to meet demand; if this is not the case, then and only then is the firm obliged to invest in additional fixed assets, or increase its size. Thus the correlation between the two is not perfect. The correlation between growth in sales and growth in total assets is attenuated further by the fact that different industries require different investments in fixed assets to realize comparable returns. Similarly, growth in profits need not be consistently correlated with increased levels of profit. The significance of arguing that the forgoing types of growth are not the same process is that such differences allude to different causes for each type of growth; the greater the difference among these types of growth, the greater the likelihood that they are influenced by different factors. We address here the question of what affects each of the three measures of growth among minority firms and discuss the implications of these findings for strategy.

Related studies of minority firm performance have used profits, return on assets, and liabilities as dependent variables. Level of profits was used by Bates (7) in a comparison of black and white-owned firms receiving assistance from the Small Business Administration. Return on assets was used by Scott, Furino, and Rodriquez (38) in a comparative study of minority versus non-minority and Minority Business Development Agency-assistedversus unassisted firms. Percent change in liabilities was used by Tamari

(41), in a study of durable versus non-durable manufacturing firms operating during a recessionary period. In essence, successful firms have been assumed to be those with higher profits, lower liabilities and greater growth in size. It bears repeating that the central thesis of this paper is that, while these may all be valid measures of "success," they are not the same phenomenon.

Past research on successful minority firms has identified several factors that may potentially promote growth; they include industry sectors, geographical region, size of the fire, age, race/ethnicity, and a number of financial performance indicators. Using the Minority Business Development Agency Financial Research Data Base, Development Through Applied Science (21) found that emerging industries for minorities were construction, manufacturing and wholesale trade. In another study using U. S. Census data (8), Finance, Insurance, and Real Estate (FIRE), Business Services, Manufacturing, Wholesale Trade, and Professional Services were identified as having increased foundings of minority businesses. In another study of minority firms receiving assistance from the Minority Business Development Agency, expanding industries, industries with high proportions of minority firms, and industries with higher concentrations of minority firms were identified as having better performance than the rest of the sample (35). Finally, a study by Bates (8) measured decline and growth of minority participation in different industries by focusing an the number of people employed by firms in given industries. According to this study, business services, finance, insurance and real estate, wholesale trade and transportation were the fastest-growing industries while personal services and retail trade were declining. In summary, industry effects have been looked at mostly in terms of their influence on founding rates or the number of establishments in existence within a region. A related question is whether certain industries promote growth of existing firms.

Regional effects have not been tested on minority firms directly; however, citing a Small Business Report of the President, Birley (14) reported regional differences in founding rates of firms for all businesses, ranging from 13% in the Mountain region to 9% in the East North Central region. Birth rates were measured as the ratio of births to total establishments in the region. It is therefore conceivable to expect some regional variation for minority firm dynamics.

Size, measured as the number of employees in a firm, was shown by Ando (6) to increase the probability of success. Studies of failure among minority firms have also netted significant findings for size. Chen and Stephens (18, p. 17, see also 30; 24, p. 11) found failure rates of 12 to 13% for firms with less than one-hundred employees as compared to 9.4% for those with one-hundred employees or more. The nature of association between age and survival may be curvilinear. Birch (11) found higher failure rates among firms with 25 to 99 employees than among either larger or smaller firms. At least one study, however, produced insignificant effects for size (see 24, p. 11), with the researchers suggesting that the beneficial effects of size may be realized only after firms 'become quite large.' Most research on minority and non-minority firms, however, shows that a liability of smallness exists for most organizations (see 3 for a summary of this literature).

Age has been a significant variable in many studies of firm performance (10;24). Research on businesses in general has identified the presence of a 'liability of newness' (40; 3); that is, the tendency for smaller firms to have a more difficult time in surviving. Several reasons for this effect have been suggested, such as the difficulty that small firms have in attracting qualified employees, in complying with governmental requirements, and in procuring loans, among other obstacles. The older the firm, the more likely it is that the firm has successfully negotiated many of these obstacles. Massel (26) found that the most severe problems occur when the firm is from 3-5 years old. Other research points to the first two years as being the most precarious (see 14). Churchill (19) found that about 30% of his sample of firms' failed within the first year. Siropolis (39) reported that only 50% of firms in the U.S. live as long as eighteen months. As with size, one study has found insignificant results for age. A study of inner-city businesses found that the number of years that a fire had been in existence was not tied to degree of success for either black or white-owned firms. Success in that particular study was measured in terms of gross sales.

We limit our discussion on minorities to the two largest groups in the United States -- blacks and Hispanics. Research comparing these groups has found that although Black businesses are more numerous, the average annual receipts for Hispanic firms surpasses those of all other minorities (22, p. 16). In terms of annual average formation, Chen and Stevens (18, p. 9) found that the rate for Blacks was about 15% compared to 17% for Hispanics and 21% for a group consisting mainly of Asian-Americans. The 1977 average gross receipts of $47,489 for Hispanic firms and $39,643 for Black firms is still significantly less than the average gross receipts for all firms -$64,385.

Finally, a number of studies have focused on the effects of financial indicators on firm performance. Bearse (9) found assets to be a positive factor for success. Bates (7) found that higher liquidity enhanced the possibility of growth. Assistance by public agencies was found to be linked to higher failure rates (35) and lower return an assets (38). Reporting on results of examinations on reliable predictors of success for non-minority businesses, Robinson (36, p. 26) concluded that profitability and change in sales were good predictors of future performance.

In the examination to follow, growth in sales, growth in total assets and growth in profits will be treated as a function of the various factors discussed in the forgoing synopsis of the literature. We expect to find that each of these measures of growth are influenced differently by these factors. If so, then each type of growth should necessitate a different strategy.

Data and Methodology

Data used here are appropriate for a study of growth in that they over-represent successful minority firms and are longitudinal in nature. The data base contains information an 3,819 minority firms for an average of 2.3 years per firm for the period 1975 to 1983. The data were originally collected by Dun and Bradstreet for the purpose of creating credit reports for clients, thus large and viable firms are over-represented. Means and standard deviations for the firms used in this study are presented in Table 1.

Although the data are appropriate for a study of successful firms, the data base suffers from two significant flaws. In its original form, the file contains no ethnic identifiers. A match of the companies contained in the data set was made with another data set provided by the Minority Business Development Agency, yielding 495 ethnically identified firms. Secondly, since data are provided for an average of 2.3 years for each firm, missing cases become a significant problem once spans greater than two years are considered. Experimentation with various spans of time led to the decision to focus on the three year span, 1980 to 1982. The three year span allows enough time to examine the effects of characteristics of an organization on growth and, in a historical sense, does not cut across different political policies for influencing the economic environment. It should be noted; however, that this was a recessionary period, which worked against expansion of existing firms. Sample sizes for the various statistical runs are reported in the tables. Ordinary least squares regressions are used to identify statistically significant predictors for the three growth measures.

Variables

The dependent variables measure growth occurring between 1980 and 1982 in profits, total assets and total sales. Because of our exclusive focus on growth, firms with negative growth are excluded from the sample. Undoubtedly, variation is constrained by not including firms that experienced decreases in sales, total assets, or profits. Experimental runs, with firms experiencing losses included, yielded results which suggested that failure might be a totally different phenomenon than growth. In essence, we found much statistical variation not accounted for by our model; only with loss firms excluded did the models yield plausible findings. At this exploratory stage, we decided to reserve the study of failure for later stages of this research project.

Industry variables were created by constructing binary or dummy variables for construction, manufacturing, transportation, wholesale trade, retail trade, finance, insurance and real estate, and retail trade. The remaining industries are used as a reference category. Regression equations with all industry variables as predictors of growth were run, and only industries with statistically significant results used in later analyses.

Region variables were similarly constructed for the west, mountain, west south central, west north central, east north central, south atlantic and middle atlantic regions. Remaining regions were used as a reference category. As with industries, only regions netting statistically significant results in preliminary analyses were retained for final examination.

Size was measured in terms of the natural log of the number of employees in a firm and in terms of total assets for 1980. Age is the number of years that the firm has been in existence. When testing for the effects of race/ethnicity, only Blacks and Hispanics were included in the sample, with Blacks as the reference category. This was done because of insufficient numbers of ten other race/ethnic categories included in the sample. Netting insignificant results in preliminary runs, this variable is not included in the final analyses.

Performance variables include liquidity in 1980, return on assets in 1980, fixed asset turnover in 1980 and return on sales in 1980. Liquidity is a proxy for indebtedness, and in an indirect way, risk-taking (Pfeffer and Leblebici 1973). Return on assets and return on sales examine the effects of profitability on future growth. Fixed asset turnover a ratio of sales to fixed assets, is used as a rough indicator of efficiency, assuming a control for industry.

Analysis

Table 2 presents the results of regression analysis for the three growth measures. Statistically significant variables for the three dependent variables differ, if not in significance levels of the independent variables, then in their predictive strength. The key variables for growth of sales are total assets for 1980, number of employees, fixed asset turnover in 1980, age of the firm, and one region, the east north central. Size effects are clearly evident. Larger firms, measured either in terms of greater total assets or greater number of employees, have higher predicted growth. Location in the East North Central region, found by Birley (14) to have the lowest rate of foundings, is shown here to enhance the probability of growth in sales. Efficiency, measured by the fixed asset turnover ratio, also predicts sales in growth, although at marginal statistical significance. The results of age proved to be interesting. Age predicted a loss of growth in sales, perhaps indicative of a product life cycle effect, or of stagnation in performance of many older firms. The effects, in total, tell a distinctive story. Growth in sales results not only from increased capacity (labor and fixed assets) but also from efficient use of that capacity and a viable market. Survival alone did not ensure growth; in fact, the older the firm, the less likely it was to grow. Thus growth is not automatic and is the result of forces other than mere survival.

It is also clear from the results that growth in sales is not the same phenomenon as growth in profits. Industry effects are evident for growth in profits. Size effects differ as well. Of the two size variables, only total assets predicts increases in profits, perhaps indicative of the effects of investing in capital-intensive as opposed to labor-intensive technology. Few other clues for explaining the differences between the two types of growth are provided, however.

Growth of total assets is the third dependent variable. As with growth in sales, both size variables are significant however, the predictive strength of the two variables is reversed, size does beget greater size; however, for growth in assets, increases in employees begets greater increases in total assets than prior total assets. As with growth in profits, the finance, insurance, and real estate industry predicts a negative growth in total assets. The last significant indicator for growth in assets is the eastern north central region. The data suggests that higher than average levels of asset investment took place in that region.

Summary

Our results indicate that there are differing determinants for the three types of growth considered. This suggests that strategy formulation for growth should be done on a contingent basis, depending on the specific type of growth desired. When a growth strategy is chosen, a firm should consider the determinants that attribute to that particular type of growth, and plan accordingly.

In asserting that strategy is contingent in nature, we follow a path shared by others. For example, literature on product life cycles argues that strategy is contingent upon whether a product is at the growth, maturity, or declining stage of evolution (27). Similar observations are made with regard to industry life stages (17). Still others have identified growth stages of the business itself as a critical contingent factor (23; 20; 37). Our position is that, even given constraints imposed by the forgoing evolutionary forces, there still remains great flexibility in strategy formulation. Growth is multi-dimensional and may not always be dependent upon life cycle effects. Businesses may choose to remain innovative; that is, grow by investing in new-product development not necessarily within the same market niche, thereby making life cycle questions moot. Some businesses may choose to forfeit short-term profits and opt for long-term gains; others may opt for short-tern gains for as long as their fixed assets will hold out. With regard to the latter, it is not necessarily the case that life cycle effects exist for all products (e.g. food, liquor). All of these strategies are viable and are contingent upon the plans of each business owner; not necesarilly based upon characteristics of the environment or product. This is not to say that the environment or product are unimportant; but rather, that, within broad constraints, 'success' or 'growth' may be manifested in several ways, dependent upon the goals of the entrepreneur or even the analytical focus of researchers. This is why it becomes important to define these concepts clearly before embarking upon analysis or strategy formulation. For minority firms, differences in types of growth are more evident than differences existing on the basis of race/ethnicity.

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Table 1. Means and Standard Deviations for Selected Variables*

Variable	Mean	Standard Deviation
Growth in Profit	113,502	236,152
Growth in Total Assets	741,761	1,822,008
Growth in Sales	1,754,457	4,305,076
Log of # Employees	5.49	1.39
Age	17.28	12.91
Total Assets	1,524,796	4,379,150
Liquidity in 1980	2.94	4.70

Return on Assets-1980	1.20	1.81
Fixed Asset Turnover	323,556	2,585,339
Return on Sales	.05	.09

* Means fluctuate with changes in sample size

Table 2. Results for Three Measures of Growth Regressed on Selected Variables

	Dependent Variables		
	GROWTH IN SALES	GROWTH IN PROFITS	GROWTH IN ASSETS
Independent Variables			
East North Central	.14***		.15***
Finance, Insurance and Real Estate		-2.47***	-.21***
Total Assets	.46***	2.48***	.25***
Ln (# of Employees)	.35***		.45***
Fixed Asset Turnover	.10*	n.s	n.s
Liquidity, 1980	n.s	n.s	n.s
Age	-.15**	n.s	n.s
	N=172	N=116	N=212
	Adj.R2=.44	Adj.R2=.37	Adj.R2=.31
	F=17.33	F=9.59	F=11.65

*** = Significance at .025
** = Significance at .05
* = Significance at .10

CORRELATES OF TRAINING AND DEVELOPMENT PRACTICES IN SMALL BUSINESS: AN EMPIRICAL STUDY

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ABSTRACT

Training practices represent a key component in the management of human resources. While research has increasingly focused on the study of training and development programs in larger corporations, relatively little effort has been directed towards understanding training practices in smaller businesses. Results are reported for an empirical study of the relationship between the form and content of training provided by an employer and industrial, organizational, and managerial factors. Finally, implications for practice and future research are discussed.

Training and development programs for employees represent a key component in the practice of human resource management. In this paper, various aspects of the training and development function are analyzed separately. In broad terms, training and development can be divided into two activities, training and educational activities. Training is treated as a narrow concept and is defined as the acquisition of skills, knowledge or values that are directed towards specific organizational issues and are nontransferable to a new establishment. Education is defined as the acquisition of skills that are more easily generalized and can be applied in a variety of settings within and across enterprises.

Six types of practices, including both training and educational activities, are identified: orienting employees, providing information on a "need-to-know" basis, skill development, safety awareness and training, professional and technical educations, and supervisory or managerial training and development. Training activities include: employee orientation, "need-to-know" training and skill development. Educational activities include professional, technical and managerial education and development. Aspects of safety awareness activities can be treated as either a training practice or an educational program.

How firms train and educate their employees provides an insight into a number of business issues. For example, training is a key component in the manner by which firms manage their human resources and link human resource management with business operations (Tichy, 1982). Additionally, employees view training practices as an integral component in the development of a positive quality of work life (Levering, 1985). Finally, a review of training practices by a firm provides an insight into a firm's competitive strategy. Empirically, expression of interest in the role of training occurs in larger corporations. Unfortunately, for those interested in studying human resource management in small business, it is dangerous to assume that characteristic patterns associated with training practices in large corporations will be repeated in small business.

In order to understand the role of training in small business, a more finely-grained analysis is necessary in order to understand the relationship between training practices implemented in small business and business operations. Relatively little attention has been directed towards the study of training practices in small business. Therefore, some aspects of this study are exploratory.

METHODOLOGY

Following guidelines formulated by the Small Business Administration (1986), a small business in the manufacturing sector of the economy is defined as a firm with 500 or fewer employees and a firm in the service and retail industries is defined as a small business with 100 or fewer employees. A sample of small businesses drawn for this study consists of 115 firms located in two counties in Illinois. In one county, the sample is drawn from firms within three zip code districts. In the other more densely populated county, the sample is drawn from firms within two zip code districts. Sampling procedures included both random and convenience elements. A stratified sampling of small businesses is taken separately from the population of small business in the two counties. The basis of stratification is the percent distribution of small firms in five industries: wholesale trade; retail trade; finance, insurance and real estate; service; and manufacturing and other industries. The weighing of the sampling in each county reflects the distribution of small businesses in the five major industry codes in the United States economy (SBA, 1986). In all, 86% of the firms contacted actually participated in the study and usable data were collected from 99 small businesses. Representatives from each firm were interviewed. In each case, either the owner or manager in the firm were interviewed.

Scores for the type of industry variable are coded in the following manner: If a firm is in the manufacturing industry then the score for the variable equals "1"; if a firm is in the wholesale industry the score equals "2"; if a firm is in the financial, insurance and real estate industry then the score equals "3"; service firms receive a score of "4" and retailers a score of "5".

Items concerning training practices can be placed into two categories. First, in a series of questions, respondents are asked to describe current and past techniques, practices, and strategies concerning training and development in their firm. Two measures of training practices are obtained. An index of participation is constructed using a simple count of the different types of training provided by an employer. A frequency of training variable is computed as the percentage of staff in a firm that are trained in some fashion by the employer.

The other category attempts to obtain measures of an employer's beliefs concerning the importance of training for business success (based on three questions asked on a seven-point, Likert-type scale). Additionally, respondents assessed their satisfaction with skill levels and knowledge possessed by employees, with current training programs and to assess the relative cost to benefit ratio for the training effort conducted by the firm. Respondents evaluated these items on a Likert-type, seven-point scale.

RESULTS

Prior to discussing the results for the four questions, it is important to assess the influence of differences among firms in the prevailing wage structure on training practices in small business. Analyses of the research questions concerning the presence of industry, organizational, and managerial effects on training practices in small business can be confounded by structural differences among industries. A key structural force is the wage market in which employers compete to obtain employers. For example, in this study, firms in the retail and service industries are significantly (p .05) more likely to pay a greater percentage of their workforce a minimum wage rate than are firms in the manufacturing or wholesaling sectors. This difference in compensation practices among industries could influence training practices among firms. Thus, for example, it could be asserted that firms in the manufacturing and wholesale sectors make a greater financial investment in their employees than firms in the retail or service sectors. Since firms in the manufacturing and wholesaling invest more heavily in their employees, then one could argue that it would be more likely that small businesses would protect their investment in employees by providing more extensive training programs for their employees.

However, the pattern of training effort between the two groups is remarkably similar. First, firms in the study pay for very few training services whether in the retail and service group or in any other sector of the economy. Thus, the educational aspects of training, especially training and development programs, tend to be overlooked. Second, firms are dichotomized on the basis of whether an employer pays essentially a minimum wage to employees. The results suggest that, on average, there is no significant difference between these two groups (minimum and non-minimum wage employers) in the types of training provided and the frequency with which the most basic, general training practices occur (e.g., orientation, need-to-know, skill development or safety awareness). Thus the difference in mean compensation between small businesses is not a significant influence on training practices.

The results in Table 1 explore a research issue concerning the presence of exogenous effects influencing the pattern of training practices in small business.

TABLE 1
INDUSTRIAL, ORGANIZATIONAL AND ADMINISTRATIVE EFFECTS ON TRAINING
(N = 99)

Industry Effects

	Training Index	Frequency
A. Industry Type	-.64**	-.59**

Satisfaction With Training

	Mean	S.D.
B. Manufacturing	4.9	1.1
Wholesaling	5.1	0.8
Service	3.6	0.7

Retail	3.5	0.6

Organizational Effects

	Training Index	Frequency
A. Organizational Size	.23	.17
Number Years of Service	.17	.16
Form of Ownership	-.14	-.21
Number of Hierarchical Levels	.25	.11

Administrative Effects

	Training Index	Frequency
A. Belief in the Importance of Training	.55**	.54%**

** Significant at the .01 level.

A few results should be discussed. First, firms in the service and retail industries are less satisfied than firms in other industries. Additionally, the mean score for satisfaction indicates that, on average, firms in these industries are dissatisfied with their current training practices (the mean value is less than four on a seven-point scale). It should be noted that there is no significant difference in either the mean level of size between the retail and service industries and the manufacturing and wholesaling industries or the average number of years that firms have been operating.

The influence of organizational effects on the provision of training is listed in Table 1. Measures of association for the organizational effects indicate that there is no significant relationship between organizational characteristics and patterns of training practices. Organizational size, form of ownership, organizational age, number of hierarchic levels are unrelated either to the index of training or frequency of training variables. Finally, the results listed in Table I indicate that managerial beliefs are strongly and positively associated with the pattern and frequency of training in a firm.

Table 2 contains the results of an analysis of the fourth question: whether training practices are strongly associated with other personnel and human resource practices.

The results indicate that the pattern and frequency of training practices in a firm are strongly and significantly associated with the presence of many other personnel and human resource practices in a firm. When firms conduct more selective recruiting searches then firms are more likely to conduct extensive training programs. Similarly, firms that operate more extensive performance appraisal systems are more likely to conduct extensive training programs.

TABLE 2
CORRELATIONS AMONG RECRUITMENT, PERFORMANCE APPRAISAL AND TRAINING PRACTICES

	(R)	(PA)	(TE)
Recruiting (R)	---		
Performance Appraisal (PA)	.47**	---	
Training Extensiveness (TE)	.46**	.49**	---

* Significant at the .05 level.
** Significant at the .01 level.

The findings in Table 2 suggest, that in general, firms that conduct training programs are more likely to conduct more extensive human resource practices at each stage in the process of human resource development: recruitment, selection and performance appraisal and training.

CONCLUSION

In this exploratory analysis of training practices in small business, two issues are studied through four research questions. The results reported indicate that there are significant differences across sectors of the economy concerning the likelihood that a firm will maintain an extensive training program. Additionally, the results suggest that organizational factors are unrelated with the pattern and frequency of training in smaller businesses. The results also suggest that the presence of training programs in small business reflects mainly the beliefs and values of owners and managers.

The other issue is whether the provision of training is systematically related to the presence in a firm of other human resource practices. Essentially, the results indicate that there is a tendency for practices to cluster within firms concerning the development of human resources.

For example, firms that are likely to engage in extensive personnel recruitment and selection practices tend to also provide more training of their employees.

Finally, while significant differences have been detected by industry type, the two groups studied (manufacturing and wholesaling industries and retail and service industries) do not differ in the size of the firms or in the number of years in operation. Therefore, the results suggest that the difference in training practices reflect almost exclusively differing choices made by employers (differences in value preferences held by management).

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CONCEPTUALIZING ORGANIZATIONAL EFFECTIVENESS FOR THE SUCCESSFUL SERVICE BUSINESS

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ABSTRACT
This paper will present an alternative way of conceptualizing the strategic planning process that is particularly applicable to the small personal and professional service firm. Utilizing a matrix network that is based upon the two fundamental drivers of service organizations, their process technology and behavioral values, the authors review, the dynamics of positioning the firm for long-term effective growth.

In addition to developing several interrelated aspects of the model for explaining and predicting the efficiency and effectiveness of service business operations. The paper provides a demonstration appendix illustrating the practical application of the conceptualizing technique, seven distinct operational strategies are analyzed and policy sets are developed showing the most effective set of operating characteristics out of which should flow a number of small service business management decisions that represent action rather than mere reaction to economic growth and change.

INTRODUCTION
In today's world of ever increasing numbers of both personal and professional service firms, the critical underlying need for strategic planning is premised upon a fundamental re-examination of organizational management approach.***(1)*** Organizational theory has long acknowledged the necessary repositioning of the traditional planning and control functions to a more employee-centered focus; based clearly upon the challenges of knowledge work and the knowledge worker.***(2)*** However, the classical management functions of organizing (or positioning the service-based firm) and operational leadership approached, have received little direct attention in empirical studies. Much of the organizational effectiveness s literature, like the planning literature, is principally devoted to large and product centered organizations.***(3)*** Research questions regarding the "One Best Mix" of leadership style and organizational effectiveness, at best, demonstrate minor implications for the small service firm.***(4)***

Although the growth and development of new and traditional service firms is usually characterized by trial and error, emerging managerial approaches to organizing and operating have been derived from a new understanding of the importance of process technology and organizational values as drivers in shaping successful service firms.(5) Figure 1 illustrates the spectrums of organizational positioning for service firms, both in terms of their special knowledge (process technology) as well as in terms of the organizational values or vision of the owners. Each of these two factors in combination, has a distinct impact on the structure and operation of successful firms.

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(X)
THE SPECTRUM OF ORGANIZATIONAL VALUE

<--->

Practice	Practice	Organization	Business	Business
Centered	Centered	Centered	Centered	Centered
Practice	Business	Organization	Practice	Business

(Y)
THE SPECTRUM OF PROCESS TECHNOLOGY

<--->

Research	Application	Service	Delivery	Delivery
Centered	Centered	Centered	Centered	Centered
Research	Research	Application	Service	Delivery

Figure 1
A small business firm's process technology, in this sense, refers to the particular technical/professional and/or knowledge systems employed in the firm to do its work. In a simplistic example, a firm where the owner or partner-in-charge directly carries out the execution of the work, uses a different technology from a firm where the partners hand the execution of assignments or projects to principal consultants or project managers. A firm that organizes projects around teams has a different technology from one that passes projects along from department to department ***(6)***.

WORK PROCESS TECHNOLOGY
When differences in technology are analyzed comprehensively, they can be grouped in these basic categories.

STRONG IDEA firms, whether research or applications centered, are organized to deliver singular expertise or innovation on work projects and consulting assignments of a unique or one-of-a-kind nature. The process technology of Strong Idea firms is usually quite flexible, according to the nature of the client, customer or assignment, and often depends on one or a few outstanding experts or, stars' to provide the last word.

STRONG SERVICE firms are technologically and procedurally organized to deliver experienced reliable service, especially on complex, major assignments. Their process technology is frequently designed to apply comprehensive, multi-discipline services of the firm to clients who want to be closely involved in the process.

STRONG DELIVERY firms are organized to provide highly efficient service on more routinized customer assistance, report preparation or basic assignments; often to clients who seek more of a product than a consulting service. The process technology of a delivery centered firm is designed to repeat prior solutions over and over again with high product reliability, accompanying technical service quality, cost and schedule compliance.

While there are obvious combined areas where the difference between these process technologies may merge, the progression is always the same. New ideas in a service business, profession or knowledge discipline originate in Strong Idea firms. As they become widely understood or more broadly adopted, they are then applied by Strong Service firms. Eventually, where the solution can be routinized, some or all of the work will move on to Strong Delivery centered or pure delivery firms where repetitive project reports or service are turned out and efficiency is the key.***(7)***

The different process technologies, when they are working best, require notably different employee-centered, operating matrix type organizations, staffing patterns, decision structures, etc. ***(8)*** Technology, in personal and professional service firms, influences:

Choice or Project Process
Project Decision Making
Staffing at the Middle of the Firm and Below
Best Markets
The Attributes of What you Sell
Pricing Flexibility
Best Management Style.

BASIC ORGANIZATIONAL VALUES

From the above it can be seen that a firm's process technology is the fundamental driver that shapes the service firm. The second driver that shapes the successful organizations is the values of the owner(s) and professionals leading the firm. Although, as Figure 1 illustrates, there are five basic value positions for the service organization, in practice there are only fundamental or effective differences in values:

PRACTICE CENTERED professionals or service business owners who see their business experience or calling as 'a way of life'. They typically have as their understanding and the pure creative discipline they represent.

BUSINESS CENTERED professionals or service business owners who practice their calling as 'a means of livelihood'. They have as their personal objectives more tangible rewards - e.g., what material ends are wanted from what they do. Successful service industry professional clearly balance practice values and business values but it makes an enormous difference which of the two is primary ***(9)***. The choice looks like this:

Practice Centered Businesses	<-->	Business Centered Practices
20%	Accounting Firms	80%
70%	Architectural Firms	30%
15%	Engineering Firms	85%
50%	Interior Design Firms	50%
65%	Investment Bankers	35%
75%	Law Firms	25%
80%	Management Consultants	20%
50%	Medical Practitioners	50%

Table 1: The Spectrum Of Professional Service Firms

The basic difference in the two is that the bottom line in the Business-Centered Practice is usually Quantitative and comparable to the bottom line of conventional business; while the bottom line of a Practice-Centered service organization is first of all Qualitative - how the service professionals feel about the work they are doing, as well as the contribution they make to the industry and profession.

It must be emphasized that there is nothing noble about either choice of values. The choice is an entirely personal, largely selfish one, derived from how each business owner views their mission in life and what they hope to get out of it.

Nevertheless, Organizational Values, in personal or professional service firms influences:

Organization Structure
Organization Decision-Making
Staffing at the Top
How You Market
Best Clients or Customers
Marketing Organization
Profit Strategy
Compensation
Leadership

The different positions - Practice-Centered vs Business-Centered will lead to very different choices in each of these areas. Either direction can produce quite successful results. What is essential, however, is that the firm's leadership know their values and not try to accommodate too many differences. Any effort to compromise values will inevitably weaken some of these choices, and consequently weaken the firm.

POSITIONING THE SERVICE ORGANIZATION
The essence of this fundamental model for organizing and managing personal or professional service firms, is recognizing that these factors - process technology and values - form a matrix within which the differences between firms, and the appropriate strategies of different firms, become clear. The matrix produces six basic types of firms each of which will have a very different best strategies for the different considerations described above. (See the demonstration appendix) The matrix looks like this.

Process Technologies

Strong Delivery	A	B
Strong Service	C	D
Strong Idea	E	F

VALUES

Practice Centered Business	--	Business Centered Practice

The Appendix to this introductory paper contains example sets of the best mix of appropriate strategies for each of the six positions (A thru F) illustrated above. For purposes of organizational balance and consistency. The service firms operating strategies (seven) should be consistent for its chosen position.

What can be seen from the model, perhaps for the first time, is a clear picture of why some firms succeed doing things one way, while others can be equally successful doing things quite differently. What is also clear is that it will be very difficult to optimize performance and commitment for any firm that mingles too many of the different strategies.

Those firms that have a clear notion about what they do best (their process technology) and a common set of goals (their organizational values) have always succeeded best - for themselves, their clients, or their customers.

CONCLUSIONS
Strategic planning has all too often proven to be an impractical academic exercise for the small personal and professional service firm. Couched in the fundamental theorem of planning and control, classical management approaches offer little in the way of understanding or predicting behavior for the knowledge organization and its service

mission. A more useful frame of reference for Conceptualizing Organizational effectiveness must examine the two most critical forces shaping not only the future of small business firms, but in reality our modern industrial, energy, transportation, communication and municipal system in general.

The principal driving force for the small service business will be the process technology it employs. From the Strong Idea firm to the Strong Delivery organization, efficiency will flow from having the proper technological focus to serve the customers or clients of the firm.

The modification, enhancement and application of the firm's process technology in the effective realization of organizational commitment will result from having a clear sense of value.

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DEMONSTRATION APPENDIX

DELIVERY TECHNOLOGIES	Strong Delivery	A	B
	Strong Service	C	D
	Strong Idea	E	F
		Practice Centered	Business Centered
		VALUES	

I. **Best Strategies for**: **ORGANIZATION STRUCTURE AND DECISION MAKING TECHNOLOGIES**

	Practice Centered Business	Business Centered Practice
Strong Delivery	Closely held as a proprietorship or corporation by one or a few design professionals who manage a vertical organization. Decision-making tends to be autocratic. Thrives as long as the principles stay closely involved.	"Investor" owned by insiders or outsiders who delegate much of the operations and management. Decisions are largely based on a standardized process or S.O.P. Works well so long as the firm's process/product does not become obsolete.
Strong Service	Broadly owned by professionals structured as a partnership or as a corporation functioning as Organization decision-making is by consensus. Functions best when owners share similar professional capability and goals.	Closely held proprietorship, partnership, or corporation with owners making decisions by majority rule. Decisions are clearly oriented toward meeting the goals of major owners.
Strong Idea	Owned by a sole proprietor or a few equal owners who function as partners Their ideas and creativity in projects drive the firm, and few organization decisions are made.	A proprietorship or small partnership (or closely-held corporation functioning as a partnership.) Organization decisions are tailored to maximize the application of one or a few original ideas.

VALUES

II. <u>Best Strategies for</u>: PROJECT PROCESS AND DECISION MAKING TECHNOLOGIES

Strong Delivery	Projects are processed through departments or teams, headed by a Principal-in-Charge in accordance with standard details and specifications developed through experience. The PIC makes any necessary decisions. Success is achieved by delivering a good product over and over.	Projects follow an assembly line process where establiblished standards are critically important. Since the product is standard, the client any deal with several job captains over the course of the project. Quality control is the key to client satisfaction.
Strong Service	Projects are delivered through project teams or studios whose Principal-In-Charge (the closer/doer) has a high degree of project decision/making authority. Strong, technically oriented people provide quality control input, but project success relies on the authority of the closer/doers.	Projects are headed by Project Managers and delivered by departments whose department heads have quality control and project decision/making authority.
Strong Idea	Projects are delivered via highly flexible teams, organized around each job, who take their creative direction from the idea (design) principal.	Projects are delivered via stable teams or studios, often organized around different client or project types. Design principal(s) maintain project authority.

VALUES

	Practice Centered Business	Business Centered Practice

III. Best Strategies for: STAFF RECRUITMENT AND DEVELOPMENT TECHNOLOGIES

Strong Delivery	Recruit experienced professionals who are committed to getting the job done efficiently. Financial compensation-base & bonus- tend to be higher than industry norm. Limited job security except at top.	Hire and train para-professionals to do maximum amount of the work via standardized procedures. Invest in training, not salary & benefits, to keep costs low, efficiency high. Factory-like culture with compensation by job classification, publishable benefit package.
Strong Service	Recruit career-oriented professionals with strong sense of commitment to client. Reward via stability of practice, good benefits, pensions- average or below average salary. Goal is to retain experience via low turnover.	Hire experienced professionals comfortable incorporate like structure as workload requires. Higher pay, limited benefits. People at top are entrenched; less loyalty to staff in event workload declines.
Strong Idea	Young bright professionals are attracted to the firm to be associated with one of the leaders (gurus) of the profession. Typically receive below market salary, minimal benefits, and move on after a few years unless tapped to an inner circle.	Recruit young bright professionals: interested in learning from the firm. Compensation often below industry norm-attraction is working on interesting projects. Turnover is encouraged as staff develops experience, want higher rewards.

VALUES

	Practice Centered Business	Business Centered Practice

IV. Best Strategy for: SALES MESSAGE AND TYPE OF CLIENTS TECHNOLOGIES

Strong Delivery	Best Clients are volume developers & organizations interested in reliable, proven repeat type solutions. Sell the firm's proven track record and principal(s) knowledge and understanding of how to get through the system and agencies. Past clients return because of proven record and rapport with the Principal(s).	Best market is one-time or repeat client unconcerned with originality and/or clients looking only at bottom line. Sell proven product, standardized design, assembly line ("it will only take a minute and we'll have it all done"), package deal.
Strong Service	Best markets are institutions and agencies with - complex projects who seek reliable solutions and expect to be involved in their project's evolution. High repeat business from well-satisfied past clients. Sell closer/doer experience, technical skills and commitment to remain on top of the job with personalized, tailored approach to the client.	Best markets are major corporations and agencies with mainstream large projects where the client expects to delegate execution of the project after making the selection. Sell proven track record, known or demonstrably competent project manager, and strength of the organization.
Strong Idea	Best clients are those with unique, one-of-a-kind problems, or 'patrons' with individual or corporate egos to satisfy. Clients are always the top decision maker, who may by-pass input from their organization. The sales message is the reputation of the "guru" leader and a track record of successful innovation, both design and technical, and/ or solutions to uncommon problems.	Best markets are usually clients seeking leading edge solutions that have been successfully tested by others; e.g., developers or lower risk corporations and institutions. They respond to 'sizzle' and messages like "innovation that is cost effective.
	VALUES	
	Practice Centered Business	Business Centered Practice

V. Best Strategies for: MARKETING APPROACH & ORGANIZATION TECHNOLOGIES

Strong Delivery	Principal(s) sell(s) one-on-one; may frequently proactively take opportunities to past clients. Effective advertising and public relations campaigns keep the Principal's and firm's name in front of its market. Marketing staff supports these efforts.	Marketing is carefully planned and managed. Sales representatives find and sometimes close leads. Bidding opportunities are welcomed. Advertising promotes a standard product/service. Often rely on heavy entertainment of prospects. Blanket coverage of conventions.
Strong Service	Marketing relies on closer\doer principals strong at finding and courting clients. Facilitative Marketing Manager (who may be a principal) encourages broad staff participation in marketing, produces high quality brochures, publishes a client newsletter, seeks regular publications in both professional and user-oriented publications. Good record of design awards, particularly by trade or user groups.	Centralized marketing and sales, under a strong Marketing Director, is responsible for preparing the marketing plan. Frequent use of birddogs to find leads, publication of articles oriented to meeting client needs, targeted direct mail, client seminars, some advertising. Sales are closed by one or a few Principals who hand off work to Project Managers.
Strong Idea	Marketing is generally unplanned, relies almost entirely on reputation developed via books and/or articles, professional society awards, entry in premier design competitions, frequent speeches, and often a faculty appointment. Marketing staff, if any, only responds to inquiries.	Marketing is actively planned, paraticularly in efforts to get to know specific clients, seek publicity and publication of articles in leading magazines, produce effective brochures, etc. A marketing coordinator will keep the program moving.
	VALUES	
	Practice Centered Business	Business Centered Practice

VI. Best Strategies for: PRICING AND REWARDS TECHNOLOGIES

	Practice Centered Business	Business Centered Practice
Strong Delivery	This firm specializes in producing a relatively standard product over and over again. It will do best charging lump sum fees-its profits come from efficiency-reducing the costs of production-produces high monetary rewards for the principals.	This firm also seeks high monetary rewards, but achieves them by maximizing volume. Its standardized product and assembly-line process for delivering it thrives on volume. Thus, the firm can often bid low to keep volume up. Lump sum fees are essential.
Strong Service	Given the choice, this firm will price all its work hourly, producing steady cash flow with moderate profits. Rewards here relate to security for many in the firm-increase in salaries, increase in benefits, share in profits, and growth to ownership.	For this firm to maximize return, the task is to focus on profitable activities, minimizing non-billable time carefully controlling overhead and maximizing multiples. This firm can do well on lump sum fees, hourly rates without an upset, or cost plus fixed fee. Rewards are high monetary returns for the few at the top.
Strong Idea	The essential reward for this firm is fame. What is most important is wide recognition of the importance of the ideas because fame will bring new opportunities to develop new ideas. Economically, this firm will do best if it charges high rates based on the value-not the cost-of what it delivers.	This firm, having business values, will seek monetary rewards as well as fame. It will strive to capitalize monetarily on the innovative ideas it develops via value-added premiums, royalties and the like. It will not consider itself successful unless it makes money, as well as builds a reputation.

VALUES

Practice Centered Business — Business Centered Practice

VII. Best Strategies for: LEADERSHIP AND MANAGEMENT TECHNOLOGIES

Strong Delivery	Authoritative owner leads firm and establishes environment that attracts professionals willing to subordinate themselves to, and implement, defined management policies.	Owners delegate operations authority to managers who structure rigid processes to keep the "assembly line" working.
Strong Service	Broadly based ownership with many equals. Can thrive on weak leadership as long as all are committed to the goals. Consistent organization management provided by a facilitative general manager.	Owner(s) establish leadership direction and assign strong management authority to a CEO who is likely to be the most influential (or majority owner) among them.
Strong Idea	Strong leadership based on ideas/values and projects precludes the need for structured management, relying rather an administrative support.	Strong leadership based on ability to draw ideas/creativity from others. Management is a coordinating and administrative function.
	VALUES	
`	Practice Centered Business	Business Centered Practice

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UNIVERSITY AND GOVERNMENT PARTNERSHIPS FOR RURAL ECONOMIC GROWTH: THE SOUTHWEST VIRGINIA MODEL

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ABSTRACT

This article describes an innovative economic development initiative which calls for the creation of a partnership between a four-year university and a two-year community college. Specifically, it represents the site-selection procedure used by James Madison University to choose one community college from several in Southwest Virginia as the site of a cooperative Business Development Center. The roles of the Appalachian Regional Commission, the Center for Innovative Technology, and the Small Business Administration in the project are also discussed. The model developed is suitable for similar site-selection applications.

INTRODUCTION

At the June, 1987 World Conference of the International Council for Small Business, United States Small Business Administration Administrator James Abdnor declared, "Economic Development in Rural America is a major goal for fiscal year 1988 at the SBA. We want to encourage entrepreneurship in rural areas so long dependent on agriculture." The failure of traditional economic development approaches to solve rural America's economic problems make it clear that new paradigms are needed.

James Madison University has been addressing rural economic development on a local level through the work of its Center for Entrepreneurship, Small Business Institute, and other related programs. These programs provide outreach services, research, and educational offerings which promote the American entrepreneurial tradition while enhancing Virginia's economy by encouraging innovation and the creation of new enterprises.

Recently, James Madison University took on a regional interest in economic development by undertaking a research and service project in the Appalachian Region of Virginia under the cooperative sponsorship of the Appalachian Regional Commission, Virginia' Center for Innovative Technology, and the Small Business Administration. The project called for developing a model which could be used to create developing business centers at community colleges in partnership with a four year university and local, state, and federal government agencies. The site selection procedure for the model has been developed and the first community college business development center (BDC has been established. This paper will describe the site selection procedure, its development and implementation. A future paper will describe the operational activities and report the degree of success of the BDC.

BACKGROUND
The idea of a JMU-supported business development center located at a community college in Appalachian Virginia evolved from a discussion between the President of James Madison University and the Director of the JMU Center for Entrepreneurship. President Carrier, a native of the Appalachian Region, has long been deeply concerned about the economic conditions in the region. Other staff and faculty members of the center refined the concept and a cooperative funding proposal was submitted to the Appalachian Regional Commission (Federal), the Center for Innovative Technology (State), and the Small Business Administration (Federal). Each agency had a unique, yet related, interest in the project, and joined the others to form a partnership in support of the initiative. Each partner's unique perspective is discussed briefly below.

APPALACHIAN REGIONAL COMMISSION (ARC)
This agency, created in 1965, is concerned with the economic development of the 13 state Appalachian region. The ARC was interested in a model of four-year and two-year college cooperation to assist the economic development needs of the depressed, rural communities across the entire 13 state region. They have provided the majority of funding for the project and their support is exclusively for the model development and research effort. The model that results from the study will be offered to universities in other Appalachian region states to permit replication of the program begun in Virginia.

CENTER FOR INNOVATIVE TECHNOLOGY (CIT)
The CIT provided most of the funding to operate the pilot BDC. The site selected for the BDC was Virginia Highlands Community College in Abingdon, Virginia, and the center is now in operation. The CIT mission is, in part, to foster economic growth by mobilizing Virginia's scientific and technological resources. Previous studies had documented the seriousness of the economic difficulties in Southwestern Virginia (the Appalachian counties), (see Knapp, et al, The People and Economy of Southwest Virginia, 1986, for example) and CIT was receptive to forming a partnership to address the problem.

One of the programs at the CIT is working to establish a state wide network of entrepreneurship centers. Creation of a BDC in the Appalachian region was deemed appropriate for support under this program. Although CIT had not yet funded two year colleges under this program, they were willing to innovate and granted JMU a contract for the initiative and the authority to subcontract to the community college selected by the model.

SMALL BUSINESS ADMINISTRATION (SBA)
The SBA, through the Small Business Institute (SBI) office in Richmond, was approached for support of the initiative. Since 1972, the SBA has offered compensation through case contracts to colleges and universities to provide business counseling and assistance to qualified applicants of the SBI program. The SBI program, however, has always been restricted to four-year institutions. An innovative solution was found to permit community colleges to participate in this program. The SBI increased JMU's SBI contract from 9 to 25 cases, and granted the JMU director authority to subcontract cases to the two year colleges involved in the Appalachian project. The SBI officials along with

the other sponsoring agencies, were particularly interested to learn how effective a partnership between a two-year and four-year school would be.

MODEL DEVELOPMENT

The number of two year colleges in the United States far exceeds the number of university SBI and entrepreneurship programs and other resources required to develop business assistance centers. Therefore, a procedure is necessary to target the institutions most likely to develop a successful BDC.

Establishing a BDC at a community college requires selecting the most appropriate site and then supplying the new center with operational materials and training. The site-selection procedure requires considerable attention since it influences the effectiveness of the center. It also requires extensive objectivity since it tends to put each candidate institution in competition with the others.

Community colleges are typically very appropriate for providing business development services as they work closely with local businesses, providing specialized training. They are also very suitable for entrepreneurial initiatives as they usually have both older students and close ties with local high schools. These characteristics simply emphasize the need for an objective and diplomatic site selection procedure.

Virginia has 22 community colleges, with four of those in the immediate portion of the Appalachian Region under study. In addition a smaller four year institution was also considered, due to its proximity to the research area. The site selection procedure described below was used to select one of six community colleges as the site for the BDC.

THE SITE-SELECTION MODEL

The BDC site selection model requires six steps: pre-start-up considerations, identification of site selection criteria, community assessment, institution assessment, site selection, and announcement of the decision.

PRE-START-UP CONSIDERATIONS

A number of pre-start-up considerations were taken into account before the site selection project was started. The first was to define a generic entrepreneurship center which outlined the specific activities and programs of a BDC. The BDC activities identified in this study are classified into four topics; outreach, education, research and scholarly activities, and information services. Each topic and its corresponding list of activities is provided in Table 1.

The basic services were considered required, optional services were valuable additional services, but were not considered essential. The research team also examined contractual requirements given by the funding authorities and itemized any possible political biases which might influence the site- selection effort.

When funding for the project was received, operating guidelines were established before any contact was made with any possible candidate institutions or the media. These guidelines included the site-selection procedure and job descriptions for each individual involved in the research effort. Four job descriptions were developed for the JMU initiative.

One job title was the Task Force Administrator, whose role was one of a coordinator during the BDC site-selection phase. The incumbent should be aware of contractual requirements regarding the project, and should coordinate project efforts to assure compliance.

Another position was that of Lead researcher, this individual was personally responsible for conducting an objective site selection analysis. The incumbent in this position was also responsible for establishing, communicating, and executing the research design.

A third position was the Data Collector and Analyst. The incumbent in this position was involved in gathering, compiling, and performing limited analysis on community and institutional data. Specifically, the Data Collector and Analyst was responsible for assisting the Lead Researcher by gathering data and completing the community assessment and institutional assessment worksheets.

A forth job in the project was the Liaison Consultant. The Liaison Consultant was an active coordinator between the Lead Research in the field and the Center for Entrepreneurship at the university. The incumbent in this position also visits each candidate institution on the third visit and serves as a link between the new BDC and the four-year school after the site has been chosen. Several other staff members of the Center for Entrepreneurship also provided assistance to the project as requested by the research team.

The site-selection process was driven by a model that outlined the steps to be taken. The site selection model is given in Table 2.

IDENTIFYING SITE SELECTION CRITERIA

After the pre-start-up considerations had been addressed, the next step was to identify and define the site-selection criteria. Separate criteria were established to evaluate the candidate institutions and the communities they serve. Working definitions of each criterion were developed to aid in the evaluations. The criteria definitions may depend somewhat on situational factors, so another team of evaluators should give careful consideration to the way in which each criteria is defined. Some veto items were also established.

Six community criteria were developed based on literature about commercial site selection (Mackenzie, 1972; Morgan, 1974; Setting Your Sites, 1978; Ross, 1980; Goodman, 1980; Abend, 1981; Kavanagh, 1982; Goldstein, 1985; Donev, 1986). Sub-categories were also listed under each one.

Community Services was the first community criteria and included sub-categories such as public utilities, land availability, and hospital services. Another criteria addressed the community labor force, and included items such as wage rate, availability, and trainability of labor. Transportation was also evaluated, and included facts about the number of highways and availability of different forms of transportation. A fourth criteria was Economy, which examined the community growth rate and tax rate. The extent to which the community Chamber of Commerce, local government, and key business leaders supported the local candidate institution were also considered. The sixth criteria was community need and was defined as the extent to which a BDC would significantly assist the candidate community in stimulating additional economic growth in the area. Any other findings which evaluators felt were important to the success of the BDC were noted as relevant items in an "other" category.

Weights were then established for each criteria, (sub-categories under an individual criteria were not weighted). Each member of the team, after reading the definition of a particular criteria, assigned a weight to each category independently. The weights were assigned according to the importance the individual placed on a particular criteria; evaluators did not have to agree on the weights for each criteria.

A similar procedure was used to establish criteria to evaluate the candidate institutions. Criteria and veto items were identified and defined and weights were assigned as described above. The institution criteria focused on the degree of "fit" between the required BDC activities and the institution's current activities and attributes. The seven criteria used to evaluate the candidate institutions and some of their sub-categories are given below.

A criteria regarding entrepreneurial education activities was included which considered such items as courses currently being offered, internships, and adult education activities. Entrepreneurial research activities were also considered. A few of the sub-categories in this area were; local data collection, subscriptions to entrepreneurship journals, and attendance at related conferences. Outreach programs were evaluated and referred to those programs which a school has that are outside the regular curriculum and support local businesses. Programs in this category included; product evaluation, feasibility studies, and venture assistance programs.

The fourth criteria called for an examination of entrepreneurship information sources such as library selections, video media, and networks. The level of internal support given to the BDC by personnel at the institution was considered as support of key officials such as the president, chairmen, and directors was considered essential to success of the BDC. External support was also assessed. This criteria included organizations such as local businesses and the Chamber of Commerce. Lastly, institutional need was considered. Institutional need was defined as the ability of the BDC to make a difference in the economic welfare of the surrounding area. Any other important factors that would be useful in the evaluation process were also noted as "other" items.

The research team next identified the candidate communities to be included in the site-selection analysis. When the veto items were applied to communities in the region, likely candidate communities became more obvious. For example, the veto items called for the community college to be near the Appalachian Region of Virginia and be state supported; all community colleges not meeting those conditions were easily eliminated from consideration.

When the community and host evaluation criteria were identified, defined, and weighted, the research proceeded to the data collection stage. Two forms were developed to collect data while visiting the target area.(1) These forms were used to keep a written record of the evaluator's assessment of the individual criteria at the different target areas. Photographs provided additional means of documentation characteristics of the candidate communities for those team members who did not visit the site.

CANDIDATE COMMUNITY ANALYSIS

Only the Lead Researcher and Data Analyst visited the candidate sites during the first two of three visitations. It was deemed beneficial for other team members to remain behind to provide an unbiased opinion of data collected.

The first trip was dedicated to visiting and collecting data in the candidate community area. On these visits only data on the community were gathered; the institutions were not contacted. The evaluator made a serious effort to obtain information for all the criteria listed on the data collection form. Secondary data from agencies was occasionally used. In order to keep the collected data organized, it was convenient to create a community profile for each target area. The profile included all the community evaluation criteria, their sub-categories and the data collected for each one. The first page of the profile provided a map to show the location of the community. A list of key contacts in a particular county was also included.

Once the data had been collected and compiled in an orderly manner, the research team conducted a community rating session. The procedure for rating session is described below.

The Lead Researcher and Data Analyst presented the community data in an objective form to the others on the research team. All members of the team the provided an objective value or a subjective rating which indicated the extent to which each candidate community provided the criteria listed. On subjective ratings, a "default rating" of 5 was given unless substantiating evidence existed for a higher or lower score. The highest possible score was 10. The lowest possible score was 0. On objective values the default rating was the mean of all other ratings on that criteria.

A software program, developed specifically for the project, was used to process the ratings. Each member of the team received results corresponding to that individual's unique community ratings and criteria weights. The index values of all the team members were averaged to provide one rating for each target community.

CANDIDATE INSTITUTIONAL ANALYSIS
To evaluate the candidate institutions, a schedule of times and dates to visit each candidate institution was developed by coordinating with the presidents and other representatives of the institutions.

Data gathered during the institutional visits was collected on the institutional data collection form, which consisted of all the evaluation criteria and their sub-categories. After the data was collected, an institutional profile was developed. A follow-up letter was then sent to each community college president, thanking the president for his time and the cooperation. The letter also requested some thought be given to considering the resources the community college could provide in support of the BDC.

An institutional rating session was held using the same procedure described for the community rating session. After the ratings on each criteria for each institution were established the ratings and criteria weights were entered into the payoff matrix program. All of the team members' index values were again averaged to achieve one rating for each candidate institution.

RESOURCE COMMITMENT LETTERS
The research team then prepared for a final visit to the candidate institutions. The purpose of the last trip was to request resource commitment letters from each school. The letters described what resources a particular institution was willing to contribute in order to have the BDC located on its campus. Resource commitments needed not focus on money. Letters included offering qualified staff members to support the BDC or offers of existing facilities to house the center. The amount an institution was willing to contribute was considered a good indicator of the level of interest an institution had in the project. The emphasis at this stage of analysis was on "fit" between the proposed BDC needs and the existing resources of the candidate institution.

FINAL SITE SELECTION
The community and the institution data along with the resource commitment letters, were organized into individual profiles for each target site and an overall review of the information was made to select the optimum site.

First, the proposals of each institution were reviewed. Then, the community and institution data was reviewed. All of the data was examined, not just the final averaged index score. If there were major discrepancies in the individual evaluators scores, they were resolved by discussion between the evaluators. It was useful to consider the community and institution data together and this was done using a scatter diagram and the index scores provided by the payoff matrix program. The Y-axis represented the "institutional evaluation' and the X-axis was designated "community evaluation" (see Figure 1). The site with the highest combined rating was generally considered the best suited candidate subject to the resource commitment letter. If the institution and community ratings of two sites were close, more weight was given to the resource commitment letters to make the decision.

ANNOUNCEMENT OF THE DECISION

The site selection decision was confirmed with the candidate institution. The candidate institution was called by the college dean and a letter was sent notifying them of the decision. It was important to ensure that the candidate institution had confirmed the decision before any other steps were taken.

After the selected institution had confirmed the decision, other interested parties such as the university president and the funding authorities, were informed. All of the other candidate institutions were also informed of the decision. A formal letter was sent to each of the other institutions notifying them of the decision. The evaluators also discussed the possible development of a smaller satellite BDC with one or more of the other institutions. Assistance is also being offered to help another institution develop its own BDC. It is important to recognize that the site-selection process does not have to be an all or nothing proposition; each candidate institution can benefit from the research effort. The media was notified of the decision only after all other principle participants in the project had been informed of the decision.

SUMMARY

This paper described a process for choosing a single location for establishing a community college business development center in partnership with a four-year university and a number of government agencies. The process itself, however, was complicated by the discovery that there was not, in reality, one superior institution and five other "inferior" institutions. In fact, most, if not all, of the colleges studied potentially could make fine settings for a business development center. The reality of limited resources, however, dictates that a site selection process must be used to identify that college most appropriate for this economic development partnership.

The model presented here offers a new paradigm for rural economic development as applied by James Madison University. The site selection phase of the model has been completed with the announcement of Virginia Highlands Community College as the host for the Business Development Center. The effectiveness of the partnership that has been created will now be monitored and will be reported in subsequent papers.

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FIGURE 1
PLOT OF COMMUNITY AND INSTITUTION RATINGS

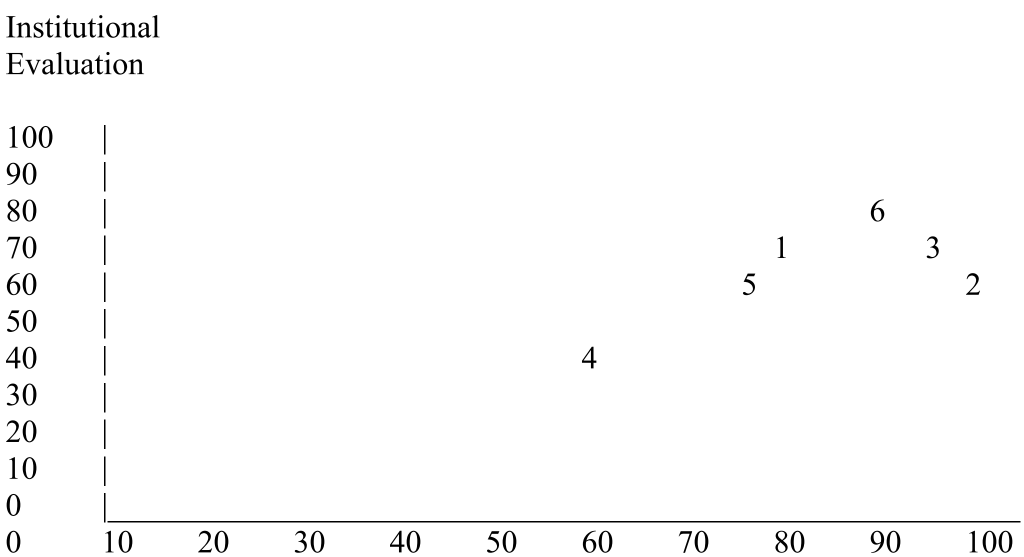

TABLE 1
FUNDAMENTAL BDC SERVICES

1.0 ENTREPRENEURIAL EDUCATION ACTIVITIES
- 1.1 Courses currently being offered
- 1.2 Independent study
- 1.3 Internships
- 1.4 Seminars, speakers
- 1.5 Adult education activities
- 1.6 Other: speakers, workshops, venture

2.0 ENTREPRENEURIAL RESEARCH ACTIVITIES
- 2.1 Local data collection
- 2.2 Membership in regional associations
- 2.3 Subscriptions to entrepreneurship journals
- 2.4 Attendance at conference
- 2.5 Other: academic studies, own publications

3.0 OUTREACH PROGRAMS
- 3.1 Specific programs unique to the area
- 3.2 Product evaluation (IEP)
- 3.3 Feasibility studies
- 3.4 Small business institute (SBI) cases
- 3.5 Other: mentor programs, business plan development

4.0 ENTREPRENEURSHIP INFORMATION SOURCES
- 4.1 Library selections
- 4.2 Small business and entrepreneurship reading lists
- 4.3 Video media
- 4.4 Networks
- 4.5 Other: electronic data base of local resources

TABLE 2
ARC SITE SELECTION MODEL

1.0 PRE-START-UP CONSIDERATIONS
- 1.1 Defining the generic entrepreneurship model
- 1.2 Identifying basic and optional BDC services
- 1.3 Identifying contractual or practical constraints
- 1.4 Identifying political biases and constraints

2.0 IDENTIFICATION OF SITE SELECTION CRITERIA AND WEIGHTS
- 2.1 Identifying community criteria and veto items
- 2.2 Identifying host criteria and veto items
- 2.3 Identifying other criteria and veto items
- 2.4 Identifying the target communities
- 2.5 Developing data collection instruments
- 3.0 NOTIFICATION TO PRESIDENTS AT TARGET SCHOOLS
- 4.0 COMMUNITY ANALYSIS
- 4.1 Visiting and collecting data in the target area
- 4.2 Collecting secondary community data
- 4.3 Analyzing community data

5.0 CANDIDATE INSTITUTION ANALYSIS
- 5.1 Scheduling of visits at candidate institutions
- 5.2 Preparing for visits at candidate institutions
- 5.3 Visiting and collecting data at candidate institutions
- 5.4 Analysis of candidate institution data
- 5.5 Requesting proposals

6.0 SITE SELECTION
- 6.l Reviewing proposals
- 6.2 Reviewing community data analysis
- 6.3 Reviewing host institution data analysis
- 6.4 Making the final selection
- 6.5 Confirming the decision with the candidate institution
- 7.0 NOTIFICATION OF DECISION
- 7.1 Notifying local authorities
- 7.2 Notifying the funding authority
- 7.3 Notifying all other institutions and communities
- 7.4 Notifying all principle individuals
- 7.5 Notifying the media

Establishing Value Networks as a Key to Small Business Adaptation

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ABSTRACT

The intent of this paper is to discuss how value networks can be used by small business owners to compete against the impressive marketing research capabilities of large firms. Value networks are representatives of the firm's customer base who are brought together to evaluate the firm's existing products and to identify new emerging trends that can be translated into new product ideas. The paper also discusses new marketing research methodologies useful to small business that can isolate demographic groups by utilizing geodemographic criteria. The paper concludes with a research agenda for testing the effectiveness of value networks as an adaptation technique for small business owners.

INTRODUCTION

A critical factor in the management of a small business is the anticipation and adaptation to expected changes in the environment. Changes in the environment are occurring at a quickening pace while the direction of such changes is much less predictable. To assist in anticipating these unpredictable changes, there now exists many environmental scanning techniques. However, these techniques tend to be effective only in identifying trends that have become fairly well established which only enables the small business owner to keep up with like competitors. More importantly, the small business owner is put at a disadvantage when competing with large firms equipped with extensive and expensive marketing research capabilities.

The purpose of this paper is to present a method that will counteract the marketing research capabilities of large nationwide organizations. Known as value networks, this technique incorporates various aspects of environmental scanning techniques coupled with the inherent advantages of being a business owner in a focused geographical and demographic region. Value networks make use of customer groups that serve as the business's primary consumers.

The paper will begin with a discussion of state-of-the-art environmental scanning techniques and how large firms are currently utilizing them. The paper will then discuss the research literature on networks and values as they relate to small business management. A model of a value network will be developed and will be accompanied by possible uses of such a technique. The paper will conclude with future possible uses for value networks, as well as future research needs to test the viability of such a technique.

The Terrain

Changing consumer taste has long been a critical aspect of strategic decision making for managers of all sizes and types of organizations. What has changed even more than consumer tastes has been the methodologies utilized by large firms to monitor and exploit these changes. National firms historically have produced single products that were marketed uniformly throughout the country. The emphasis of this strategy was economies of scale and cost efficiency. The downside to this approach was that pockets of consumers were left unfulfilled by these uniform strategies. These pockets contained such demographic groups as (1) more affluent individuals who desired more service and quality and who had less concern over price as well as (2) regional tastes that were not being satisfied by uniform middle-of-the-road type products. These pockets of individuals became prime targets for small business who could cater better to their individualistic needs. These small businesses operated under boutique strategies where increased service, quality and uniqueness demanded higher prices.

Larger firms coveted these lucrative niches and began to develop methodologies to be able to service these markets. These methodologies focused on identifying specific demographic groups based on geographical and socio-economic criteria. Geographical differences have been identified for many years but the issue was being able to advertise and market products efficiently to regional markets. Socio-economic differences have long been known but there was little practical application of this knowledge. However, recent innovations in computer capability make possible the sophisticated analysis required.

An example of this methodology is the service provided by the market research consultants, Claritas (Morris, 1986). Claritas provides a service it calls geo-demography--the division of the nation into 240,000 distinct neighborhoods. These 240,000 neighborhoods have been further broken down into 40 different prototypes that can describe the overriding characteristics of each neighborhood. Morris notes that this description can be extremely useful to large firms as "high tech and service jobs have eroded the differences between white and blue collars; double incomes and divorce rates have blurred the differences between upper and lower class. Consumers are not only harder to understand but also harder to reach, with their overstuffed mail-boxes and their VCRs."

The ability of systems such as Claritas makes it possible for large firms to begin to develop regional marketing and/or product strategies that can still take advantage of economies of scale. The initial step in developing such a strategy is to market an uniform product but differentiating it by the emphasis of its advertising. A more differentiated and, hence more expensive approach is to develop several versions of the same product. For example, Campbell's Soup developed two versions of its Nacho Cheese soup; a spicy variety for the West and Southwest and a mild one for the rest of the country. Freedman (1987) concludes that the regionalizing of products will increase and with more sophisticated geo-demography become more accurate and efficient.

When attempting to identify regional preferences, a major tool has been the use of focus groups. Focus groups are formed around a similar cluster of demographic variables that are pertinent to the products or services being tested. As with other marketing research techniques, the usage of focus groups is becoming more sophisticated. Bennett (1986) notes that focus groups are being used by public service organizations in determining proper outlets for allocation of funds, lawyers testing arguments in mock trial settings and, important to this paper, further refining the needs and values of very desirable geodemographic groups. Large firms are more aware of the underlying value structure that influences consumer behavior. Thus, focus groups can also be used to evaluate the viability of new ideas and potentially emerging trends. Additionally, firms can get valuable feedback on whether their computerized geodemographic analysis is accurate. The use of focus groups tends to minimize the possibility of introducing advertising or products that will not appeal to its target market.

The impact of this more sophisticated methodology on the small business is obvious. Small businesses have neither the staff nor resources to counteract this effort. If left unplanned for, the small business will lose access to lucrative niches necessary to insure its viability. As a result, the small business must develop strategies that can identify market trends even before the marketing methodologies just discussed. These market trends must then be translated into quality products and desired services that large firms cannot readily replicate. This paper intends to develop a process that will assist the small business owner in anticipating emerging trends in their customer base. This process will incorporate elements of the methodologies utilized by large firms but will focus directly on the underlying values and motivations of the network of consumers being served.

Values

The influence of values and philosophy in determining the strategic direction of firm has been propelled into prominence by many management consultants. The notable being Thomas Peters and Robert Waterman in their best seller, In Search of Excellence, who maintain that the success of many large firms can be attributed to the strong value orientation held by the firm and its members. This strong value orientation emphasizes employee creativity and unity with a strong concern for customer needs. It rejects the notion of uniform strategies that emphasizes economies of scale and detached-sterile strategic analysis. As a result, this value orientation is very compatible with the more sophisticated marketing approaches just discussed.

The small business manager may also utilize a value approach to key into the thinking of its customer base. Values are relatively enduring beliefs that motivate behavior in individuals. Individuals desire products and services that validate their value structure and are more willing to pay premium prices for these valued goods. The issue then becomes one of identifying those products and services that satisfy the desired customer base's value structure.

The realization of Peters and Waterman point out a key advantage inherent in small regionalized firms. They should be much closer to their consumer base both in proximity and no doubt in their value structures. The tactic is to be constantly in touch with these networks and cater to their emerging desires. Rove, Mason and Dickel (1985) notes that societal values appear to take on a developmental property and that the more affluent elements of society are moving steadily to an ideational orientation. These authors state that ideational values as described Sorokin (1941) are similar to self-actualization values with a greater emphasis being given to the natural pleasures of life. These pleasures are being at one with nature as well as a desire to be closer and to be more involved in one's community. Thus the option of value based community networks quite compatible with ideational think.

Networks
Several authors (Aldrich and Zimmer; 1986, Aldrich, Rosen and Woodward; 1987, and Rush Graham and Long; 1987) have adapted concept of social networks for use in 11 business settings.

Aldrich et al (86) define a network as the totality of all persons connected by a certain type of relationship and is constructed by finding the ties between all persons in a population under study. In a small business context, a primary social network is conceived with the owner being embedded within continuous social relations that channel and facilitate or constrain and inhibit strategic behavior.

Rush et al (1987) formed three networks of strangers whose common orientation was participation in a management development program for small business owners. The program was designed to assist the owners in making the transition from a start-up type of business to a regional leader in its area. Participants were required to conceptualize the reasons that the transition was so difficult. Results confirmed that these networks significantly assisted the members in solving their problems by both the suggestions formulated within the network and by introducing participants into other chains of networks.

Aldrich et al (1987) examined the influence of social networks on business formation and survival during a nine-month period. Results indicated that variations in social networks can account for differences in profitability. Further analysis revealed that in businesses less than three years old that high profits were associated with owners who maintained networks that were closely linked. The authors concluded that these findings warrant a closer examination of the possible types of social networks and their impact.

Value Networks
As Aldrich et al (1987) point out, social networks will be formed under many circumstances for various reasons. Likely business networks will form from trade associations, suppliers, creditors and probably most importantly, customers. As Peters and Waterman (1984) point out, customers are not only a source of financial resources but also product ideas and improvements. This is especially true within the burgeoning service sector as evidenced by the growing awareness that affluent consumer groups are constantly changing their desires and orientations. The ideational orientation places a premium on products that not only fulfill the immediate needs of this group but that are also compatible with their value structure. Individuals with this orientation place a great premium on products that are "natural" and seem to do little harm to the environment. Thus, the inclusion of this philosophical approach and its ever changing expression should be a critical strategic element for small businesses serving affluent clientele.

Smeltz (1987) developed a model that considers the impact of values and social networks within the entrepreneurial process. The intent of this model is to reveal that value-based entrepreneurship can assist in the identification of emerging consumer needs. This model is contrasted to the processes taken by most entrepreneurs when formulating a business identity. A comparison (see Figures 1 and 2) reveals basic differences between the models at each critical decision point.

A very pertinent difference is the consistent use of networks by most value-based entrepreneurs. Smeltz (1987) notes that many value-based entrepreneurs obtain their idea to begin a business based on the lack of satisfaction expressed by their social-support networks. If this need deprivation is significant and is found to be held by a large enough population then a business niche has been identified. In contrast, the typical entrepreneur attempts to identify lucrative niches by assessing the needs of others. While it is no doubt helpful to hold a compatible value structure with your potential customer base, it may not be necessary.

The issue then becomes one of defining what a value network is and how it can be operationalized for use in a business setting. A value network is a collection of individuals connected by philosophical concerns that can be translated into lifestyle and purchasing decisions. The members should be chosen from both established customer bases as well as representatives from customer groups that would be desirable. Volunteers should be contacted by notices at the place of business and by mailings. Some diversity should be strived for but it may not be wise to pit opposing viewpoints. As values are strongly held, it is not a good idea to create too much friction; however, it could be useful to observe some differences in opinion. If the customer base tends to follow the ideational model then they should be community minded and want to participate in this type of activity.

The agenda for the network should be comprised of both practical and philosophical concerns. Practical issues should include testing of new products, discussion of needed products and reviews of existing products and services. Philosophical issues under discussion should delve into controversial issues and methods as well as what the members believe the future will hold.

As the value network develops, the owner will get a feel for which members represent the innovator network that are responsible for adopting new ideas and products. It may also be found that more than one value network should be set-up. This would be especially appropriate if the customer base is shown to be comprised Of two or more radically different philosophical groups. Hopefully, as the business grows it may become necessary to have multiple groups to represent the diverse interests and needs of the growing customer base.

Value networks may also serve as a indication of when it may be an opportune time to focus on new customer bases. For example, many natural food stores have switched their orientation to more affluent customers. Originally their customer base was comprised of counterculture types and college students interested in cheap bulk type natural products. As more affluent groups become interested in natural products, some natural food stores adapted to meet their needs. Other stores clung to their methods and customer groups. Those that adapted tended to redesign their stores to become more like food boutiques. They began to carry products with better profit margins and became food consultants to the affluent. As one natural food store owner related, "when I began my business I was a hippie serving hippies. The neighborhood was run-down and people would walk to the store or take the bus. Now the neighborhood has become gentrified and both my customers and myself drive to the store in Mercedes." This case would typify the gentrification of the baby boom generation who have been the prime adopters of the ideational philosophy.

The small business owner should also become involved in other civic networks that will reveal emerging trends and concerns in the area. A chief advantage of the small business owner is his/her understanding of the area in which they serve. Being involved in the community is a good way to build customer loyalty and as discussed, constant effort must be put forward to insure this advantage.

Conclusion

Value networks are seen to serve many purposes for the small business owner. During the entrepreneurial stage, value networks serve as social support groups, idea generators, and potential capital sources. As the business progresses, value networks can serve as sounding boards to determine emerging trends and insuring that the manager is staying close to the customer and building goodwill.

It is becoming obvious that large parts of society demand that products and services not only satisfy their immediate needs but also are compatible with their value orientation. In return, these individuals are willing to pay premium prices. Business that can tap these markets will be very profitable. The value network proposed in this paper is a way for small businesses to tap into these markets before large firms can identify and mobilize their resources to serve these markets.

The work by Rush et al (1987) and Aldrich et al (1987) reveal that networks do provide important assistance to small business owners. Much research is needed to examine what types of networks provide the most assistance. Specifically, research is needed to examine the potential of value networks. A longitudinal study by the author has as a component a examination of the importance of value networks to natural food business owners. This study also will attempt to form value networks for these owners to assist them in being able to anticipate emerging trends.

Small business owners must continually derive strategies that will assist them in adapting to changing consumer tastes. This is especially so as large firms enter markets that have been historically left to small business. Value networks are seen as a tool that can allow the small business owner to tap into emerging trends before the competition.

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FIGURE 1
VALUE BASED ENTREPRENEUR

How are we not being satisfied?	---|	Degree of Deprivation caused by lack of satisfaction	----|	(if degree is substantial)	---| ---|	Does the network represent sizable minority?	---|	if yes	--------|
Broader market research	---|	Feasibility study	---|	Go or no Go decision	---|	What scale of operations			

FIGURE 2
TYPICAL ENTREPRENEUR

Read General
Environment
---| Identify potential niches---| Market research analysis of potential market, competition and market demographics ---| Financial analysis of costs, projected sales, outside capital ---|
Entrepreneur's
Experience and
Demographics

PERSONAL VALUES AND SUCCESS: HUMAN RESOURCE IMPLICATIONS FOR SMALL BUSINESS MANAGEMENT

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ABSTRACT
Value profiles of 100 successful male and female real estate professionals were compared using the Study of Values questionnaire by Allport, Vernon and Lindzey. The AVL system of values consists of six classifications: Theoretic, economic, aesthetic, social, political and religious. The Study of Values measures the relative importance of these six basic motives in personality. Some significant differences were found between the sexes in their value orientation. Furthermore, the researcher concluded that there is a typical personal value profile that is associated with success in the real estate profession.

INTRODUCTION
There has been an increased interest in the role of personal values in managerial and business success in the past 25 years (1, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 28, 29, 30, 31). The significance of personal values held by managers in organizations confirms the validity and necessity to investigate the values of managers (11, 32).

In the literature, values are reported as being directly related to such behaviors as planning, decision making, and leadership. It has also been reported that value play an important role in influencing ethical and socially responsible behavior, perception of situations and problems being faced, interpersonal communications, and perceptions of achievement and success (9,6).

Values are part of one's personality. If one selects among choices, depending on whether the alternatives will increase his personal gain or his usefulness to others, he is demonstrating his values as well as his personality. Therefore, values can be thought of as the guidance system a person uses when faced with choices of alternatives (11).

MEASUREMENT OF VALUES
The most popular value measurement instrument which has increasingly been used to evaluate managers' values in Allport, Vernon, Lindzey (AVL), Study of Values. The Study of Values has a total of 45 questions and is divided into two parts. The first part, which includes 30 questions, asks the respondent to specify a preference between two choices. In the second part, which includes 15 questions, the participant is asked to rank order four choices for each question. The nature of scoring is ipsative; that is, the respondent's score on one value dimension will be affected by the score on another (12).

The AVL system of values consists of six classifications: Theoretic, economic, aesthetic, social, political, and religious. The Study of Values measures the relative importance of these six basic interests or motives in personality (4). Table 1 contains a brief description of these six values.

The AVL Study of Values manual (2) offers the average value scores for each of the subscales for the total general population and for the male and female subgroups. These can be used as benchmarks for comparison of other AVL-type studies. These general norms imply that males tend to score higher on theoretical, economic and political values, while females are expected to score higher on aesthetic, social, and religious values (2). The value profile for the general population is shown in Table 2.

TABLE 1
CLASSIFICATION OF AVL VALUES

1. The theoretical person is primarily interested in the discovery of truth, in the systematic ordering of knowledge. The individual's interests are empirical, critical, and rational.

2. The economic person is primarily oriented toward what is useful. This individual is interested in practical affairs of the business world, in the use of economic resources; and in the accumulation of tangible wealth. This person is thoroughly "practical" and fits well the stereotype of the American business person.

3. The aesthetic person's chief interest is the artistic aspects of life, although the person need not be a creative artist. Form and harmony are valued; the individual views experience in terms of grace, symmetry, or harmony.

4. The essential value for the social person is love of people--the altruistic or philanthropic aspect of love. This individual values people as ends, and tends to be kind, sympathetic, unselfish.

5. The political person is characteristically oriented toward power, not necessarily in politics, but in what ever area he or she functions. Most leaders have a high power orientation.

6. The religious person is on whose mental structure is permanently directed to the creation of the highest and absolutely satisfying value experience. The dominant value is unity. The person seeks to relate to the universe in a meaningful way and has a mystical orientation.

(12, p. 54)

TABLE 2
VALUE PROFILE FOR THE GENERAL POPULATION, GIVEN IN MEAN VALUE SCORES

Value	General Population	Males	Females
Theoretical	39.80	43.09	36.50
Economic	39.45	42.05	36.85
Aesthetic	40.29	36.72	43.86
Social	39.34	37.05	41.62
Political	40.61	43.22	38.00
Religious	40.51	37.88	43.13

(2, p. 11)

The following section concentrates on selected business and managerial value studies that have utilized the AVL Study of Values questionnaire.

Tagiuri (27) measured the values of nearly 1,000 men, made up of research managers, scientists, and businessmen during 1960-64. The three groups exhibited similar value orientations, especially with regard to their theoretical, economic, and political values, being assigned the top three positions.

In trying to find a relationship between managerial values and managerial success, Singer (26) surveyed about 100 middle managers in one of the top U.S. corporations during 1960-62. Ten years later, over 50 percent of the same group were reevaluated with the same instrument. At this time the instrument was also administered to a group of top executives who were college trustees. Furthermore, success was measured by salary and its rate of increase with respect to age and position of subjects. Singer found a typical business orientation in all three groups with political, economic, and theoretical values as the most prominent.

In an effort to discover a profile of the successful female, Hodgetts, Pryor, Mills, and Brinkman (14) administered the questionnaire to 51 women who were identified as successful in their organizations in the Dallas-Fort Worth area. For the most part, their findings were consistent with Singer's (26) value study of successful male managers.

Hodgetts and Cascio (13) conducted a survey to ascertain the value profiles of Latin entrepreneurs in Dade County, Florida. One hundred nine male and female Latin owner-managers completed the survey. The researchers found that: (a) Male and female entrepreneurs in this study were similar in terms of direction. Both were highest in economic and political values, similar to general male population norms, (b) the male group displayed the same initial order (economics, political, and theoretical) as reported by previous studies, (c) the female group replicated the same rank ordering (economic, political, and aesthetic) reported by Hodgetts et al. (14) for successful female managers, and (d) while overall profiles for the Latin group were comparable to their Anglo counterparts, differences between sexes were significant.

Cameron (6) compared the values of 264 male and female managers in banking and insurance industries in Nebraska. He concluded that: (a) The values of male and female managers were significantly different from the general population value norms, (b) although male and female value profiles were closer together in the Nebraska study group than in the general population, the difference in value profiles between males and females, with the exception of the religious value, were upheld.

In an effort to replicate their 1979 study, Hodgetts and Cascio (12) evaluated and compared the personal values of 333 Anglo, Latin, and Black entrepreneurs in Dade County, Florida. The profiles of Anglo and Latin entrepreneurs showed similarities, although there were differences between the sexes. More importantly, the findings reveal that in terms of mean scores, the successful Black entrepreneur is quite different from that of other successful entrepreneurs. Economic and political values which are often found to be of greatest importance in other groups ranked lowest with Blacks, when compared to those of other respondents; and social and religious values, which tend to be lowest, ranked highest when compared to those of other respondents.

In an attempt to measure and compare the values of male and female supervisory candidates in a major commercial aviation firm, Lash (18) administered the AVL to a group of 229 participants. Lash made the following observations: (1) The values of the candidates were significantly different from those of the general population, and (2) the values of male and female candidates were significantly different.

In order to compare the values of male and female managers, Boulgarides (4) administered the Study of Values to 108 male and 108 female business managers in the Los Angeles area. He found no significant difference in values between the two groups.

Rezarian-Yazdi (22) examined the personal value systems of 64 Iranian entrepreneurs operating in the U.S. He found significant differences between the value profiles of the study group and those of the general population. Furthermore, he concluded that the value profiles of the Iranian entrepreneurs and successful Anglo managers in Hodgetts and Cascio's (12) study are similar with some changes in rank order when sex is disregarded.

OBJECTIVES

The objectives of the present study were as follows: (1) to extend these of the AVL Study of Values questionnaire into the field to real estate by measuring the personal values of a group of real estate professionals, (2) to determine whether there are any significant differences between the personal values of male and female real estate professional in this group, and (3) to discover whether there is a typical personal value profile that leads to business success in the real estate profession.

In order to satisfy the second and third objectives, the following seven hypotheses were stated in the null form:

(1) Successful female real estate professionals have significantly different theoretical values than successful male real estate professionals.

(2) Successful female real estate professionals have significantly different economic values than successful male real estate professional.

(3) Successful female real estate professionals have significantly different aesthetic values than successful male real estate professionals.

(4) Successful female real estate professionals have significantly different social values than successful male real estate professionals.

(5) Successful female real estate professionals have significantly different political values than successful male real estate professionals.

(6) Successful female real estate professionals have significantly different religious values than successful male real estate professional.

(7) There is no typical personal value profile that leads to business success in the real estate profession.

METHODS

Sampling Procedure

The relevant population was all of the full-time, successful real estate professionals in the state of Oregon. For the purpose of this study, a successful real estate professional is one who has remained with his or her firm for at least two years. Dollar earnings were not used as a criterion for success since it could have had a serious negative effect on the response rate.

The target population were all the participants in the Oregon Association of Realtors Annual Convention. Nonprobability sampling was used, since there was not enough female representation in the population to warrant random sampling. The sample was set at 100, consisting of complete and usable questionnaires from 50 successful male and 50 successful female real estate professionals for a response rate of 49%.

Efforts were made to control Type II errors. A type II error occurs when a false hypothesis is retained. In order to control for Type II errors, the probability of retention of a null hypothesis is changed after setting the level of statistical significance by increasing the sample size. The question of an adequate sample size needed to be taken into consideration. Roscoe (24) states that a sample size of 100 is adequate for almost any research situation. Cameron (6) used a computer software package to test the probability of making a Type II error, using a sample size of 100, is very low.

Research Design
A survey was conducted on site using the Study of Values questionnaire by Allport, Vernon, and Lindzey. This instrument was selected for use in this research for the following reasons:

1) The questionnaire is written in clear language and is understandable. Its previous use has indicated that most managers that have at least a high school education experienced no difficulty completing it.

2) Problems of distribution and monitoring are substantially reduced, since the instrument is self-administered.

3) The instrument's validity and reliability has been established in previous research studies in a number of disciplines.

4) Although the Study of Values has been utilized extensively in disciplines such as psychology, sociology, and education, its use in business research has been limited. This study provided another opportunity for the application of this effective and efficient instrument in the field of business.

The instrument was distributed to all real estate professionals present at the convention. The desired subsamples were completed following two follow-up letters.

ANALYSIS AND RESULTS
Hypothesis 1 through 6 relate to the difference in means between two groups, male real estate professionals and female real estate professionals. Since both sample sizes are greater than 30, a series of two-tailed z-tests were conducted to determine any significant difference between personal values of male and female groups under study. The results of these tests are shown in Table 3.

TABLE 3
VALUES OF REAL ESTATE PROFESSIONALS

	Male (n = 50)		Female (n = 50)	
Values	Mean	Standard Deviation	Mean	Standard Deviation
Economic	50.05	5.92	49.51	6.68
Political	46.00	6.46	42.47*	6.79
Theoretical	42.19	6.86	38.47*	6.87
Religious	34.10	11.16	34.22	9.55
Aesthetic	34.00	7.50	41.82*	8.33
Social	33.66	6.00	33.51	7.05

*significant at.01 level

Table 3 shows that the differences in the group means were found to be significant for the theoretical, aesthetic, and political values. Therefore, hypotheses 1, 3, and 5 could not be rejected. However, there were no significant differences between group means in economic, social, and religious values, leading to the rejection of hypotheses 2, 4, and 6.

The ranking from first (most important) to sixth (least important) for each of the two subgroups is shown in Table 4.

TABLE 4
THE RANKING FROM FIRST VALUE (MOST IMPORTANT) TO SIXTH VALUE (LEAST IMPORTANT) FOR SUCCESSFUL MALE AND FEMALE REAL ESTATE PROFESSIONALS

Successful Male	Successful Female
Economic	Economic
Political	Political
Theoretical	Aesthetic
Religious	Theoretical
Aesthetic	Religious
Social	Social

Compared to previous studies that have used the Study of Values instrument, the following additional observations are in order.

a. Successful male real estate professionals displayed the same initial order (economic, political, and theoretical) as the male groups in previous studies. This is shown in Table 5.

b. Successful female real estate professionals showed the same top three values (economic, political, and aesthetic) as reported by female groups in previous studies (6, 12, 13, 14, 18). This is shown in Table 6.

c. With the exception of the theoretical value, the values of male and female real estate professionals in this study were significantly different from the general population value norms reported by Allport, Bernon, and Lindzey. The study group had significantly higher economic and political, and significantly lower social, religious, and aesthetic values than the general population.

d. Similarly, successful male real estate professionals had significantly higher economic and political and significantly lower social, religious, and aesthetic values than the general male population, with no significant difference observed in the theoretical value.

e. When the values of the successful female real estate professionals are compared with the general female population, slightly different observation emerges. The females in the study group showed significantly higher theoretical, economic, and political and significantly lower social and religious values than the general female population. No significant differences were found in the aesthetic values of the two groups.

f. Observations c through e, which are shown in Table 7, lead the researcher to believe that above average economic and political, below average social and religious, and average theoretical and aesthetic values are characteristics of the successful real estate professionals in this study. This is consistent with the findings of previous values studies in the area of business. Furthermore, the emergence of this typical business values profile leads to the rejection of hypothesis 7.

TABLE 5
RANKING COMPARISON OF MALE VALUE PROFILES

General Population AVL (1970)	Executives Tagiuri (1965)	Executives Singer (1975)
Political	Economic	Political
Theoretical	Political	Economic
Economic	Theoretical	Theoretical
Religious	Aesthetic	Social
Social	Social	Aesthetic
Aesthetic	Religious	Religious
Latin Entrepreneurs Hodgetts & Cascio (1979)	Bank & Insurance Managers Cameron (1979)	Anglo Entrepreneurs Hodgetts & Cascio (1981)
Economic	Economic	Economic
Political	Political	Theoretical
Theoretical	Theoretical	Political
Social	Aesthetic	Aesthetic
Aesthetic	Religious	Social
Religious	Social	Religious
Black Entrepreneurs Hodgetts & Cascio (1981)	Supervisory Candidates Lash (1981)	Managers Boulgarides (1984)
Economic	Economic	Economic
Political	Theoretical	Theoretical
Theoretical	Political	Political
Social	Aesthetic	Aesthetic
Religious	Religious	Social
Aesthetic	Social	Religious
Real Estate Professionals Salek (1987)		
Economic		
Political		
Theoretical		
Religious		
Aesthetic		
Social		

TABLE 6
RANKING COMPARISON OF FEMALE VALUE PROFILES

General Population AVL (1970)	Successful Women Hodgetts et al. (1978)	Latin Entrepreneurs Hodgetts & Cascio (1979)
Aesthetic	Political	Economic
Religious	Economic	Political
Social	Aesthetic	Aesthetic
Political	Theoretical	Theoretical
Economic	Religious	Social
Theoretical	Social	Religious

Bank & Insurance Managers Cameron (1979)	Anglo Entrepreneurs Hodgetts & Cascio (1981)	Black Entrepreneurs Hodgetts & Cascio (1981)
Economic	Economic	Social
Aesthetic	Aesthetic	Economic
Political	Political	Religious
Religious	Theoretical	Political
Social	Social	Theoretical
Theoretical	Religious	Aesthetic

Supervisory Candidates Lash (1981)	Managers Boulgarides (1981)	Real Estate Professionals Salek (1987)
Economic	Economic	Economic
Political	Aesthetic	Political
Aesthetic	Theoretical	Aesthetic
Religious	Political	Theoretical
Social	Social	Religious
Theoretical	Religious	Social

DISCUSSION

The high score on economic values for both male and female real estate professionals could be attributed to the group's membership in an industry which puts a great deal of emphasis on the salespersons' earnings as a member of performance and success.

Both males and females in the study group scored lowest on the social value. This is rather surprising since the nature of the real estate profession requires frequent contact with the public. This finding might indicate that real estate firms, in general, do not emphasize the salesperson's affection for the public or attention to social concerns as an essential element for success.

TABLE 7
COMPARISON(1) OF THE VALUE SCORES OF SUCCESSFUL REAL ESTATE PROFESSIONALS WITH THOSE OF THE GENERAL POPULATION (AVL)

Values	Real Estate Group	AVL General (1970)
Economic	49.78	39.45**
Political	44.24	40.61**
Theoretical	40.33	39.80
Aesthetic	37.91	40.29**
Religious	34.16	40.51**
Social	33.59	39.34**

Values	Real Estate Males	AVL Males
Economic	50.05	42.05**
Political	46.00	43.22**
Theoretical	42.19	43.09
Religious	34.10	37.88*
Aesthetic	34.00	36.72*
Social	33.66	37.05**

Values	Real Estate Females	AVL Females
Economic	49.51	36.85**
Political	42.47	38.00**
Aesthetic	41.82	43.86
Theoretical	38.47	36.50*
Religious	34.22	43.13**
Social	33.51	41.62**

(1) t-test was used for this comparison
*p = .05
**p = .01

While males in the group demonstrated the traditional male value profile, female real estate professionals exhibited significantly different value dimensions from those of the traditional female, as shown by their higher scores on economic and political values and their untraditionally lower scores on social and religious values. This seems to indicate that value profiles for male and female in the study group are approaching one another, with more dramatic movement by females from female toward the male profiles, respectively.

The real estate group showed the greatest difference from the general population norms in having much higher economic values. The study group also exhibited significantly lower religious and social values. The reasons previously mentioned for high economic and low social values probably apply here as well. The lower religious values, however, could be the result of lowered emphasis on religion in the American society.

The difference between male and female values in the study group were significant only on three of the six value dimensions. This finding confirms the prediction in the AVL Study of Values (2) that males score higher on theoretical and political values while females score higher on the aesthetic value. However, the fact that there were no significant differences between economic, social, and religious values of male and female subjects in this study is in sharp contrast to the traditional AVL prediction of males having higher economic and lower religious and social values than females. This finding leads the researcher, once again, to conclude that the value profile of females, in general, is approaching that of males. This is particularly true for women in the business arena.

Last but not least, is the conclusion of this researcher that there indeed is a typical personal value profile that is associated with success in the real estate profession. A real estate professional demonstrating such a profile will generally score higher on economic, political, and theoretical values and lower on aesthetic, religious, and social values. This "successful value profile" will assist real estate firms to improve their recruitment activity by matching the value profiles of potential candidates with the success profile. The significance of enhancing recruitment and selection methods can be appreciated when one realizes the skyrocketing costs of such activities and their relationship to turnover and productivity in this large and essential sector of our economy.

LIMITATIONS

This study generated several findings but their usefulness for generalization to a broader population is limited by the nature of the study. Some of these limitations are that (a) the study was confined to the real estate industry, (b) all the respondents were employed in the state of Oregon, (c) ethnic or racial differences were not considered, (d) the study was not a longitudinal one since the personal values of respondents were analyzed at a single point-in-time and not over time, and (e) while a desired sample of 100 was large enough to test for significant differences between groups, it might not be adequate for the generalization to the general population.

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TIME MANAGEMENT: HANDLING ORAL AND WRITTEN COMMUNICATIONS

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ABSTRACT
The small business manager finds time a precious commodity. Surveys indicate that managers spend much of their time involved in oral and written communications (composing and writing documents, talking on the telephone, conversations with employees, etc.). Reducing the percentage of time spent on repetitive or unnecessary communications will result in improved efficiency for the small business manager. This paper reviews research of problem areas of communication time management for managers and provides practical techniques for increased efficiency in the production of oral and written communications.

INTRODUCTION
Many articles have been devoted to the topic of "time management"; however, much of the literature is devoted to generalized suggestions of planning, organizing, etc. Small business managers are under pressure to survive. Time saved in one activity of the business may allow them to devote greater efforts in other activities which are critical to net profit such - as sales and finance. Sondeno states the value of time management:

> Time is a strange commodity. It can only be used. How one organizes and uses time determines the degree of what is obtained from a small business. Time is money; time is a business' most valuable asset; time is its most essential resource. To increase end-result net profit, you must manage time [9, P. 293].

Because many of the small business managers are involved with firms that have been organized and operating for a short time, managers are dependent on their own communication skills or on the communication skills of a limited staff. Techniques which save time in oral and written communications (letters, reports, telephone calls, meetings, and visits) will ultimately enhance the productivity and profit of a small business firm.

REVIEW OF TIME MANAGEMENT RESEARCH
Several surveys have been completed of activities considered stressful to managers. Most of the activities reported as "time wasters" involve communication activities.

McGuigan concludes that as much as 50 percent of managers' time is spent dealing with interruptions [5, pp. 5-6]. Interruptions was the principal stressful activity named in an Administrative Management Society survey in which managers rated activities by using a scale of "1" for "never or rarely stressful" to "4" for "always stressful." The activities found to be most stressful in the AMS study were:

1. Interruptions
2. Conflicting demands on time
3. Work load

4. Managing time on the job
5. Organizational politics
6. Finding time for outside activities
7. Responsibility for subordinates
8. Firing employees
9. Reprimanding or disciplining employees
10. Dealing with superiors [10, p. 17]

In reviewing specific activities a survey of 600 managers and executives showed that the six most stressful activities were:

1. Telephone
2. Crises
3. Meetings
4. Paperwork
5. Visitors
6. Mail [3, p. 13]

In a survey of 40 sales representatives and 50 engineering managers, the principal "time wasters" were similar:

1. Telephone interruptions
2. Meetings (scheduled and unscheduled)
3. Drop-in visitors
4. Crises
5. Lack of objectives, priorities, and deadlines
6. Cluttered desk and personal disorganization [4, p. 41]

Bright sees the role of "high-tech management" to free managers from the time consuming duties to use their creativity for other purposeful activities [2, p. 2]. Despite technological advances, managers are spending more time at work. As Worthy points out:

> Managers universally agree that to get ahead, to make it to the top of the company, there is no substitute for doing time [12, p. 136]."

A survey indicated that Fortune 500 executives were spending more hours on the job and taking fewer vacation days in 1985 than in 1979. In 1979, the average executive spent 53 hours work and took 16 vacation days; in 1985, the average executive reported a 56-hour work week and 14 days of vacation [12, p. 136].

LeBoeuf [4] analyzed the activities of sales representatives and engineering managers according to the number of hours spent per day. As shown in Table I, sales representatives and engineering managers spent much time in communication activities (paperwork, telephone, and correspondence). Fifty-three percent of the sales representatives spent one to two hours per day for paperwork, and 20 percent spent more than two hours per day; 32 percent of the engineering managers spent one to two hours on paperwork, and 44 percent spent more than two hours.

Sixty percent of the sales representatives, and 32 percent of the engineering managers reported telephone activities as requiring one or more hours per day. Over one-third of both groups indicated they spent more than one hour per day on correspondence. Forty-five percent of the engineering managers spent one or more hours in planning activities, but only 15 percent of the sales representatives spent over one hour in planning.

TABLE I
ACTIVITIES REQUIRING ONE OR MORE HOURS PER DAY BY PERCENTAGE OF SALES REPRESENTATIVES AND ENGINEERING MANAGERS

	% Sales Reps Hrs. Per Day		% Eng. Mgrs Hrs. Per Day	
Activities	1-2	2+	1-2	2+
Paperwork	53	20	32	44
Telephone	40	20	28	4
Correspondence	26	11	28	12
Interruptions	15	5	26	0
Meetings	11	0	13	8
Planning	6	9	13	32

Source: LeBoeuf, Michael. "Managing Time Means Managing Yourself," Business Horizons, Vol. 23, No. 1 (February, 1980), p. 43.

GUIDELINES FOR TIME MANAGEMENT

What is the value of time management? Balderston states that nearly 30 percent of office time can be reduced by the following steps:

1. Cutting the least productive activities in half.
2. Cutting meeting and telephone time by one-quarter.
3. Cutting report preparation time by one-quarter. [1, p. 10]

Analyzing present or existing work activities by keeping a log of daily or weekly activities is a part of most time management guidelines. Morano suggests diagnosing time wasters by analyzing activities according to Henri Fayol's management functions: planning, directing, staffing, and controlling. Specific recommendations for activity analysis include:

1. Plan short and long term goals.
2. Maintain a time log of the week's activities.
3. Determine if too much time is being spent on one or two of the Fayol management functions.

4. Examine activites to see if they actually contribute to meeting goals set. [7, p. 27]

The importance of planning for time management is stressed in McGuigan's belief that one hour should be spent planning for every three hours of work [5, p. 5]. The time to plan and think should be incorporated into time management analysis. Abraham Zaleznik, a psychol-psychoanalysist on staff at the Harvard Business School, believes that U.S. managers' time is structured to the point that creativity and imagination suffer [11, p. 140].

When managers are inundated with work, then analysis may suggest cutting out part of the activities, restructuring the activities, determining new priorities, or delegating more responsibility to others. Personal time wasters may be caused by lack of confidence, procrastination, and fear of failure; while "environmental time wasters" may be unscheduled visitors, telephone interruptions, and meetings [7, p. 27].

Other general time management guidelines are:

1. Write an activity list.
2. Assign activities on the basis of priorities.
3. Schedule the most difficult tasks at a time when the manager is fresh and capable of best work.
4. Schedule a block of time to finish big projects or allow time for big projects.

MANAGEMENT TECHNIQUES FOR HANDLING WRITTEN COMMUNICATIONS

Handling correspondence is an important aspect of a manager's responsibilities. Whether the manager or a secretary opens and reads the mail, the incoming mail can be sorted according to priorities. Some use the following time categories for planning communications: (1) immediate, (2) today, (3) in the next few days, and (4) long term. Winston advocates the "TRAF" for dealing with mail: (1) toss, (2) refer to others, (3) act on now, and (4) file [11, pp. 40-43].

Part of the time consumed in written communications is caused by managers laboriously writing messages and letters in longhand rather than using machine dictation, dictating to a secretary, or composing the message on the typewriter or word processor. Although machine dictation is nearly five times faster than writing in longhand [1, p. 44], many managers prefer to write messages on lined notepads because they feel they can edit more quickly or because they are unsure what to say.

The time creating or composing a letter can be reduced by using the "1-2-3 organization [81 pp. 3-4]." The structure for the "1-2-3 organization" includes:

1. Introduction (brief summary or lead-in paragraph).
2. Main message (description explanation or main gist of message).
3. Conclusion (summary, a graceful exit, or a goodwill or service-oriented ending paragraph).

With the "1-2-3 organization," the type of message is determined (good news or routine news, unpleasant message, or persuasive message). The first part of the message is the introduction. Usually the introduction consists only of one or two sentences summarizing what is detailed in main message. For the introduction of unpleasant messages, a buffer is planned to "soften the blow" or to prepare the receiver for the bad news which is to follow in the main message of the letter. For persuasive or selling messages, the introductory paragraph should contain attention-getting devices.

The second part of most letters and memos will contain the main message or the gist of the message. The main message may consist of one or more paragraphs providing a detailed explanation or description. For unpleasant letters, a reason or a decision may be part of the main message. For persuasive letters, the main message will attempt to create desire or interest on the part of the reader.

The third part of the message is the conclusion. Usually no more than one paragraph, the conclusion is written using a goodwill or service-orientation theme. In the case of a persuasive message, the final paragraph spells out the action asked of the receiver.

Much of the correspondence of a company will be repetitive or routine; the manager can delegate much of the simpler messages to be written by the secretary or administrative assistant. If the manager is unsure of the secretary's composing ability, all communications can be checked at the time they are signed. Form letters or form paragraphs can be composed for much of the routine, repetitive correspondence. The form letters or form paragraphs should be given numeric, alphabetic, or alphanumeric labels by which they should be referred.

For the handling of mail, one suggestion is to act immediately at the time the mail is opened rather than putting it aside and then re-reading at a later time. For the busy small business manager, increasingly informal communication forms are being used such as mail-grams or abbreviated handwritten or typewritten notes in lieu of a formal typewritten letter.

For a fast answer or response, some executives are resorting to writing directly on the incoming letter and returning it. Winston [11, pp. 73-74] suggests using special check-off forms. For example, if communications are addressed to the same people repeatedly, their names can be printed on the forms; then the box is checked beside the name of the person to whom the communication is addressed. Likewise, check-off categories may also be included on the memo or letter form similar to telephone messages such as:

[ ] For your information
[ ] Check with me
[ ] Take care of this
[ ] Please call or write me
[ ] I will call or write back
[ ] Other

The person reading and sorting the mail can speed up the process for the manager by sorting the mail according to priorities, by underlining key words, writing notes in the margins, or by attaching stick-on notes on the original document. Moon and Cox suggest that the person reading the incoming letter determine what the writer's needs are, answer the questions or requests, collect information or data required, and jot down the notes in a logical sequence [6, pp. 40-41].

The busy executive can plan machine or shorthand dictation by scheduling a block of time for dictation. Others take a small recording unit with them on trips and dictate during free time. Organize notes before dictating; arrange dictation according to time priority for letters to be mailed.

For the actual dictation, give preliminary information at beginning of dictation (type of document, number of copies, addressee's name and address), spell out unfamiliar or difficult words and names. Enunciate carefully-especially with numbers. Provide a copy of the original document, if possible, if the dictation refers to an incoming letter. Some dictators suggest leaving a few seconds of blank time on the tape to allow an opportunity to go back and place instructions at the beginning.

OTHER SUGGESTIONS FOR HANDLING MEETINGS, TELEPHONE CALLS, AND VISITORS

Meetings

A study by Booz, Allen and Hamilton found that managers spent half of their time in meetings [12, p. 148]. The research on stressful activities found "meetings" frequently mentioned by executives [3, p. 13; 4, p. 41].

Managers should determine specific objectives before a scheduled meeting. An agenda is then prepared and sent in advance to meeting participants. The agenda should include a set amount of time, and the meeting should adhere to the time frame given on the agenda even if all business is not completed. An agenda keeps persons on the subject and discourages persons from rambling on other topics or extending the time for the meeting. When meetings stick to the subject and adhere to the time planned, persons get down to business. The attitude toward meetings is more positive when business is conducted speedily.

Telephone Conversations

Since telephone calls tie up much of the manager's time, some guidelines must be planned in regard to the scheduling of calls and the taking of calls. For the manager conducting much of business on the telephone, some time management techniques are:

(1) organize notes before calls; (2) state at the beginning of the message that you have only a few minutes; (3) ask for a "quick" summary over the phone; if more detail is required, have the person send a memo; (4) observe a clock or watch to keep track of time elapsed; and (5) set aside a block of time for regular telephone business.

Interruptions can "eat" into a manager's planning and work time. Managers with secretaries can delegate responsibility by having them take care of many routine calls. The secretary can also screen calls or delay calls until a time when the manager is available to take calls.

Visitors

As in the case of telephone interruptions, drop-in visitors can take much of a manager's time. Many managers want to be open to employees and want to be available for problem solving; however, as the firm's activities grow, a plan for dealing with visitors should be prepared.

Ideally, schedule a specific time period for visitors. As in the case of the telephone conversations, indicate to visitors that "only a few minutes" are available or state the exact number of minutes which can be given. Discourage social or casual conversations by getting down to business.

Jordan [3, p. 14] suggests that the manager can speed up the visitor by greeting the person outside the office, thus making it easier to end the visit. The visit can also be concluded by having the secretary buzz the manager on the intercom as a reminder of the next appointment or scheduled business. This makes it easy for the manager to state, "It has been pleasant chatting with you, but I have another appointment. . ." For scheduled visits, have notes and materials ready.

To discourage unscheduled visitors from dropping by the office, some managers place a "Do Not Disturb" sign on the door with directions for scheduling appointments. Secretaries can screen visitors by telling unscheduled visitors that the manager is in a conference or is busy.

CONCLUSION

A manager's time is valuable. Time management is analyzed by scrutinizing the amount of time spent on various activities; then the activities should be examined in terms of how they contribute to productivity of the firm. Time management techniques can be utilized for increased efficiency in the communication activities of letter and report composition, mail handling, dictation, telephone calls, meetings, and office visits.

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PERFORMANCE APPRAISAL: METHODOLOGICAL AND LEGAL CONCERNS FOR SMALL BUSINESS OWNERS

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ABSTRACT
A review of performance appraisal approaches used in small businesses indicated inappropriate combining of developmental and evaluation interviews coupled with an omission of the use of critical incidents as a performance appraisal tool. Following a review of legal cases which involve performance appraisal, suggestions for small business owners are listed in order for the small business owner to both avoid litigation and boost productivity.

INTRODUCTION
In the United States, the importance of small business has been noted by numerous sources, such as Little (1986) who wrote: "The vast majority of firms in the United States, however-99.3 percent have ninety-nine or fewer employees" (p. 66). In addition to sheer numbers, small business is responsible for more than half of the major inventions in the last 30 years in the United States, and is the paramount force for the creation of jobs (Siropolis, 1986).

As such an important force in the economy, small business has been studied extensively by researchers; a common concern of these researchers are the causes of small business failures. In this light, McEvoy (1984) summarized the importance of personnel practices for small business owners:

> Startling statistics on small business failures have appeared regularly in the popular press. Surveys investigating the reasons for these failures have often placed personnel-related problems at or near the top of the list...There is little doubt, therefore, that the effective management of human resources is the key to successful small business management (p. 1-2).

Of personnel practices necessary in all businesses, performance appraisal is one of the most critical. Performance appraisal may be defined as a method for systematically describing the strengths and weaknesses within and between workers (Landy & Trumbo, 1980). A view of performance appraisal which mirrors that of many small business owners was delineated by Banner and Graber (1985):

> Performance appraisal seems to be many things to many people. At its worst, it is viewed as a "make-work" yearly hassle to the manager, and an intimidating, relatively unproductive ritual for the subordinate. At its best, it can be a technology for communicating managerial (and organizational) expectations of subordinates, allowing for timely feedback on performance, and forming the cornerstone of a rational, equitable human resource management system (p. 27).

However the small business owner views performance appraisal, it remains an important personnel process, as emphasized by Schmitt, Noe, and Gottschalk (1986): "Because an overall performance rating is often administratively the most important piece of information in salary and promotion decisions, it is important that it be unbiased" (p. 137). Feild and Bolley (1982) also were explicit in their view of the importance of performance appraisal for business owners:

> ...appraisal information has been used for making organizational decisions in areas such as personnel layoffs, promotions, and transfers; development and evaluation of training programs; wage and salary determination; and as criteria for selection procedure validation studies ... few sources of information available for managerial decision making purposes serve, or at least have the potential for serving, as wide a spectrum of purposes (p. 392).

As personnel functions are viewed as critical for the success of a small business owner (McEvoy, 1984), and performance appraisal is of paramount importance as one of those personnel functions (Feild & Holley, 1982; Schmitt et al., 1986), two recent surveys of small business owners concerning these areas are pertinent. In the first of these surveys, McEvoy (1984) surveyed 84 small businesses in the Midwest and found that forty percent had separate personnel departments: "Respondents indicated that their firms had added separate personnel departments when their size reached an average of 73 employees" (p. 2). In this survey, objective measures of productivity were the most commonly used performance appraisal technique. As McEvoy (1984) noted: "This is an interesting contrast to larger organizations, where the tendency is to use trait rating scales..." (p. 4). This emphasis on objective measures as criteria for performance appraisal may be advantageous, as Murray (1983) found significantly greater satisfaction with the use of objective performance appraisal when contrasted with subjected performance appraisal formats. In the Murray (1983) study, respondents who were evaluated on objective criteria reported significantly more satisfaction with and understanding of performance appraisal, perceived a performance to compensation linkage as significantly stronger, had a better attitude toward their company, morale was higher, and believed promotion and compensation were tied to performance rather than politics.

In a survey of 275 small businesses, Little (1986) found: "The owner/manager of the small businesses typically was found to perform most of the personnel-related functions" (p. 67); a specific function was the evaluation of employees. In 57 percent of the small firms surveyed, no full-time personnel employee was employed.

Of these surveys of small businesses, the major criticism of the performance appraisal approaches used by the small business owners were listed by McEvoy (1984):

> Just over one-half of the firms surveyed indicated that performance review meetings were used to fulfill the dual function of providing feedback (development) and discussing

> compensation matters (evaluation) ... a separation of the two may be the safer course to follow ... The second finding that indicated a need for change was that not one of these small firms used the "critical incidents" method of performance appraisal... The critical incidents technique is ideal for organizations which have few employees in similar jobs. In situations where objective measures of performance are not available, and where the costs of developing unique appraisal forms are prohibitive, the critical incidents techniques may be the best alternative (p. 4-5).

However, the critical incidents technique has it critics, such as Heneman and Wexley (1983): "Raters may observe a small number of behaviors as a result of their large span of control, physical distance from the ratee, and a large number of responsibilities not requiring interaction with the ratee" (p. 678). If the small business owner decides to use the critical incidents technique, the performance appraisal ratings should be made immediately using as much information as possible:

> ... the loss of accuracy resulting from limited observation may be regained partially by rating performance immediately following observation. Keeping a diary of critical incidents ... might be helpful. Conversely, the organizations continuing to use delayed rating based on a limited number of observations probably can expect a resultant decline in accuracy (Heneman & Wexley, 1983, P. 684).

In summary, small business owners are not using a potentially useful performance appraisal procedure (critical incidents) while emphasizing objective measures which are deficient in that many jobs do not have quantifiable criteria. At this point, before proceeding to a discussion of the low relationship of objective criteria with subjective ratings, a review of the legal concerns facing small business owners is in order.

LEGAL CONCERNS

The increasing concern with potential litigation has been stated by Klatt, Murdict, and Schuster (1985):

> With ... litigation came a renewed concern about the subjective nature of the appraisal process sand the need to make it more valid and reliable. Such pressure intensified the effort to move away from trait-oriented appraisal toward job-related measurements, and toward techniques that recognize the "multidimensional" nature of performance (p.427).

A consistent theme in court cases concerned with performance appraisal has been the need for the business owner to have conducted a job analysis. As Banner and Graber (1985) pointed out: "...the first step in determining effectiveness is defining the context of a job... this is best done by formal job analysis or a similar process" (p. 28). Latham and Wexley (1981) emphasized: "The cornerstone in the construction of the appraisal instrument is the job analysis" (p. 48). If done properly, "...the practice of job analysis for deriving appraisal system content was correlated with verdicts for the employer" (Feild & Holley, 1982, p. 401). In a review of lawsuits concerned with performance appraisal, Feild and Holley (1982) calculated that the most frequent area of concern was the race of the employee, followed in frequency by sex and age discrimination.

In terms of the type of performance appraisal method which is to be used by a small business owner, Latham and Wexley (1981) suggested the emphasis on objective measures of performance might be advantageous:

> The courts have specifically condemned procedures based on trait scales ... In brief, trait scales consist of vague terms such as commitment, initiative, and aggressiveness, that are not defined in terms of overt observable behavior (p. 32).

In an extensive review article concerned with lawsuits filed on the basis of performance appraisals, Feild and Holley (1982) listed characteristics of losing employers:

> ... defendants who lost the discrimination suits tended to have appraisal systems described as follows: the case was brought against an industrial organization, evaluators of employee were not given specific instructions on how to complete the appraisals, the appraisal system was trait-oriented rather than behavior-oriented, job analysis was not utilized in developing the content of the appraisal system, and the results of the appraisals were not reviewed with each employee (p. 398)

Another review article, focused on Title VII court cases litigated since 1978, Kleiman and Faley (1985) offered direct suggestions to business owners interested in avoiding such lawsuits:

> The judges appeared to be mainly interested in the raters' ability to provide accurate and unbiased ratings (e.g., whether raters were given clear instructions, an opportunity to observe and discuss the jobholder's performance, and/or training (p. 815)...In terms of the rating process, at least some judges apparently agreed with the idea that clear instructions and intensive rater training that focuses on how to observe and record work-related behaviors systematically and representatively may well be the key to making accurate, error-free appraisals. Employers would be well advised to review the rather extensive research on rater training ... and based on that information, develop or purchase a suitable training program (p. 816).

In summary, the course cases involving performance appraisal indicate small business owners need to conduct job analyses, avoid trait-oriented scales, receive training in performance ratings, and review the ratings with each employee.

APPRAISER TRAINING

As to receiving training in how to conduct performance ratings, Banner and Graber (1985) echoed the opinion of numerous researchers by pointing out:

> ... it must be realized that performance appraisal is not a process that supervisors naturally do well. Unfortunately, it is of ten the people who think they are doing fine that actually need the most help. Training should be mandatory for all appraisers, including upper level management (p. 33).

In assisting small business owners, an SBI director would find useful the review article dealing with rater training programs published by Smith (1986), which described the programs available and concluded:

> Generally speaking, the more actively involved raters become in the training process, the greater the outcome. Providing raters with the opportunity to participate in a group discussion along with practice and feedback exercises produces better results than presenting the training material to them through a lecture... Before raters are asked to observe and evaluate the performance of others, they should be allowed to discuss the performance dimensions on which they will be rating (p. 37).

Other helpful articles include Hogan (1987), which emphasizes the need for explicit standards of performance, and Latham and Wexley (1981), which stated:

> ... rater training programs, if they are to be effective, should concentrate on enhancing the accuracy of ratings through discussion of the multidimensionality of work performance, the importance of recording objectively what is seen, and the development of specific examples of effective and ineffective employees (p. 106).

OBJECTIVE VERSUS SUBJECTIVE CRITERIA

Prior to making specific suggestions for small business owners, a penultimate point of interest to small business owners concerns the weak relationship of objective performance and subjective performance ratings. While objective performance measures are common in small businesses (McEvoy, 1984), many jobs lack objective, quantifiable criteria (Tsui & Barry, 1986). Therefore, many employees are evaluated on subjectively determined ratings, which brings up a point raised by Tsui and Barry (1986): "What constitutes the quality of ratings is a difficult point, especially when those rated occupy positions that lack objective criteria' (P. 586). Steel and Mento (1986) also discussed the difficulties of using objective measures by themselves:

> The difficulties associated with developing objective performance criteria for managers have been well documented ... Frequently, such measures fail to effectively discriminate between high and low performers, and these measures are often unable to detect small amounts of change in the criterion behavior (p. 264).

Hogan (1987) also found in a field study that subjective and objective performance measures indicated different levels of performance:

> Surprisingly, actual performance did not correlate significantly with ratings, which suggested that either the ratings were inaccurate or the measure of actual performance was inadequate. Since that measure came directly form the bank's archival records, the data on actual performance are likely to be accurate, but may not adequately represent comprehensive job performance (p. 361).

In a meta-analysis of the relationship of objective and subjective measures of performance, Heneman (1986) concluded:

> ... the magnitude of the relationship between ratings and results is relatively weak, with a corrected mean correlation of .27 ... the data suggest that ratings and results cannot be treated as substitutes for one another... Hence, in some situations there is virtually no relationship or a negative relationship between results and behaviors (p.818).

The importance of having a small business owner aware of the weak relationship between objective and subjective measures of performance lies in having the owner prepared to have a specific subordinates(s) appraised quite differently depending on whether objective or subjective measures of performance are used. Of course, it is up to the small business owner as to whether s/he wishes to use objective, subjective, or some combination of criteria in the performance appraisal process.

SUGGESTIONS FOR SMALL BUSINESS OWNERS

Having discussed the importance of personnel practices to small business owners, the paramount place performance appraisal takes within those personnel practices, legal concerns, rater training programs, and the low correlation of subjective and objective measures of performance, the final area of concern of this paper is to give specific suggestions for small business owners. Cederblom (1982) offered the following general guidelines:

> Appropriate appraisal formats would be specific behavioral measures made by the superior for personally dependent employees in routine jobs, goal based appraisals for moderately independent employees in fairly nonroutine jobs, and multiple subjective judgments for highly independent employees in very nonroutine jobs (P. 226).

Banner and Graber (1985) recommended that business owners determine if the end results of the employee's actions are under their control, and having made that decision:

> We suggest that behaviors are the correct evaluation criteria when end results are out of the employee's control or when the manner of performance is itself of importance ... When end results are within an employee's control and important, they are the most appropriate measurement criteria (p. 28-29).

As for other ideas, Hobson and Gibson (1983) suggest developing a through job analysis, defining rater policies, and communicating and emphasizing those rater policies. Banner and Graber (1985) call for a job analysis, having the employees review criteria although management sets the standards, allowing self ratings by subordinates, combining ratings by peers, supervisors, and self, emphasizing behaviors and results rather than traits, giving periodic feedback, and rewarding appraisers for realistic performance appraisals.

In giving the performance appraisal information back to their employees, the small business owner should be advised to evaluate longer tenure and satisfactory employees in part on deviations from prior acceptable performance, whereas "...developmental and evaluative interviews should be conducted with new or lower performing employees" (Cederblom, 1982, p. 266). In addition, during the performance appraisal review, the small business owner should emphasize (a) support for the employee, (b) a desire for the employee to participate, and (c) their own knowledge of the job the employee does (Cederblom, 1982).

By using these suggestions in regard to performance appraisal and the performance appraisal review, it is hoped the small business owner will improve productivity and continue to contribute to the economy of the United States.

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CORRELATES OF PERFORMANCE APPRAISAL SYSTEMS IN SMALL BUSINESSES

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ABSTRACT
Results are reported for an empirical study of the relationship between the form and content of managerial practices in the appraisal of performance by employees. Implications for practice and future research are discussed.

Performance appraisal systems accomplish three major purposes. First, performance appraisal systems provide employers with a basis for recording and monitoring the performance of employees. Second, the process of appraising performance requires employers to identify and evaluate key behaviors to be performed by employees. Third, performance appraisal systems provide a forum for management and employees to jointly diagnose current or potential business problems.

All of these business purposes can be accomplished through systems of performance appraisal review and the potential organizational benefits of effectively conducting performance appraisals are widely recognized (e.g., Cascio, 1986). However, few empirical studies have been directed towards an examination of the role of the performance appraisal process in the operations of small businesses.

In this frankly exploratory study, results will be reported for an empirical study of the degree to which appraisal systems have been sued by employers in different industries as a tool to improve performance by employees. In order to accomplish this purpose, a comparative research design has been established in order to first determine the similarities and dissimilarities in organizational practices concerning the appraisal of performance across sectors of the economy.

METHODOLOGY
Following guidelines formulated by the Small Business Administration (1986), a small business in the manufacturing sector of the economy is defined as a firm with 500 or fewer employees and a firm in the service and retail industries with 100 or fewer employees is also defined as a small business. A sample of small businesses drawn for this study consists of 115 firms located in two counties in Illinois. In one county, the sample is drawn from firms within three zip code districts. In the other more densely populated county, the sample is drawn from firms within two zip code districts. Sampling procedures included both random and convenience elements. A stratified sampling of small businesses is taken separately from the population of small business in the two counties. The basis of stratification is the percent distribution of small firms in five industries: wholesale trade; retail trade; finance, insurance, and real estate; service; and manufacturing and other industries. The weighing of the sampling in each country also reflects the distribution of small businesses in five major industry codes in the United States economy (SBA, 1986).

Firms were contacted from this sample and representatives of the firm were asked to participate in the study. If a firm declined to participate in the study, then another firm from the identical industry category was selected at random from the population to replace the firm. This process continued until the desired frequency distribution of small firms by industry as achieved. In all, 84% of the firms contacted actually participated in the study and usable data were collected from 97 small businesses. Representatives from each firm were interviewed. In each case, either the owner or manager in the firm were interviewed. Interviews generally lasted from thirty to one hundred and forty minutes. Respondents provided data on the characteristics of the firm, the characteristics of the employees, on the personnel and human resource practices of the small firms, and on their attitudes and expectations concerning the most effective practices in each area of personnel and human resource management. A structured interview consisting of 19 items concerning the performance appraisal system is conducted. Additionally, 27 items concerning the organizational and background characteristics of the firms are answered.

Scores for the type of industry variable are coded in the following manner: if a firm is in the manufacturing industry then the score for the variable equals "1"; if a firm is in the wholesale industry the score equals "2"; if a firm is in the financial, insurance and real estate industry then the score equals "3"; service firms receive a score of "4" and retailers a score of "5".

Items concerning appraisal systems can be placed into two categories. First, in a series of questions, respondents are asked to describe current and past techniques, practices, and strategies concerning the appraisal of performance in their firm. Second, respondents assessed their satisfaction with current appraisal practices and the benefits of the appraisal system on Likert-type, seven-point scales. Two measures are computed concerning the performance appraisal system. First, a frequency variable is measured as the number of appraisals conducted each year. Second, a coverage variable is computed as the percentage of employers whose performance is appraised annually.

RESULTS

Results of an analysis concerning whether there exist any inter-industry differences in the usage, frequency and extensiveness of performance appraisals are contained in Table 1.

TABLE 1
INDUSTRY EFFECTS AND THE FREQUENCY AND EXTENSIVENESS OF PERFORMANCE APPRAISAL SYSTEMS IN SMALL BUSINESS

	Characteristics of Performance Appraisal				
	Frequency			Extensiveness	
A. Industry Type	-.49**				-.58**
B. Performance Appraisal Systems	Approximate Frequency %				
	0	1	2	3	4
1. Manufacturing & Wholesaling	10	20	20	30	20
2. All Remaining Industries	70	15	15	0	0

* Significant at the .05 level.
** Significant at the .01 level.

The results in Table 1 indicate that there are significant inter-industry differences in the degree of utilization of performance appraisal systems. Small businesses in the manufacturing and wholesaling industries are significantly more likely to appraise the performance of employees than firms in the remaining sectors of the economy. Additionally, among those firms that do conduct performance appraisal and reviews, firms in the manufacturing and wholesaling industries conduct performance reviews more frequently than firms in any other industry. Finally, only in the manufacturing and wholesaling industries do respondents indicate that performance reviews are part of a formal system of appraisal (e.g., a formal appraisal document is used, appraisers receive training in the use of the appraisal document and performance reviews are linked to the firm's reward and promotion system).

Another issue concerns whether characteristics of the firm, firm effects, influence patterns of usage, frequency, and extensiveness of performance appraisals. Table 2 contains the results of the analysis of potential "firm effects" associated with performance appraisal.

Table 2 contains a few interesting results. First, organizational size (measured as the number of full-time equivalents employed by a firm) is not significantly associated with either the usage of a performance appraisal system or the extensiveness of the system. Second, the form of ownership of the firm is non-significantly associated with performance appraisal. Third, significantly the number of supervisory levels in the firm are unrelated to any characteristics of the operations of the performance appraisal system.

TABLE 2
ORGANIZATIONAL EFFECTS AND THE FREQUENCY AND EXTENSIVENESS OF PERFORMANCE APPRAISAL SYSTEMS IN SMALL BUSINESS

	Characteristics of Performance Appraisal	
	Frequency	Extensiveness
Organizational Size	.17	.13
Form of Ownership	.22	.08
Number of Hierarchic Levels	.19	.13

The final issue concerns the influence of the attitudes and values of employers on the rate and pattern of performance appraisals in the workplace. Table 3 contains the results of this analysis.

TABLE 3
MANAGERIAL EFFECTS AND THE FREQUENCY AND EXTENSIVENESS OF PERFORMANCE APPRAISAL SYSTEMS IN SMALL BUSINESS

	Characteristics of Performance Appraisal (PA)	
	Frequency	Extensiveness
Belief in Importance of PA	.48**	.46**
Belief in Benefits of PA	.45**	.51**
Satisfaction with Current Labor Force	.19	.21

* Significant at the .05 level.
** Significant at the .01 level.

The results contained in Table 3 support an interpretation has only been previously implied, namely that the decision to implement and maintain a performance appraisal system in a firm reflects the prevailing belief and value structure of the employer. It is interesting to note that while this study differs in many respects with Mills (1986), many similar patterns of results have been obtained. Clearly, the data reported in Table 3 suggest that the existence and development of a performance appraisal system reflects almost exclusively the values and attitudes of employers towards the potential value of appraisal systems. However, it should be noted that employer attitudes towards the adoption and continued operations of appraisal systems in their firms are not significantly associated with an employer's satisfaction with the current labor force in the firm. Therefore, size of firm, type of industry or satisfaction with current employees are unrelated to the presence or absence of a performance appraisal system.

CONCLUSION

A series of analyses have been reported in an attempt to understand those factors associated with the utilization of appraisal systems in small business. The potential benefits of appraisal systems have been widely reported (Cascio, 1986). A review of the literature on performance appraisal systems does suggest that much of the effort both by firms and researchers to understand and realize the benefits of appraisal systems has occurred in large corporations. Thus, quite naturally, there are some questions whether the technology of performance appraisal systems has diffused into smaller businesses. In this study, some of these questions have been addressed and results of analyses discussed.

The results listed in Table 1 indicate that there are significant differences among industries in the pattern of usage of appraisal systems by firms. Second, the results in Table 2 indicates that there are no significant organizational effects associated with patterns of usage of performance appraisals. Findings of no significant effects are important since an obvious possible explanation for the results listed in Table 1 concerning differences between the manufacturing and wholesaling industries and the service and retail industries could be mediated by differences in size between the two groups. When the findings for the two questions are contrasted, the results suggest that differences in the pattern of utilization between the two groups of firms are not due to differences in composition (e.g., differences in the organizational characteristics of the firms in each group). This pattern of results directs attention to the results in Table 3.

The results listed in Table 3 indicate that individual effects exert a strong influence on the pattern of use of appraisal systems in firms. However, while there is a strong link between employer's beliefs and the presence of an appraisal system in a firm, there is an interesting underlying factor associated with this relationship.

When taken as a whole, the pattern of results suggest that there are sharp differences between industries and that these differences in practice do not reflect differences in the organizational characteristics of firms across industries. Instead, the results indicate that attitudes of employers play a large role in determining the role of appraisal systems in small business. However, these differences in attitudes do not seem to reflect any basic value differences among employers or in patterns of evaluations of either the utility of appraisal systems or of the effectiveness of current personnel practices. Thus, the differences apparently reflect differences among employers in the pattern of prior and current experiences and in the pattern of relationships in which either the employer or the firm engage. Overall, the results indicate that an increased role could be enacted by the traditional channels for communication and training with small businessmen (e.g., Small Business Development Centers, Community Colleges or Universities, or the local Chamber of Commerce).

This study is exploratory and therefore the results should be viewed as providing a platform for additional study. However, the results do suggest several fruitful lines of future research as well as provide a guide for an increased role for traditional providers of educational services in small business.

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A STUDY TO DETERMINE THE PREVALENCE OF WRITTEN PERSONNEL POLICIES IN SMALL BUSINESS

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ABSTRACT
While personnel directors in large companies understand the importance of personnel policies regulating such areas as wages, benefits, etc., many owners of small businesses fail to formulate such policies. Many small business owners feel written personnel policies are not necessary because many of their employees are family members or friends and because of the small number of employees they hire. This paper employs a national sample of small business owners/managers to determine the prevalence of written personnel policies in small businesses. The paper divides small businesses in two different ways for analysis of the number of small businesses that have written personnel policies. Small businesses are first divided according to business type (retail, wholesale, manufacturing, etc.) and, secondly, according to the length of time the business has been in operation. As anticipated, this study indicates that, in general, older firms have more personnel policies that deal with wages, benefits, promotion, layoff, training and safety. However, this changes when businesses are classified according to business type. Older firms in retail, wholesale, and manufacturing businesses have more written personnel policies while younger firms in the service sector seem to have more written personnel policies. The more written personnel policies for construction and "other" types of businesses can be found in the middle age firms.

INTRODUCTION
Many business plan outlines provided to small business owners by financial institutions, Small Business Development Centers, Small Business Institutes, and the Small Business Administration include a section on personnel. Topics such as the number of employees needed, who the employees will be, the amount of wages to pay, and benefits to provide are included along with other employer/employee relations. As such, many Small Business Development Center consultants and Small Business Institute consulting teams discuss with their clients the important role that employees play in the success of a business. These consultants realize that in many cases the success or failure of a business depends largely upon the people that businesses hire. McEvoy [1] states that surveys investigating reasons for small business failures have often placed personnel related problems at or near the top of the list.

According to Soloman [2], "no business can afford to hire inadequate personnel. Not only can they not afford to employ inadequate personnel, but they must be able to retain good personnel." In the text Small Business Management, Longenecker and Moore [3] include a chapter titled "Managing Human Resources in Small Firms." In this chapter, they state that "placing some minimal set of policies in writing is usually desirable as a safeguard against the dangers of excessive informality." Written personnel policies, concerning wages, promotion, benefits, layoffs, training, and safety, may serve as effective communications with employees. This communication may serve as an incentive for better employees to stay with a particular business as well as to eliminate excessive informality.

This paper employs a national sample of business owners/managers to determine the prevalence of written policies in small businesses.

PURPOSE OF STUDY

The purpose of this study was twofold. The first purpose of this study was to determine the prevalence of written personnel policies in small businesses. A second purpose was to determine if the age of the business influenced the number and types of written personnel policies present in small businesses when small businesses were divided by business type.

METHODOLOGY

The information included in this study was gathered, by using a questionnaire, from small business owners/managers throughout the nation. The questionnaire that was developed requested information from small business owners concerning their personnel practices and policies.

The questionnaire was mailed to 808 small business owners. The respondents were asked to complete and return the questionnaire within a 30-day period with a final cutoff date of August 15, 1986. Questionnaires returned after that date were not included in the study.

By August 15, 1986, 236 questionnaires from 17 states were returned for a 29.2% return. Of those 236 businesses reporting, 48.3% were retail firms; 28.7%, service firms; 7.4%, wholesale firms; 7.0%, manufacturing firms; 3.9%, construction firms; and 4.8%, other types of businesses. After examining the returned questionnaires, fifty-three were rejected for this study based on size limitations, improper completion of the questionnaire, or incomplete responses; i.e., completing only a portion of the questionnaire.

The 183 businesses that were included in this study were first divided according to business type--Retail, Service, Wholesale, Manufacturing, Construction, and Other. "Other" was defined as a business that may rightfully be placed in more than one of the above business types; i.e., Retail and/or Service. After businesses were divided by business type, each type was then divided according to age. Age categories used in this study were 0-5 years, 6-30 years, and over 30 years of age. Table I shows the number and age of each business type of the 183 businesses included in this study.

TABLE I
AGE AND NUMBER OF REPORTING BUSINESSES BY BUSINESS SECTOR

Type	Total	0-5 Years (Y)	6-30 Years (M)	Over 30 Years (0)
Retail	87	20	46	21
Service	53	17	29	7
Wholesale	12	2	5	5
Manufacturing	14	5	7	2
Construction	8	1	5	2
Other	9	2	4	3
Total	183	47	96	40

FINDINGS

The survey instrument used to collect data for this study contained questions to determine if the small-business respondent had written personnel policies concerning: (1) Wages, (2) Benefits, (3) Promotion, (4) Layoffs, (5) Training, and (6) Safety.

When all 183 businesses were combined, it was found that more small businesses tend to have written policies concerning safety than the other five personnel policies. When the 183 small businesses were divided, based on the age of the firm, it was found that a greater percentage of the older firms (over 30 years of age) had written personnel policies in all six areas than did the other two age groups. Table II shows the numbers and percentages of all business sectors that have the six types of personnel policies.

TABLE II
NUMBER AND PERCENTAGE OF ALL BUSINESS SECTORS THAT HAVE VARIOUS WRITTEN PERSONNEL POLICIES

Policy/Age	0-5 Years		6-30 Years		Over 30 Years		Total	
	#	%	#	%	#	%	#	%
Wages	24	51.1	47	49.0	24	60.0	95	51.9
Benefits	24	51.1	48	50.0	30	75.0	102	55.7
Promotion	18	38.3	38	39.6	24	60.0	80	43.7
Layoff	13	27.7	31	32.3	23	57.5	67	36.6
Training	25	53.2	44	45.8	27	67.5	96	52.5
Safety	28	59.6	54	56.3	28	70.0	110	60.1
N =	47		96		40		183	

These 183 businesses were again separated according to business type. Business types used for categorization were: (1) Retail, (2) Service, (3) Wholesale, (4) Manufacturing, (5) Construction, and (6) Other.

n company age groups within the Retail sector, the younger firms (0-5 years of age) have a positive response (over 50%) in half of the policy areas--wages, training, and safety. The middle age firms (6-30 years of age) show no policy area in more than half the firms, while the older firms have more than fifty percent in all policy areas indicating the older firms in the Retail sector have the larger proportion of written personnel policies.

Table III illustrates the numbers and percentages of retail businesses that have various written personnel policies. The most popular policy area of the Retail sector concerns safety, while the least popular policy area concerns layoffs.

TABLE III
NUMBER AND PERCENTAGE OF RETAIL BUSINESSES THAT HAVE VARIOUS PERSONNEL POLICIES

Policy/Age	0-5 Years		6-30 Years		Over 30 Years		Total	
	#	%	#	%	#	%	#	%
Wages	11	55.0	18	39.1	11	52.4	40	46.0
Benefits	9	45.0	17	37.0	15	71.4	41	47.1
Promotion	9	45.0	14	30.4	12	57.1	35	40.2
Layoff	7	35.0	10	21.7	11	52.4	28	32.2
Training	10	50.0	16	34.8	14	66.7	40	46.0
Safety	11	55.0	20	43.5	15	71.4	46	52.9

N= 20 46 21 87

Table IV shows that the youngest Service firms have a larger proportion of written personnel policies than do the other two age groups. The youngest of the Service firms have the largest percentage of above fifty percent positive responses in four of the six policy areas--wages, benefits, training and safety. The middle age firms have more than fifty percent written personnel policies in the same four areas as the younger service firms, but the percentage rates are larger in all four policy areas for the younger service firms. In the older age group, only written benefits policies appear in more than fifty percent of the responses. When all Service firms are combined, written policies concerning benefits, training and safety have more than a fifty percent response. Wages and layoff policies have the smallest percentage rate.

TABLE IV
NUMBER AND PERCENTAGE OF SERVICE FIRMS THAT HAVE VARIOUS PERSONNEL POLICIES

Policy/Age	0-5 Years		6-30 Years		Over 30 Years		Total	
	#	%	#	%	#	%	#	%
Wages	10	58.8	15	51.7	2	28.6	17	32.1
Benefits	10	58.8	15	51.7	4	57.1	29	54.7
Promotion	7	41.2	13	44.8	3	42.9	23	43.4
Layoff	3	12.6	12	41.4	2	28.6	17	32.1
Training	11	64.7	17	58.6	3	42.9	31	58.5
Safety	10	58.8	17	58.6	3	42.9	30	56.6
N =	17		29		7		53	

When the numbers and percentages of wholesale firms that have various written personnel policies were examined, it was found that the oldest group and middle age group have more than fifty percent response rates in all six personnel policy areas. The oldest group has larger percentages in all policy areas when compared to the middle age group. The youngest wholesale firms have written personnel policies in four of the six policy areas--wages, benefits, training and safety. According to Table V, the most popular written personnel policy for wholesale firms is one concerning benefits, while the least popular is a promotion policy.

TABLE V
NUMBER AND PERCENTAGE OF WHOLESALE FIRMS THAT HAVE VARIOUS WRITTEN PERSONNEL POLICIES

Policy/Age	0-5 Years		6-30 Years		Over 30 Years		Total	
	#	%	#	%	#	%	#	%
Wages	1	50.0	3	60.0	5	100.0	9	75.0
Benefits	2	100.0	4	80.0	5	100.0	11	91.7
Promotion	0	0.0	3	60.0	4	80.0	7	58.3
Layoff	0	0.0	3	60.0	5	100.0	8	66.7
Training	1	50.0	3	60.0	4	80.0	8	66.7
Safety	2	100.0	3	60.0	4	80.0	9	75.0
N =	2		5		5		12	

As with most of the other business types, the older manufacturing firms have the greater proportion of written personnel policy. Table VI, indicates that 100% of the manufacturing firms included in the sample that are over 30 years of age have written personnel policies in five of the six policy areas--wages, benefits, promotion, training and safety. The majority of the middle age firms have written personnel policies in wages, benefits and safety. Written personnel policies in training and safety are present in the majority of the youngest manufacturing firms. Responses in the manufacturing area may be misleading due to the small number of responses (14) in this business sector.

TABLE VI
NUMBER AND PERCENTAGE OF MANUFACTURING FIRMS THAT HAVE VARIOUS WRITTEN PERSONNEL POLICIES

Policy/Age	0-5 Years		6-30 Years		Over 30 Years		Total	
	#	%	#	%	#	%	#	%
Wages	1	20.0	4	57.1	2	100.0	7	100.0
Benefits	2	40.0	5	71.4	2	100.0	9	64.3
Promotion	1	20.0	2	28.6	2	100.0	5	35.7
Layoff	2	40.0	2	28.6	1	50.0	5	35.7
Training	3	60.0	2	28.6	2	100.0	7	50.0
Safety	3	60.0	6	85.7	2	100.0	11	78.6
N =	5		7		2		14	

The numbers and percentages of construction firms that have various written personnel policies are shown in Table VII. Responses in this area may be misleading due to the limited number of responses (18) in this business sector. Given the limited number of responses, the oldest group has five of the six written personnel policies in more than 50 percent of the firms. These five policy areas are wages, benefits, layoff, training and safety. In the middle age construction firms, more than fifty percent responding have written personnel policies in all areas except layoff and training, and the youngest construction firm only has a policy dealing with safety.

TABLE VII
NUMBER AND PERCENTAGE OF CONSTRUCTION FIRMS THAT HAVE VARIOUS WRITTEN PERSONNEL POLICIES

Policy/Age	0-5 Years		6-30 Years		Over 30 Years		Total	
	#	%	#	%	#	%	#	%
Wages	0	0.0	3	60.0	1	50.0	4	50.0
Benefits	0	0.0	3	60.0	1	50.0	4	50.0
Promotion	0	0.0	3	60.0	0	0.0	3	37.5
Layoff	0	0.0	1	20.0	1	50.0	2	25.0
Training	0	0.0	2	40.0	1	50.0	3	37.5
Safety	1	100.0	4	80.0	1	50.0	6	75.0
N =	1		5		2		8	

The "other firms" are defined as one that is not classified as "retail, service, wholesale, manufacturing, or construction firm." Responses in the "Other" category may also be misleading due to a limited response rate (9). Table VIII shows that the middle age group in this area has a fifty percent or greater positive response in all six personnel policy areas. Both the youngest and oldest age groups have fifty percent or larger positive responses in five of the six policy areas. Both the youngest and oldest firms have under fifty percent positive responses in the training policy area.

TABLE VIII
NUMBER AND PERCENTAGE OF FIRMS, NOT CLASSIFIED AS RETAIL, SERVICE, WHOLESALE, MANUFACTURING, OR CONSTRUCTION FIRMS, THAT HAVE VARIOUS PERSONNEL POLICIES

Policy/Age	0-5 Years		6-30 Years		Over 30 Years		Total	
	#	%	#	%	#	%	#	%
Wages	1	50.0	4	100.0	3	100.0	8	88.9
Benefits	1	50.0	4	100.0	3	100.0	8	88.9
Promotion	1	50.0	3	75.0	3	100.0	7	77.8
Layoff	1	50.0	3	75.0	3	100.0	7	77.8
Training	0	0.0	2	50.0	1	33.3	3	33.3
Safety	1	50.0	4	100.0	3	100.0	8	88.9
N =	2		4		3		9	

CONCLUSIONS

The principal conclusions of this paper are as follows:

1. The majority of small business owners, when all business sectors are grouped together, have developed written personnel policies regarding wages, benefits, training, and safety.

2. In Retail, wholesale, and manufacturing firms, the older firms (over 30 years of age) tend to have more written personnel policies than do service firms, construction firms or "other" firms.

3. In the service sector, the younger firms (0-5 years of age) tend to have more written personnel policies than do the middle age (6-30 years of age) or older firms (over 30 years of age).

4. The middle age firms tend to have more written personnel policies than do the younger and middle age businesses in the construction and "other" business categories.

5. The most popular written personnel policy in small businesses is one dealing with safety, while the least popular is one concerning layoffs.

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INNOVATION AND THE ENTREPRENEURIAL ENTERPRISE: THE CHALLENGE FOR WORKPLACE LEARNING

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ABSTRACT
Can small business managers afford to train their employees? Can they afford not to? Training and development places demands on valuable resources (e.g. time, money, people) which are often in short supply; yet in this increasingly dynamic and competitive economy, without training most enterprises will not survive. The challenge is how to train and develop employees utilizing resources that are already available in the enterprise. A critical task for management is the creation of an organizational awareness that encourages human growth and training processes that integrate learning with work. This paper will focus on ways in which small business enterprises can identify, enhance and utilize normal working situations as educational and employee development opportunities.

INTRODUCTION
Small organizations rarely have the resources to devote to formal training and development programs for employees. In fact, a 1984 BNA study of training and development programs, indicated that more than twice the percentage of large firms as small-69 percent versus 30 percent-budget separately for the training function. (8) Formal training and development utilizes valuable resources (e.g. time, money, people) which are often in short supply. Yet, in this increasingly dynamic and competitive economy, without training most enterprises will not survive.

There are three levels of problems in the kinds of learning required at the workplace. First, there is the problem of employees lacking basic skills in fundamental areas (math, reading, and comprehension). Second, task-performance-related skills (job skills) need to be mastered. The increasingly complex workplace (due to new technologies, automation, etc.) also creates new educational needs. Third, there is need for greater collaboration among employees because of cost, complexity and the detrimental costs of a large overhead.

Large organizations commit substantial resources to formal training and development activities for their employees. Whether due to greater needs, more resources, or both, the larger companies in the BNA survey (those with 1,000 or more employees) were more likely to be conducting formal training programs for both management and non-management groups. (8) The focus of these efforts are separate programs removed from the worksite, generally organized around subjects and scheduled during administratively convenient times. They are separate entities within the organization. However, in a study of largescale organizations, Saint (9) found that productive results occur primarily when training and learning are integrated with the action needed to solve real organizational problems and accomplish work goals. "A major factor of effectiveness was the incorporation of training and learning with the action needed to accomplish work, to solve operational problems on the job...If learning activities are to be productive they cannot be separate from the organizational structure, its systems and the workers they seek to help" (p. 5).

Saint (9) suggests a training-learning process that "is a continuum which includes the situations and problems that give rise to the need for learning; the actions required on the part of those responsible to establish conditions and activities which enable workers to learn and adjust to new tasks, concepts and roles; and the changes in behavior and operations resulting from the application and utilization of knowledge." (p.3-4). The implications of this study for small business managers are quite interesting and serve as the focus of this paper.

The integration of training and learning with the action needed to accomplish work and to solve operational problems on the job are perhaps easier in the small organization. Specifying the situations and problems that give rise to the need for learning, the actions required to enable employees to learn and adjust and the changes in behavior and operation resulting from the application and utilization of knowledge is probably less complex in the small organization. The small business manager is likely to be more familiar with most aspects of the operations of the organization, thus facilitating this process. This is not to imply that this is a simple process or that small business managers can implement it with little effort. It is an approach which can help small business managers capitalize on the unique environment in which they operate taking advantage of the entrepreneurial atmosphere which exists in the organization.

Innovation

Systematic innovation consists in the purposeful and organized search for changes, and in the systematic analysis of the opportunities such changes might offer for economic or social innovation. (2) The entrepreneur searches for change and responds to it, exploiting it as an opportunity. Entrepreneurs develop organizations in order to exploit opportunities, market new technologies and inventions, create a world economy and support new lifestyles and values. (11) Opportunity is the focus. The key is to create an environment which allows employees to be entrepreneurial, devising relationships that center on entrepreneurship. The rewards and incentives, compensation, personnel decisions and policies must support and reward entrepreneurial behavior, not penalize it. (2)

This requires a climate in which innovation is the normative behavior of the enterprise, not the extraordinary. It requires employees who know what is expected of them, want to do it and are supplied with the necessary tools to do it. Feedback and reinforcement from the manager is essential. Innovation is a major effort requiring hard work by performing, capable people which, Drucker notes, is the scarcest resource in any organization:

> An established company which in an age demanding innovation is not capable of innovation is doomed to decline and extinction...Managing innovation will increasingly become a challenge to management, and a touchstone of its competence. (2)

In this increasingly dynamic and competitive economy, innovation is not a luxury, it is a necessity which requires competence, commitment, determination and sometimes daring. (11) How can small business managers encourage entrepreneurship and innovation in their organizations? One potentially powerful approach is encouraging employees to develop workplace relationships in order to solve problems, discuss different viewpoints productively and recognize and use each other's abilities. Invigorating, supportive teamwork drives innovation in organizations. (6) And, as Tjosvold notes, management cannot hope that innovation happens; managers need to structure the work so that employees have the mandate, resources, and incentives to innovate. (4)

Collaborative Frameworks
Today's technologies and business environment require new liaisons and teamwork. A recent study demonstrates the bottom line impact of interaction. (4) Utilizing structured interviews, five important dimensions that distinguished effective versus ineffective interaction were identified. For example, one dimension, tested the effectiveness of combining ideas and information to solve problems versus avoiding discussing the problem. Managers were asked to indicate the frequency in which employees interacted ineffectively and the extent (in dollars) to which these interactions resulted in unprofitable time and the number of days projects were delayed.

Ineffective interactions were estimated to result in more than $10,000 in time spent per employee per year. When project delays of $750 per day (due to idle equipment and inflation) were considered, the total reached $35,000. Ineffective interaction among departments was particularly costly. Even if the managers' estimates were too high, these results underline the fact that teamwork is critical and that the inability to work together undermines productivity and is very costly. (11)

Small business enterprises are particularly suited to these new frameworks. The culture of informality present in many small businesses support a teamwork approach. Concentrating on the personal, informal approach typical of most small business enterprises, the team approach can help management improve the individual and collective performances of employees. Innovation can occur when employees together aspire to excellence, struggling with problems that interfere with excellence. (11) Seeing the difficulties in a new light often helps employees develop solutions not previously tried in the organizations. Teams encourage a commitment to implementing the solution.

Teams are powerful tools for innovation that small business managers can use to adapt and flourish. They can support employee learning and development through a collaborative framework. These collaborative groups have the responsibility, the authority and the resources to put into action those learning-training processes which will function to achieve the team's objective. Utilizing this approach, the training-learning process interrelates work and performance requirements and employees' need to learn.

Worthwhile training and learning efforts interrelate the learning process with the mainstream activities of planning, servicing and producing. (9) Employees become aware of the need to learn in order to accomplish the jobs for which they are responsible through this emphasis on the work environment. Goal setting, understanding their responsibilities and accountability in the achievement of these goals, receiving and accepting feedback on their progress, applying what has been learned on other projects and problems all comprise the essence of the training-learning process for employees. This new concept of training-learning integrated in action is needed to meet operational goals and solve real problems at the workplace. Managers and employees together must create and take advantage of a rich, diverse environment in which employees share, discuss, challenge and dispute their fears, aspirations, problems and solutions and together forge ideas and programs to which they are committed. (11)

Applications in the Small Business Enterprise
How can the small business manager create this innovative climate? It is not a simple task but, by utilizing perhaps existing working situations, the small business manager can take advantage of existing procedures to enhance the employee education and development process. The key here is to recognize that although these suggestions may not be new, viewing them as part of an overall strategic process for effective workplace learning may be helpful to the small business manager.

The goal setting process itself should be a cooperative one. Working together is necessary to introduce and support innovation and achievement in the enterprise. Cooperation between employees is a responsibility of management; it is an often overlooked managerial leadership function. In fact, developing cooperation and collaboration between employees is essential to effective managerial leadership. When employees believe that their goals are linked together they will work together more effectively. Thus, cooperative goal setting is essential in the training-learning process. Initially, management must specify the goals of the organization; for individual units within the organization, goals should be for that unit and be supportive of the larger organizational goals, developed using the cascading goal principle. (7) For example, goals might be the number of units produced, units of service provided, costs per unit, new customers attracted or turnaround times; in the large organization these goal sets are related to the task sets, or jobs which are required to accomplish them while in the small organization these goal sets can be more effectively linked to the employee sets, or work groups, which are required to accomplish them. (3)

Fay and Maurer suggest goal achievement teams (GATS) which are responsible for accomplishing goals. Each team is responsible for a goal but most employees will be associated with more than one goal achievement team since several goals may be related (e.g. production, cost savings, safety, lowered customer complaints): artificial boundaries should not be set for GATS nor should the number of goal achievement teams to which an employee belongs be unduly restricted. (3) It is noted that employees may be either assigned to a specific GAT by the manager on the basis of past performance, needs of the organization and employee skills or employees may choose their own GATS. Recognizing the importance of employee involvement and commitment as well as the needs of the organization, managers can allow employees to bid on GAT assignments with past performance records as the basis for determining winning bids. Fay and Maurer caution that as in most forms of employee participation, it is important that management clearly communicate that any decision reached is subject to approval by management (7) and that it is equally important that this approval be withheld only in extreme cases.

The use of GATS can be an integral part of performance management in the small enterprise, for setting goals and standards of performance are integral in that process. As a training-learning process, GATS encourages teamwork, skilled interaction, organized and coordinated efforts through the development and exchange of ideas. Problem solving is enhanced while team members keep each other on the task. This encourages thinking and finding useful ways to work together. Thus, personnel practice and rewards and incentives are supporting and rewarding entrepreneurial behavior.

Operational meetings, generally used to discuss problems, can also serve as an integral part of the training-learning process. While the discussion of problems is important, so is the analysis of success. What went right and why is a valuable discussion topic for learning. Utilizing these discussions for an analysis of work situations, managers and employees identify the need to learn and adjust to new tasks and new roles. This provides a work opportunity in which employees can recognize what they have learned or need to learn and then apply it in their work. These problem solving meetings are then viewed as opportunities to develop new ideas, products, customers and markets. This approach also pulls units or departments together, thus understanding that they function as parts of a whole team. Building more interrelationships in the organization integrates learning with the mainstream activity of the business.

Process critique (1) is a group problem solving technique which managers can use to review work projects, identify problems and the individuals and team responsibilities required to resolve them. For example, Shonk suggests using a team development questionnaire (Appendix A) which focuses on goals, roles, procedures, relationships and environmental issues in order for team members to identify specific performance inhibitors and enhancers. After the questionnaires are completed and summarized, the manager can review the summary and plan for a feedback meeting in which problem solving and group process is emphasized. This learning-training approach emphasizes the importance of task, individual and team responsibilities and group interaction. It also recognizes the importance of the context or environment in which the team must operate. This contributes to effective problem solving. Cooperation and collaboration are essential for innovation. Utilizing a process critique approach, employees can test their knowledge and build confidence in applying what they learn on the job and in these meetings. Each site serves to enhance the other, for the employees are involved in planning, problem solving and helping to shape learning and learning experiences. It is often taken for granted that people learn from experience but it is the use of their experiences that makes people learn. People learn from experience when they understand their experiences and learn to look at them critically.

These problem solving teams also enhance organizational commitment and goal achievement by cutting across divisional lines. Employees will know that they are expected to share information and ideas and assist each other. This will encourage employees to improve their abilities to solve problems, manage conflicts and work together effectively and productively. Current knowledge indicates that team work in organizations not only satisfies an important human need to feel connected and valued, but also facilitates learning, social competence, feelings of self-worth and self-control, and social and psychological well being. (5, 12). Coordination is critical for problem solving and decision making and these teams can enhance coordination, collaboration and cooperation.

It should be recognized that people learn from the job even if the organization does not encourage them. The question is not whether employees learn but what they learn and how well they learn it. Practice, experience, and more practice is needed to transform ideas and procedures that team members will use to work well together. Process critique is a potentially rich training-learning strategy which can be part of the mainstream activity of the enterprise.

An example of this approach is the team member who has listened to and worked with the customer. Reviewing this experience with team members, quality control and service problems can be identified. Ways to resolve these problems can be discussed, getting input from employees who might otherwise not be involved in such discussions. New products and marketing strategies might also be developed. This information is readily available, yet it is not often viewed as a rich opportunity. Markets, suppliers, values and skills of employees, available technologies and other aspects of the environment are continually changing. Small business managers must identify and cope with these changes in order to survive and prosper.

Finally, it should be recognized that it is not simply a question of whether employees are motivated and committed or lazy and uncaring. It is true that commitment to the job and company goals often encourages and enhances motivation but it is also true that employees must know what is expected of them and how it is to be done. They need to know that they will be supplied with the tools to accomplish it and that they will be given continuous feedback on their performance. These factors also contribute to motivation. Collaboration and cooperation make tasks and goals more valuable, heightens confidence, enhances the knowledge needed to complete tasks and makes working together more enjoyable. (11) The approaches suggested here not only encourage cooperation and collaboration, but they utilize often existing normal work situations to accomplish them. If they are not part of the normal operation of the small business, they can be implemented as part of the mainstream activity of the organization. Thus innovation and entrepreneurship, through a commitment to goals, improved performance, heightened confidence and enhanced working relationships, result in present and future productivity for the small business enterprise.

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APPENDIX A*
TEAM DEVELOPMENT QUESTIONNAIRE

The following questions have been designed to identify how you feel this team is functioning, specifically, what areas you feel need improvement. The results will be compiled for discussion at an upcoming team development meeting. You will have an opportunity to review a summary of questionnaire results prior to the team meeting. You should be thinking about discussing you responses and others at this meeting.

Where there are multiple choices, check only one answer. Please be as candid and specific as possible.

GOALS

1. List the goals that require members of this team to work together.

____
____
____
____

2. With regard to the goals of this team, the people on this team are:

___Very committed. ___Somewhat resistant.
___Somewhat committed. ___Very resistant.

Team goals that I feel have low commitments are:

____
____
____

* Source: Shonk, J. (1982). Working in Teams. New York: AMACON pp. 46-54.

ROLES

1. The roles of the members of the team are:

___Very clear to me. ___Somewhat unclear to me.
___Fairly clear to me. ___Very unclear to me.

Areas I would like to have clarified concerning my role are:

____
____
____

Areas in which I am unclear about what others expect of me are:

____
____
____

Areas I would like to have clarified concerning others' roles are:

2. Team members' roles overlap:
___Very much. ___Somewhat.
___Quite a bit ___Not at all.

Team goals that I feel have high commitments are:

3. To what extent do you know and understand each team member's goals?
___Very knowledgeable about team members' goals.
___Fairly knowledgeable about team members' goals.
___Somewhat vague knowledge of team members' goals.
___Very vague knowledge of team members' goals.

Goals I would like to know more about are:

4. The goals of members of this team are:
___Strongly in conflict. ___A little in conflict.
___Somewhat in conflict. ___Not at all in conflict.

The key conflicts I see are:

Roles that overlap are:

5. Team members' roles that are in conflict are:

PROCEDURES

1. The decision-making process on matters that affect more than one member of the team is:

___Very clear. ___Somewhat unclear.
___Fairly clear. ___Very unclear.

Decisions that need to be clarified are:

____
____
____

2. Thinking of all the communications within this team, I would say they are:

___Good with all members of the team.
___Good with some members of the team.
___Good with very few members of the team.
___Not very good with the majority of the team.

Please specify what subjects you feel need to be better communicated:

____
____
____

3. Team meetings

___Are very effective. ___Need some improvement.
___Are fairly effective. ___Need much improvement.

Please specify how you would like team meetings to be improved:

____
____
____
____

4. I believe the leadership of this team

a. Is helping the team's performance by:

____
____
____

b. Could improve the team's performance by:

____
____
____

5. As teams work together, behavior patterns are established that help or hinder the team's performance such as:

Following up or not following up on decisions.
Raising or not raising sticky issues.
Facilitating or delaying decisions.

Do you feel that there are such patterns that inhibit this team's effectiveness:
___Yes ___No

If yes, what are they?
____
____
____
____

RELATIONSHIPS
1. Conflicts within the team are:
___Openly discussed/resolved. ___Very seldom mentioned.
___Discussed somewhat. ___Not discussed at all.

A conflict that needs to be resolved to improve the team's performance is:
____
____
____

2. Relationships I would like to discuss are:
____
____
____

3. What is causing stress for you and/or other members of the team?
____
____
____

ENVIRONMENTAL INFLUENCES
1. What constraints or influences outside of the team keep it from working more effectively? Please explain.
____
____
____

GENERAL

1. What do you believe are the team's key strengths?

____

____

____

2. If you could, what would you do to make this team more effective?

____

____

____

ANALYSIS OF KEY ISSUES

Please review the attached summary of responses to the team development questionnaire. Use this sheet to list what you believe are the major issues for discussion/resolution and indicate their relative priority. A = High, B = Medium, C = Low. These issues will provide the basis for discussion at an upcoming team development meeting.

1. Environmental influences

____

____

____

____

2. Goals

____

____

____

____

3. Roles

____

____

____

____

4. Procedures

____

____

____

____

5. Relationships

____

____

____

____

6. Other

A MULTIVARIATE MODEL FOR APPROXIMATING GOAL ACHIEVEMENT

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ABSTRACT
Largely to avoid common distortions in individual based performance evaluation systems, this paper develops a general quantitative model that can be used to measure the effectiveness of any program as a whole. The model is designed to gauge the improvements in the performance of an organization in terms of relevant criteria. An index is prepared to provide a target of unity, which indicates the maximum possible achievement level. The model is applied, for illustrative purposes, to a business consulting operation in which several firms are treated as a group, and a measure of performance for the total program is determined.

INTRODUCTION
Two conceptual approaches can be used for the evaluation of performance in an organized activity. One is micro in nature and involves pursuing a traditional appraisal of the performance of individuals who contribute to the totality of the effort. The other is macro-oriented; it focuses upon the extent to which a program as a whole is able to achieve its goals. Individual-based techniques tend to be subjective, largely because it is difficult, if not impossible, to separate the performer from his or her performance. Thus, distortions, such as inflation, deflation, and central tendency, tend to plague many performance ratings (3, pp. 12; 4, pp. 72-107). Such personal biases are not likely to be associated with a macro model which measures the effectiveness of program performance in terms of relevant standards. The desire to achieve this degree of objectivity was an overriding motive in the preparation of this paper.

Consistent with this quest, the present study develops a general quantitative model that can be used to measure the achievements of any program which is designed to improve the performance of an organization in terms of relevant criteria. An index that computes the accomplishments of a program after its implementation is constructed. The proximity of the observed value of the index to its maximum possible value is viewed as a measure of program effectiveness. The magnitude of needed improvement in performance is indicated by the extent to which the former deviates from the latter.

For illustrative purposes the paper analyzes and appraises a business consulting program. The primary data examined are empirical in nature and were drawn from activities of a cross-section of business firms occurring over a seven-year period. A response rate of 42 percent adds strength to the reliability of the findings. Application of the proposed model to various aspects of business operations facilitates the undertaking of a comparative analysis of the effectiveness of the program.

METHODOLOGY

The methodology involves the formulation and application of a performance index that is consistent with the objectives valued by the organization the performance of which is to be assessed. Toward this end, two sets of data are utilized. First, as an investigatory aid, the perceived goals and priorities of the organization are identified. It rates the significance of the variables, which are used as performance criteria. A weighted average of these ratings serves as a theoretical performance index, equal to unity, which constitutes an overall achievement target. Thus, program effectiveness is measured at any point in time by the proximity of the actual observed value of the index to unity.

Second, changes in the performance criteria which occur as a consequence of program implementation are examined. The direction and magnitude of change in a variable contribute, either positively or negatively, to the performance of the organization. Relative weights are assigned to the observed changes in the performance criteria. An organization is composed of various parts, each of which is responsible for a different function. Logically, performance of these components may be measured individually or collectively. Where a firm has several departments or functional areas whose performance is measured in terms of common criteria, a functional index is computed for each category. Mahoney and Frost, for instance, appraise the effectiveness of a group of firms by dividing the operations of each on the basis of technologies used (5, p. 136). Each functional index contributes a proportional share to the theoretical index. Since the value of the actual performance index in a given functional area cannot exceed that of the theoretical index, i.e., one, the proximity of the former to the latter constitutes a measure of effectiveness of the program in that area. From this point of view, the goal of the program is to shift the performance of the organization toward the target of unity. A comparison of functional indices facilitates a more precise judgment on the relative impact of the program on various segments of the organization.

As a precaution, it may be noted that the selection of the criteria and the relative significance attached to them are assumed to be a true reflection of the perceptions of the organization. It is also assumed that each criterion is autonomous and does not overlap any other. Any subjectivity built into the data or any collinearity in the criteria does not impede the capability of the model presented here to estimate objectively program effectiveness. Given the criteria and their relative importance, however defined by the organization, the model serves as a neutral tool, designed to compute the contribution of organizational efforts for the purpose of improving performance of the system.

MODEL

Development of a mathematical model at this point requires specification of system parameters. It is assumed that an organization is composed of m functional areas. The performance of each is measured in terms of changes in n criteria. These criteria may be influenced by steps toward improvement. Let Xj denote the percentage change in the jth criterion ($j = 1, 2, ..., n$) in the ith functional area ($i = 1, 2, ..., m$). Also, let aj represent the relative weight assigned by the organization to the jth performance criterion. It is now necessary to derive a set of equations. Each equation estimates the change in the overall performance of the organization resulting from the implementation of the program for improvement. Letting I represent the theoretical index, the following notation is defined: I(i) = Contribution to I due to the ith functional area. Advice in a given functional area may affect several performance variables. The sum of the products of the relative weights and the percentage changes in the performance criteria is the value of the functional index within that classification. As a means for determining each functional area's contribution to I, the following relations (A) are established:

$$
\begin{aligned}
I(1) &= a_1X_1(1) + a_2X_2(1) + \dots + a_nX_n(1) \\
I(2) &= a_1X_1(2) + a_2X_2(2) + \dots + a_nX_n(2) \\
&\;.\;.\;.\;. \\
&\;.\;.\;.\;. \quad (A) \\
&\;.\;.\;.\;. \\
I(m) &= a_1X_1(m) + a_2X_2(m) + \dots + a_nX_n(m)
\end{aligned}
$$

Finally, since the theoretical index is the aggregate of the functional indices, relation (B) is set forth as follows:

$$I = \sum_{i=1}^{m} I(i) \quad (B)$$

The observed value of I is considered to provide a measure of program effectiveness. An application of the above formulas is straightforward. By obtaining data on a's and X's and making appropriate substitutions in relations (A), the associated I's can be computed. In turn, AI's will lead to the calculation of I in (B).

APPLICATION

For illustrative purposes, the model outlined in the preceding section will now be applied to a business consulting program. Obviously, it is imperative that the latter, like any program, be periodically evaluated for its usefulness. The subjects examined in this study are companies advised over a seven-year period through a consulting program at the University of Lowell. Utilizing data collected with a standardized questionnaire, the study concentrates on the business activities of 86 firms. The focus of the analysis is on the measurement of the effectiveness of consulting in each functional area of operations as a proportion of the overall performance of the firms. For purposes of analysis, the client companies will be treated as a group; thus, the approach is macro-oriented in nature.

Elements of Analysis

Important steps in the analysis entail the specification of functional areas and the identification and weighing of performance criteria. Business activities of the firms studied fall into five categories, i.e., accounting and finance, marketing and advertising, personnel management, operations, and "other." This list, generally speaking, indicates the order of frequency of advice offered at the culmination of the consulting process. Favorably perceived recommendations tend to fall into the classifications of accounting and finance and of marketing. A review of the recommendations submitted to the client firms revealed that ten standards of performance are relevant. These criteria are as follows: sales, cash flow, profit, return on investment, productivity, quality of goods or services, investment in inventory, labor turnover, absenteeism, and "other."

The magnitude of sales is the logical starting point in many kinds of business analysis. Most budgeting, for example, begins with a sales projection. Generally, a higher sales volume will lead to a higher total profit. Similarly, cash flow is likely to be enhanced as sales rise. Although net profit margin, or the ratio of net income to net sales, may be the best overall measure of profitability, it does not identify the return on the owner's investment. This return, calculated as the ratio of net income to the owner's equity, must be reasonable; otherwise, it would justify the owner in exploring more lucrative investment alternatives in a similar industry (2, pp. 112-15, 159-60).

Both quantity and quality of output are critical to success. Thus, productivity, or average hourly output per worker, and quality control emerge as primary concerns for the entrepreneur. In formulating a strategy to meet competitive challenges in terms of price, performance, and market penetration, it is essential to focus on the quality of production. Increasingly, it is being recognized that quantity goals can be reached only if quality standards are met (8, p. 461). Another type of investment which bears constant scrutiny by the manager takes the form of inventory. Risks arise from either overinvestment or underinvestment in merchandise on shelves. Capital tied up in excess inventory is unavailable for more urgent purposes; stock on hand that is insufficient to satisfy consumer demand means lost sales and perhaps customers permanently lost to competitors. Two performance criteria involving human resources that are pertinent are labor turnover and absenteeism. Both variables are associated with various costs which justify the attention of management.

Once the performance variables have been selected, a relevant issue is whether they are all of equal importance. A random survey of business managers confirmed the hypothesis that some of the criteria are considered more essential than others. A sample of 20 firms, located in a variety of industries, was surveyed by means of a standardized questionnaire. The managers of these firms were asked to rate, on a scale of one to ten, the performance variables described earlier. The absolute weight for each variable was arrived at by computing its average rating. These absolutes were then converted into relative weights. Table1 sets forth these priorities in the form of absolute and relative weights. It is not surprising, for example, that the highest significance is placed on profit. Ranked next, in order, are cash flow, sales, return on investment, and productivity. Absenteeism is assigned the least importance. The other variables--quality of goods or services, labor turnover, investment in inventory, and "other"--occupy an intermediate status.

TABLE I
DISTRIBUTION OF RELATIVE DESIRABILITY FOR ATTAINMENT OF FAVORABLE CONSEQUENCES

j	Type of Favorable Consequence	Weight Wj	Relative Weight aj=Wj/EjWj
1	Increased Sales	9.0	.133
2	Increased Profit	9.7	.143
3	Increased Cash Flow	9.5	.140
4	Higher Return on Investment	8.2	.121
5	Improved Goods or Services	5.5	.081
6	Reduced Labor Turnover	4.6	.068
7	Reduced Absenteeism	3.0	.044
8	Increased Productivity	7.1	.105
9	Reduced Investment in Inventory	5.6	.083
10	Other		
	Total	67.8	1.000*

*Consistent with the perceptions of executives, theoretically speaking, a perfect overall favorable consequence for the firms equals one. Thus, a perfect favorable consequence for any single functional area cannot exceed that value.

Changes in Performance Criteria

Logically, the next step is to measure changes in performance criteria that occur after recommendations are put into effect. Depending upon the nature of the program, the change in a variable can be measured as a percentage of its base value, as defined earlier in the model, or in terms of frequency with which a change has been observed. When applied to a single organization, the former approach is appropriate. When, however, the model is used in the context of a group of firms, as in the present illustration, the latter method may be more practical. In fact, this approach, which is consistent with available data, is the one adopted here. Thus, the term Xij is redefined to represent the relative frequency, in the ith functional area, of a favorable impact on the jth criterion. Relative weights assigned by the managers to various key variables in Table 1 are applied to the relative frequencies or impact attributed to the consulting effort. The outcome of this process for a single variable is interpreted as the relative value of the change that has occurred in that variable. For example, if the relative weight that a manager assigns to sales is .133 and he or she observes that 35 percent of recommendations for the improvement of accounting methods had a favorable impact on sales, then in the judgment of the manager the contribution of this improvement in sales to the performance index is (.133 x .35=) .047. Summing up the individual products, calculated in the manner described above, the total change in the performance index, as a consequence of counseling in a particular area, is estimated. Injecting the system parameters, the mathematical expression (A) for the ith functional area takes the following form:

$$I(i) = \sum_{j=1}^{10} a_j X_j(i), \quad i = 1,2,...,5 \quad (C)$$

Estimation of Performance Index

Based on two independent surveys, data were obtained on a's (relative weights) and X's (relative frequencies), which are summarized, respectively, in Tables 1 and 2. Although a given recommendation in a single area may influence variables within and across functional classifications other than the one to which advice is directed, this paper concentrates solely on the direct impact of consulting in measuring its effectiveness. Obviously, for example, the purpose of a marketing recommendation is to improve sales, profit, and cash flow. These results, considered as direct, are expected to occur in the short run; in the long run, however, improvements in, say, quality and productivity may also be observed as an indirect effect. Table 2 reveals that of those recommendations made in accounting and finance, 65 percent favorably impacted cash flow, and 6 percent positively influenced inventory investment, while no measurable effect on return on investment was reported. Other figures can be explained similarly.

TABLE 2
RELATIVE FREQUENCY DISTRIBUTION OF RECOMMENDATIONS WITH DIRECT FAVORABLE CONSEQUENCES, BY TYPE OF CONSEQUENCE AND FUNCTIONAL AREA*

	Functional Area				
Performance Variable	Acctg Fin Xj(1)	Mktg Xj(2)	Pers Xj(3)	Opns Xj(4)	Other Xj(5)
Sales	.35	.88	-	-	.50
Profit	.35	.38	-	-	.50
Cash Flow	.65	.50	-	-	-
Return on Investment	.00	.25	-	-	.00
Quality of Goods or Services	-	-	.38	.33	.00
Labor Turnover	-	-	.50	-	.00
Absenteeism	-	-	.00	-	.00
Productivity	-	-	.63	.67	.00
Investment in Inventory	.06	.00	-	.33	-
Other	.18	.13	.00	.33	.00

*A dash denotes a possible indirect effect.

Drawing on data in Tables 1 and 2, Table 3 is generated. It shows weighted frequencies of recommendations with favorable consequences. For example, counseling in accounting that positively impacts sales is weighted .047. In other words, this fraction of advice in accounting contributes 4.7 percent to the performance index.

TABLE 3
DISTRIBUTION OF WEIGHTED RELATIVE FREQUENCIES OF RECOMMENDATIONS WITH DIRECT FAVORABLE CONSEQUENCES, BY TYPE OF CONSEQUENCE AND FUNCTIONAL AREA*

Performance Variable	Rel Wt Aj	Acctg Fin Xj(1)	Mktg Xj(2)	Pers Xj(3)	Opns Xj(4)	Other Xj(5)
Sales	.133	.047	.117	-	-	.067
Profit	.143	.050	.050	-	-	.072
Cash Flow	.140	.091	.070	-	-	-
Return on Investment	.121	.000	.030	-	-	.000
Quality of Goods or Services	.081	-	-	.031	.027	.000
Labor Turnover	.068	-	-	.034	-	.000
Absentee	.044	-	-	.000	-	.000
Productvty	.105	-	-	.066	.070	.000
Investmnt in Inventory	.083	.005	.000	-	.027	.000
Other	.083	.015	.011	.000	.027	.000
Total	1.000	.208	.278	.131	.151	.139

*A dash denotes a possible indirect effect.

Applying data from Table 2 to relation (C), the following outcome is obtained:

$I(1) = .133\ (.35) + \ldots + .083\ (.18) = .208.$

This implies that companies pursuing advice in accounting and finance experienced about a 21 percent improvement in performance. In other words, the changes that have occurred in the key variables under the influence of advice in accounting and finance contribute about 21 percent to the theoretical index.

Similarly, changes in overall performance as a consequence of counseling in marketing, personnel, operations, and "other" categories can be calculated, respectively, as .278, .131, .151, and .139. These outcomes, to be discussed subsequently, are all shown in Table 3. Substituting the above values in relation (B), the theoretical index is computed as .907.

Appraisal Within and Across Functional Areas

Considering the accounting and finance category, it may be observed that the impact of recommendations is most pronounced on cash flow management (.091), profit (.050), and sales (.047). Matters that are thought of as falling within the traditional realm of personnel management include absenteeism and labor turnover, the latter being influential in the present study. Table 3 discloses that quality and productivity objectives can also be achieved through sound personnel policies.

Turning to the functional indices, one finds that advice in accounting, in general, is responsible for about a 21 percent improvement in performance. The corresponding indices for marketing, personnel, operations, and "other" are, as previously noted, 28 percent, 13 percent, 15 percent, and 14 percent. Derivation of these indices provides the basis for appraising consulting effectiveness within each functional classification and for comparison between them. Whether or not these contributions are substantial depends largely upon managerial interpretation.

Given these reservations, it may tentatively be concluded, as a result of the functional indices, that the order of effective consulting is marketing, accounting and finance, operations, "other," and personnel. When the value of the performance index is considered, the overall effectiveness of the consulting program is found to be 91 percent.

SUMMARY AND CONCLUSIONS

On the assumption that performance in any organization can be more objectively appraised by means of a macro-oriented approach, a general quantitative model that utilizes relevant criteria is proposed in this paper. An index is prepared to provide a target for maximum possible achievement; the more closely the outcome of the implementation of an organization's program approaches unity, the more desirable are the results. After making a minor adjustment, the model is applied to a business consulting operation in which several firms are treated as a group. By dividing their performance into functional areas, achievement is appraised by analyzing data in each area and by comparing data in each classification with that in the others. Finally, a measure of performance for the program as a whole is determined.

At least four positive reasons can be asserted to support the approach taken in this paper. First, availability of an appraisal model with general applicability is desirable. The model constructed here is capable of being used by a broad range of organizations. In this respect, no significant limitations appear to be posed by such organizational attributes as size, industry, technology, or the extent to which activities are subdivided.

Second, criteria are employed in evaluating program performance. Everyone may not agree that the criterion approach is feasible. It seems imperative that, since every well-managed organization must operate according to reasonably defined standards, or criteria, should also form the basis for the appraisal of its performance. It may be true that it is difficult to define appropriate criteria, that a set of criteria that may be suitable for one firm may prove inadequate for another, and that an acceptable mix of standards may vary in the long run (7, pp. 552- 54). Yet, rather than posing insurmountable obstacles, these dynamic factors challenge management to remain flexible, providing it with an opportunity to adapt its essentially short-term requirements to changing circumstances. This means that criteria development must become an integral part of the firm's ongoing planning process.

Third, the model facilitates the quantitative measurement of program achievement. This characteristic emerges as a consequence of reasonably well-defined performance criteria. Quantification of concepts requires managers to plan and engage in more rigorous and systematic analysis. More precise evaluations are likely to follow. On the other hand, the process should not degenerate into a mere number game. Care should be taken to apply judgment to quantified appraisal outcomes. Small variations, for example, may not be significant. In addition, while the macro quantitative approach advocated here does have much to commend it, its exclusive use is not advisable. There is ample room for the application of more traditional micro models. They should be employed to appraise and upgrade the performance of individual workers. Perhaps the optimal evaluation objective for the organization as a whole can be reached only by means of a synthesis of macro and micro methods (1, pp. 45-50). How to arrive at a suitable integration offers a subject for future research. A point of departure should recognize that the nexus between the two approaches may be found in the capability of micro assessment to assure that individual participants relate to each other and to the organization so that organization goals, as measured at the macro level, are attained. Finally, as emphasized earlier, subjective tendencies associated with the appraisal of individuals are avoided. One way in which objectivity is enhanced through the use of the proposed model is that it provides more comprehensive information. Measuring performance of an organization as a whole reflects the synergistic reality that an organization is greater than the sum of its individual parts. Perhaps equally important is the requirement that management must make explicit all aspects of the methodology. Objectivity, as well as precision, is heightened as the rigor required by quantification compels more planning and a higher level of systematic analysis.

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TECHNOLOGICAL ENVIRONMENTAL ANALYSIS MODEL FOR SMALL BUSINESS INSTITUTE PROGRAMS

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ABSTRACT
Managers and owners of privately held firms must give the same level of attention to the technological factors impinging upon their enterprises as they give to the financial, managerial, and marketing factors. If the firm is to survive, grow, and prosper, then a technological audit of the firm's condition should be conducted on the same routine basis that the manager conducts an accounting audit of the firm's financial status.

Small privately owned firms are frequently the progenitors of many significant societal innovations. However, these firms may loose market control of their innovation. A model TV Conduct Technological Environmental Analysis is discussed.

INTRODUCTION
"U.S. factors must innovate as fast as labs invent."(1)

The quotation from a recent Business Week article on the topic of American competitiveness was one of many proposed solutions to the problems of increasing foreign competition. Indeed, during this Bicentennial year of the U.S. Constitution, it is disquieting to read articles with titles and subtitles such as" Is the U.S. Going the Way of Britain?"(2) As the nation begins its third century as a democracy under a strong Constitution, it must seek to maintain and strengthen the economic underpinnings of the society. Private enterprise, with its capacity for innovation and freedom from bureaucratic structures offers one of the best hopes for the nation to meet competitive economic challenges.

Managers and owners of privately held firms must give the same level of attention to the technological factors impinging upon their enterprises as they give to the financial, managerial, and marketing factors. If the firm is to survive, grow, and prosper, then a technological audit of the firm's condition should be conducted on the routine basis that the manager conducts an accounting audit of the firm's financial status.

Small privately owned firms are frequently the progenitors of many significant societal innovations. However, these firms may loose market control of their innovations. In the 1970's, Bowmar lost the market for pocket calculators to Texas Instruments and many foreign competitors. Recently, IBM announced a new personal computer, the Personal System 2. This product will cause some makers of IBM compatible equipment to experience financial difficulties. Clearly, attention to the rapidly changing pact of technology is of paramount importance to the owners of private enterprise.

This paper will provide a basic format for conducting an audit of an enterprise's technological environment and operations. The resulting audit is designed to be utilized by owner/managers information and revision of the firm's operating strategy. Many of the considerations outlined in this paper have been utilized by the authors in their consulting engagements and by their student consultants as participants in the Small Business Institute program. The proposed analytical procedures are designed to be relatively easy to execute by the privately operated business because many of the firms do not have the staff or manpower necessary to devote full time to conducting evaluations of the firm's technological status.

Overview of Technological Analysis

The proposed normative model of Technological Environmental Analysis consists of four central components: 1. clarification of the enterprises' strategic purpose; 2. analysis of the firm's external technological environment; 3. analysis of integrating variables for linking technology and strategy; and 4. the development of an overall technological profile of the enterprise. These four components of the audit are designed to be prepared by the firms which have limited staff resources.

Strategic Purpose

The first component of the audit focuses on clarification of the firm's strategic purpose. For many privately held firms, this strategic purpose exists only in the mind of the owners. Many fortunes have been created only through an inspired strategic purpose existing in an entrepreneurial mind. For the business to survive, prosper, and meet the challenges imposed upon it by changing external environments, this purpose must be committed to writing and dissected for analysis of its inherent strengths and weaknesses. One must closely examine the privately held firm's strategic model for its ability to adjust to changes in the technological environment.

Technology has become so pervasive in society and business institutions today, that many managers fail to understand or to appreciate the impact that it has upon the overall viability of the firm. Although technology permeates the strategies and structures of most business organizations management must not lose sight of the fact that technology is a product of human thoughts and endeavors, and as such, can be controlled or, at least, the negative impacts of technology upon the organization moderated, and the positive aspects accentuated.

James Bright states that technological change is the most powerful factor in the business environment today and its power seems to be growing. Bright sees technological change as impressive not only for its variety, but also for its "chain reaction" of effects on industry and society. If one accepts Bright's premises, then it can also be asseted that business strategies which neglect to adequately consider the firm's technological environment will not be adequate to guide managers in accomplishing the objectives of the firm.

In order to explore the relationships between the firm's technological environment and its strategy, one must have an understanding of the concept of business strategy. In recent years, several definitions of strategy have been introduced by business policy scholars. Some of these concepts will be briefly examined.

Ansoff has defined the strategic decision area as that class of management decision making concerned with establishing the relationship between the firm and its environments. Business, according to Ansoff, are defined by a common thread which links a product/service mix. This common thread could be any factor or group of factors which run throughout a specified group of product items or lines or services offered by the firm. His concept of strategy also focused on the distinction of threshold objectives and goals from business strategy; the product/market scope; the firm's growth vector, and the business firm's competitive advantage and synergy.(5)

Learned defines strategy as a pattern of goals and major policies for achieving these goals, stated in such way as to define what business the company it is to be. He states that the pattern of goals should be such as to reflect four components: 1. environmental opportunity, 2. corporate competence and resources,3. top management's personal values and aspirations (emphasis supplied), and acknowledged obligations to society.(6) Recent efforts in the study of business strategy have focused on the development of a contingency theory of business strategy. The pioneering works on contingency theory have been, in part, an attempt to redress some of the limitations of earlier studies of strategic behavior. In Hofer's concept of a contingency theory of business strategy, three major steps are involved. "The first is to identify those variables and sets of variables which are important to the firm. The second is to specify those variables which are strategically significant. The third is to identify those types of strategies which are economically feasible for each strategically set of environmental conditions." These factors are closely related to the different stages of the product life cycle.

Steiner introduces a novel approach to the strategic planning which he defines as "WOTS UP analysis" this is an acronym for weaknesses, opportunities, threads, and strengths underlying planning.

The strategic profile of a firm provides the basic data for use in preparation of the technological audit. Several approaches for preparing strategic profiles have been described in managerial literature. One such example is the model developed by Steiner. Steiner's profile included the following six areas:

1. Identify and measure dominant product/market concentrations;
2. Identify and measure units and/or activities receiving the greatest deployment of company resources;
3. Identify and measure major competitive advantages by comparisons with major competitors;
4. Identify financial strategies;
5. Determine personal strategies of key executives; and
6. Determine analytical profiles of strategies.

As the technology audit progresses, the strategic profile of the firm may require revision.

External Technological Environment
A firm's external technological environment includes the following:

Technologies utilized by competitors;
Technologies utilized in related industries;
Technologies utilized in non-related industries;
Quality of scientific, engineering, and technical manpower available to the firm;
Customer attitudes toward technological innovations

Understanding the technological capabilities of a firm's competitors is a crucial factor in the overall technological audit. For Porter, "Technology affects competitive advantage if it has a significant role in determining" relative cost position or differentiation. His research yields the following propositions on technological change and sustainable competitive advantage under the following conditions:

> The technological change itself lower cost or enhances differentiation and a technological lead is sustainable: "The technological change shifts cost or uniqueness drivers
> in favor of a firm;
> Pioneering the technological change translates into first-mover advantages besides those inherent in the technology itself; and
> The technological change improves overall industry structure."(11)

The business should have a defined program for obtaining competitive intelligence. Traditional methods of gathering intelligence include: trade shows, trade publications, and information obtained from customers. Fortune magazine described several techniques for gathering competitive intelligence; some of the methods were reverse-engineering and buying competitors' garbage.

Privately owned firms must also determine whether they want to be technological leaders or followers. Technologies utilized by industries related to the business must also be carefully monitored. Both vendors and customers have the potential to become competitors by vertical integration.

Crucial mistakes are often made when businesses fail to analyze the technologies utilized by non-related industries. For example, the airlines industry closely monitors progress in the telecommunications industry because the airlines industry expects that videoconferences will become a competitor for the business travel dollar by the end of the century.

Analysis of the overall environment must be conducted by the owners of the private enterprise and key staff personnel.

Integrating Variables for Linking Technology and Strategy
Some of the variable for integrating a duct reached the maturity stage; at this point, emphasis would be technological improvements in process design.

The firm's learning curve or the experience curve is also an important part of evaluating its situation vis-a-vis the product life cycle. Hofer sees the experience curve as very important during the saturation phase of the product life cycle. The experience curve is simply a way of stating that as a firm's output doubles its manufacturing costs decrease by a fixed percentage. Although there are limits to this concept, managers strategy formulation processes must include considerations of ways to use technology to increase the slope of this experiencecurve.

Organizational Structure
As the policy makers prepare the firm's strategies, they must also consider what impact technology will have on the design of the organizational structure.

In pioneering work by Joan Woodward, significant relationships were found between the firm's (production technology and its structure. (17) Ms. Woodward classified the production technologies as "unit, mass and continuous." Ms. Woodward's studies indicated that there appears to be a consensus that organizations with stable operations need structures different from those with a changing technology. "The highly structured, bureaucratic organization with a mechanistic management system is most appropriate for stable operations, where as the innovative organization with changing technology requires a more adaptive `organic' system."(18)

In summary, the likelihood of success of a given strategy will be increase if attention is given to the organization's structure during the strategy formulation process.

Technology Transfer
Any business unit, regardless of size, consists of a finite amount of resources, including technological resources. A successful organization will, therefore, develop mechanisms for obtaining new technologies from its external environment and from other units within the same organization, such as between division.

In attempting to transfer technology from the external environments, the organization runs into many problems: patents and proprietary information being only two obvious barriers.

Managers must also insure that mechanisms exist to effectuate the transfer of technologies which exist with the organization. Managers should be reluctant to create strategies which inhibit internal technology transfer except in situations where antitrust or similar issues may arise.

The overall strategy formulation process must incorporate mechanisms for allowing the organization to have as much access as possible to the latest technologies.

Technological Profile
The final stage of the technological audit involves the preparation of a technological profile. Components of the technological profile include:

Statement of Corporate or Business Objectives
Nature of Technology Required in Present
Product Mix
Nature of Industry
Actual and Potential Legal and Regulatory Problems
Technical Manpower of the Business State of the Art
Suppliers
Customers
International Considerations

The firm's technological profile should be prepared for general management to use in a manner similar to that in which it uses sales report summaries and financial statements. However, unlike the financial statements and sales reports, the technological profile would not primarily emphasize results of a specific period, but would serve as a statement or description of the firm's present and near-term, that is from six months to three years,(19) technological status. The profile would also contain a statement of the firm's long range technological objectives.

Statement of Corporate or Business Objectives
The first section of the profile would outline and specify the corporate or business objectives of the firm. This section would simply state the specific objectives of the business entity in measurable terms. Although these objectives would probably have been previously developed by the firm's general management, a restatement of the objectives in the firm's technological profile would serve as a point of reference for evaluating other items in the profile.

Nature of Technology Required in Present Product Mix
The analysis should clearly specify the degree of technological sophistication which is required in the firm's present product mix. The analysis should center upon the various product lines and, in some cases, specific product items. For each product line or item analyzed, the analysis should specify whether low, medium, or high technology is required for the relevant manufacturing processes. The analysis should also specify the degree to which the products represents product refinement along a simple to advanced technological continuum; for example, Timex's primary product line of watches would represent an advanced technology, LCD display and a digital integrated circuit timing mechanism.

Innovations, proprietary manufacturing processes, and overall status of product patents should also be specified in the firm's technological profile.

Nature of Industry
In analyzing the nature of the industry where the firm is operating, attention must be focused on the structure, conduct, performance, and barriers to entry within the industry as these factors relate to technology.

Actual and Potential Legal and Regulatory Problems
The profile should also summarize by product lines and, in some cases, specific items, the basic actual and potential legal and regulatory problems which relate to the product's technology.

Technical Manpower of the Business
The firm's technical manpower, scientists, engineers, and technicians should be evaluated in terms of quantity, quality, and by category. The quantity and professional classifications can simply be obtained from personnel department files. Estimating the quality of the manpower is somewhat more difficult. For this purpose, surrogates for quality such as level of education, number of patents obtained, publications, reputation among peers, and useful products or research developed, will have to serve as a basis of evaluation.

Some mention should also be made of the firm's ability to shift technically trained manpower from one business sector to another; this would serve as one source of estimating the ability of the firm to take advantage of new opportunities.

State of the Art
The profile should also assess each major product or product line terms of its relationship to the "state of the art".

Management and staff involved in preparation of the profile should give careful attention to defining the firm's boundary distance from the state of the art. The profile should also carefully consider the type of environmental factors or changes which are likely to cause a shift in the firm's boundary distance. The profile should also discuss the rate of change of the state of the art itself vis-a-vis the business.

Suppliers
Reference should also be made to those factors in the technological environment which may affect the firm's suppliers. Thus, changes such as improvements in production machinery result in a firm reconsidering some make-vs-buy decisions which it had previously resolved in favor of the external suppliers.

Customers
Impacts of the technological environment on customers are also very important considerations for business strategists. The firm should ascertain what important customer needs are likely to be monitored for early warnings of technological advances which might facilities the customer's plans for vertical integration. Advances in technology which would assist the firm in acquiring new customers or in entering new markets should be carefully evaluated.

International Considerations
The profile should also focus on relevant events which are occurring internationally in the technological environment. Thus foreign research and development as well as inventions and product introductions should be monitored. The firm may be able to license foreign technology when advantageous.

Summary Comments
1. Technological audits for privately held firms should be conducted on a periodic basis.
2. The entrepreneurial owner/manager must be actively involved in all aspects of the audit.
3. The audit should begin with a clarification of the enterprise's strategy. This analysis should be written.
4. The second step of the audit centers upon a comprehensive analysis of the firm's external technological environment.
5. The audit will be strengthened if a detailed analysis is conducted which includes: technological forecasting, product life cycle analysis, technology transfer analysis, and organizational structure analysis.
6. Finally, the auditors should prepare a comprehensive technological profile of the firm under study.

Although this paper has focused specifically on the firm's technological environment, there is no implication intended to suggest that the firm's technological environment is more important in the strategy formation process than any of the firm's other environments: political, legal, social, cultural, economic, competitive, and physical. The technological environment analysis should not be done as though technology was an isolated variable, but should be related to other environment.

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(12) "How to Snoop On Your Competitors," Fortune, May 14, 1984, pp. 28-33.

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THE CORRIDOR PRINCIPLE: A STUDY TO DETERMINE WHICH VARIABLES PREDICT NUMBER OF NEW VENTURES STARTED BY WOMEN ENTREPRENEURS

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ABSTRACT
The "Corridor Principle" involves entrepreneurs being able to see venture opportunities not visible to them before entering business. The purpose of this paper is to attempt to identify those variables that predict the formation of a new venture. Among the variables considered were: work experience, formal education, entrepreneurial experience, and sole proprietor or partnership status. Data were gathered using a survey format administered to the membership of the Association of Women Entrepreneurs of Dallas. Forty-nine usable questionnaires were returned. The final model of four independent variables explained 27.2 percent of the variation in new ventures started by women entrepreneurs.

INTRODUCTION
The Random House Dictionary defines an entrepreneur as "a person who organizes, manages, and assumes responsibility for a business or other enterprise." The term has had different meanings since "entreprendre (with the connotation to do something) was in use as early as the twelfth century."(6, p.47) Jean-Baptiste Say in 1810 stated that not only were many managerial talents required to be successful as an entrepreneur but also an ability to deal with uncertainty and risk was necessary to deal with the many obstacles that accompany entrepreneurship.

According to J.S. Mill in 1848, the main difference between a manager and an entrepreneur is risk bearing. (8, p.25) Joseph Schumpeter, the "father of modern entrepreneurial thought," defined entrepreneurship as the finding and promoting of new ideas. Today, three themes appear to have evolved regarding the characteristics of entrepreneurship. These are: (1) uncertainty and risk, (2) complementary managerial competence, and (3) creative opportunism.(6, p. 56) In recent years, the role of women in business has changed drastically. The number of women entrepreneurs has increased from 1.5 million in 1972 to 3.5 million in 1984. The growth rate for female self-employment is five times the growth rate for male self-employment according to a recent Bureau of Labor report.(8, P. 65) This is due to "the shift in women's roles in economic life along with a parallel shift in the belief that women can be entrepreneurs."(7, p.8) In this paper, the characteristic of creative opportunism in women entrepreneurs will be explored.

BACKGROUND OF THE PROBLEM
There is recent evidence to indicate that entrepreneurship "is a process where multiple ventures are the rule more than the exception."(7, p. 9) This phenomenon, called the "Corridor Principle," states many entrepreneurs will be able to see "corridors leading to new venture opportunities that they could not see and/or exploit before getting into business."(7, p.9)

However, not all entrepreneurs are able to take advantage of these opportunities. The implication here, according to Ronstadt, is that just as a management career usually progresses from position to position, an entrepreneurial career is a progression of new ventures. Thus, the purpose of this paper is to attempt to identify those variables that lead to taking advantage of creative opportunities and starting new ventures.

DATA COLLECTION AND METHODOLOGY

The primary data used was collected from a questionnaire administered to the membership of the Association of Women Entrepreneurs of Dallas. A number of variables were included which, it was presumed, might relate to the initiation of a new venture. Several of these variables were extracted to build a regression model. The complete model specified:

y = Bo + B1X1 + B2X22 + B3X3 + B4X4 + B5X5 + B6X6 + B7X1X2 + B8X1X3 + B9X1X4 + B10X1X5 + B11X1X6 + B12X2X3 + B13X2X4 + B14X2X5 + B15X2X6 + B16X3X4 + B17X3X5 + B18X3X6 + B19X4X5 + B20X4X6 + B21X2X3

where Y = Number of new ventures started by the woman entrepreneur.

X1 = Work experience prior to starting own business (Management Vs Non-management)

X2 = Formal educational background (high school vs. at least some college)

X3 = Number of years in business as entrepreneur

X4 = When you began your business, were you a sole proprietor or partner?

X5 = Experience at time you began your business (1 = moderate experience and 0 otherwise)

X6 = Experience at time you began your business (1 = extensive experience and 0 otherwise)

There were 49 usable questionnaires. Two potential independent variables from the questionnaire were left out of the model. One question dealt with the area of business expertise the woman felt most comfortable with when she began her own business. Ninety-two percent of the women entrepreneurs checked sales/marketing on this question. This statistic agrees with recent research concerning management skills of women entrepreneurs.(8, p.67) The other question deleted from the model dealt with the type of business started. Eighty-nine percent stated their business fell in the service category, while the remaining eleven percent checked "Other." This too agrees with recent research and reflects the liberal arts college education and occupational background of many women entrepreneurs.

RESULTS
The STEPWISE command on Minitab was used to determine which of the variables contributed most to the model. This command puts the variables in one at a time and will delete any variable already included that, at some stage, has become redundant. With an F value set at 4.0, the model would contain only one independent variable (X3X6). The coefficient of determination (R2) is 8.76 percent. Lowering the F value to 3.0 does not add any variables to the model. However, by setting the F value at 2.0, the model would be expanded to include four independent variables (X3X6, X3X5, and X1X6). The coefficient of determination is now 27.2 percent and the regression equation is:

Y = 1.995 + 0.42X3X6 + 0.49X3X5 - 1.30X5 - 1.22X1X6

Is this new model useful in predicting new ventures? The null hypothesis will be:

Ho: B18 = B17 = B5 = B11 = 0
Ha: At least one B is nonzero

An F test was used to test the null hypothesis with a=.05.

F = [R2/k] / [(1-R2)/(n-k-1)] = [(.272)/4] / [(1-.272)/49-4-1)] = 4.11

The F table shows an F statistic of 2.61 (approximate) which rejects the null hypothesis. This new model could be used, although with a coefficient of determination of 27.2 percent, it would explain only 27.2 percent of the variation in new ventures started by the women entrepreneurs. Obviously, there are a number of possible independent variables left out of this model.

CONCLUSIONS
The final model of four independent variables does explain 27.2 percent of the variation in new venture initiation by women entrepreneurs. Other variables will be added to future models. For example, level of profit in earlier ventures may result in further attempts. Birth order appears to be a useful factor.(4, p. 32) Having entrepreneurial or self-employed parents seems also to influence entrepreneurial attempts.(4, p.32)

It is hoped that the results reported here will help to stimulate further research on this subject.

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IMPACT OF THE 1986 TAX REFORM ACT ON THE ENTITY DECISION FOR BUSINESSES

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ABSTRACT
The impact of the 1986 Tax Reform Act on small businesses was addressed with discussion of various provisions and their effect. The impact of the entity choice upon the tax liability is depicted by sensitivity analysis. After considering various tax factors, it becomes apparent that a small business with a single owner may have a lower tax liability if it operated as a C corporation when taxable income is $152,250 or less.

INTRODUCTION
The Tax Reform Act of 1986 (1986 TRA) includes provisions that will have potential tax consequences on entity choice. There are various entity forms a business may operate under, including sole proprietorship, partnership, C corporation, or S corporation. This paper addresses an entity choice decision for small businesses in light of the 1986 M. Changes, differences, and similarities of tax treatments for various entity alternatives will be discussed as they apply to small business***(1)***. Through sensitivity analysis this paper will examine the impact of the 1986 M tax rates upon net income of various entity alternatives for small businesses.

TAX TREATMENTS DIRECTLY RELATED TO ORGANIZATIONAL FORM
The 1986 TRA has made major changes in tax Treatment for businesses that are directly related to organizational form. Changes have been made concerning an organization's applicable tax rates, taxable year and the corporate alternative minimum tax. When determining which entity is the most advantageous to operate under, the following IRS Code provisions should be considered.

Tax Rate Comparison
The reduction in tax rates for both individuals and corporations was a significant feature of the 1986 TRA. However, the benefit of these rate reductions may be partially offset by the loss or reduction of various tax deductions or credits. This may lead to lower tax rates on a higher taxable income with the net effect based on the individual characteristics of the firm's business. This paper will now identify these new rates and show the effect on income through sensitivity analysis. The Summary of Conference Agreement on H.R. 3838 (Tax Reform Act of 1986) contains the basis for the following tax rates.

Exhibit 1 will detail the difference between the old and new corporate tax rate structure. The new personal tax rate structure that will be in effect for sole proprietorships, partnerships, or Subchapter S corporations is detailed in Exhibit 2. The rates listed are based on post 1987 rates rather than on the 1987 transitional year. Exhibits 1 and 2 reflect the 5% surcharge in effect to phaseout the new graduated rates.

The 1986 TRA uses this size limitation in Code Sections 408 (b) (3) and 408 (c) (1) to provide relief for small businesses.

EXHIBIT 1
OLD CORPORATE TAX STRUCTURE

Taxable Income		Rates
$0	$25,000	15%
$25,000	$50,000	18%
$50,000	$75,000	30%
$75,000	$100,000	40%
$100,000	OVER	46%

NEW CORPORATE TAX STRUCTURE

Taxable	Income	Rates
$0	$50,000	15%
$50,000	$75,000	25%
$75,000	$100,000	34%
$100,000	$335,000	39%
$335,000	OVER	34%

EXHIBIT 2
PERSONAL TAX RATES
FILING JOINTLY

Taxable	Income	Rates
$0	$29,750	15%
$29,750	$71,900	28%
$71,900	$149,250	33%
$149,250	OVER	28%

PERSONAL TAX RATES
FILING SINGLE

Taxable	Income	Rates
$0	$17,850	15%
$17,850	$43,150	28%
$43,150	$100,480	33%
$100,480	OVER	28%

The phase out is completed at the $149,250 and $100,480 level respectively. Further phase-out will depend on the number of personal exemptions taken by the taxpayer.
The choice of which form of business organization to choose has many variables. Limited liability, complexity, ability to raise capital, continuation at death, etc., are all important decision variables and should clearly be considered by every business owner. However the ultimate tax liability is also important and will be the focus of this section.

The 1986 TRA will affect which form of business organization will lead to the lowest tax liability based on a forecast of taxable income. The tax liability will be different under alternative forms of organization.

Exhibit 3 shows a comparison of the tax liability at different taxable incomes for the two main choices, C corporation of Other. The "Other" category includes sole proprietors, partnerships, or Subchapter S corporations; which are all taxed under the new personal rate structure.

EXHIBIT 3

Taxable Income	C Corporation Tax Liability	Other Tax Liability	Two Partners	Double Taxation
$25,000	$3,750	$3,750	$3,750	$6,938
$29,750	$4,463	$4,463	$4,463	$8,256
$50,000	$7,500	$10,133	$7,500	$15,533
$100,000	$22,250	$25,538	$20,265	$40,445
$150,000	$41,750	$42,000	$34,575	$70,010
$152,275	$42,637	$42,637	$35,326	$71,355
$200,000	$61,250	$56,000	$51,075	$99,575
$250,000	$80,750	$70,000	$67,575	$128,140
$300,000	$100,250	$84,000	$84,000	$156,180
$500,000	$170,000	$140,000	$140,000	$262,400
$750,000	$255,000	$210,000	$210,000	$393,600
$1,000,000	$340,000	$280,000	$280,000	$524,800

This relationship is also shown graphically on the following page. The "Other" and "Two Partner" tax liability was based on the married filing joint, rate schedule.

Examination of both the table and the graph (on the following page) highlight some important points. First, the choice of entity has no impact on the tax liability for firms with a taxable income up to $29,750 ($17,850 if filing single). For very small businesses, the choice of the form of organization can focus entirely on the non-tax considerations.

Second, for taxable income between $29,750 and $152,275 ($17,850 and $157,230 if filing single), the C corporation will lead to the smallest tax liability. For example, at a taxable income of $100,000, the difference in tax liability between the C corporation and other forms is $3,288. This difference favors the C corporation from a pure tax standpoint. This analysis assumes that the corporation does not intend to distribute the net income to stockholders. The column on "Double Taxation" shows the tax impact of a distribution to the stockholders. This column illustrates very well the punitive effects of taxing the dividend distribution after already having taxed the corporate profit.

Third, for taxable income above $152,275 ($157,230 if single), the other forms of business organizations will result in a lower tax liability than the C corporation. Again, this assumes no distribution to shareholders. For example, at a taxable income of $200,000 the C corporation will pay $5,250 more than the other business forms. Examination of the slope of the two lines indicates that this difference becomes more pronounced as taxable income rises.

This illustration leads to an interesting situation. Most small business firms are sole proprietorships, partnerships, or S corporations and most of the larger entities are C corporations. This is ironic because, from purely a tax stand-point, the smaller firms should consider conversion to C corporations and the larger firms that are currently C corporations should consider conversion to S corporations, partnerships, or sole proprietorships. There are still many other considerations in the choice of entity which may preclude a large C corporation from the tax motivated conversion. However, the 1986 TRA will probably lead to an increase in conversion activity.

A disadvantage of the C corporation that must be considered is the possible "double taxation" of income. As pointed out earlier, taxing the profit distribution to the shareholder leads to substantially higher taxes at all projected income levels. From a pure tax standpoint, any business that plans to distribute profits in the form of dividends should choose something other than the corporate form.

The "Two Partner" column illustrates the tax liability for a two person partnership. Comparison of this liability with the choice of a C corporation shows no tax difference on the first $50,000 of taxable income. However, over this amount, the partnership would have a-lower tax liability. Compared to the "Double Taxation" column, this difference is even more pronounced.

Taxable Year

The 1986 TRA states that partnerships, S corporations and personal service corporations must conform their taxable year to that of their owners. ***(2)*** Since most mall business owners are individuals, that means the taxable year is the calendar year.

By requiring a business's taxable year to coincide with that of the owner, the 1986 TRA is reducing the ability to defer income to a later tax year. A C corporation still has the option to choose an advantageous tax year.

This may be an important consideration for some businesses. Partnerships, S corporations, and personal service corporations my use a different taxable year if they can establish a "natural business year" or a "substantial business purpose" different than the calendar year. ***(3)*** Businesses may conform to the taxable year that best reports the true income of the business to the satisfaction of the Treasury Department. ***(4)***

A business purpose can be established if the business has a natural year as opposed to a constant flow of business throughout the calendar year. A natural year would end near the close of the peak business period and can be established if twenty-five percent of a taxpayer's gross receipts are recognized during the last two months of the taxable year, for three consecutive years. Partnerships must have the same taxable year as the partners who own a majority interest in the partnership. If the partners who own this majority do not have the same taxable year, the partnership must adopt the taxable year of its principal partners. If the principal partners do not have the same taxable year, the partnership must adopt the calendar year. S corporations and personal service corporations must use a "permitted" year, which is the calendar year or any other year that fits the "substantial business purpose."***(5)***

Corporate Alternative Minimum Tax

The 1986 TRA has introduced a new corporate alternative minimum tax for C corporations. Businesses should consider the tax impact of an alternative minimum tax on the income of a C corporation in evaluating the business form.

Under the old law, it was possible for a C corporation to substantially reduce or even eliminate it's tax liability by using tax preference items. The 1986 TRA replaces the fifteen percent add-on minimum tax for C corporations with a twenty percent alternative minimum tax (AMT). ***(6)*** The objective of this change is to ensure that a taxpayer with substantial economic income cannot avoid a tax liability by using credits, deductions, and exclusions. The tax is twenty percent of a corporation's alternative minimum taxable income (AMTI). The AMTI is an entity's regular taxable income adjusted for tax preference items in excess of $40,000. ***(7)*** The AMT is paid only when it exceeds the corporations regular tax liability. A $40,000 exemption will provide relief for most small businesses, but is phased out as minimum taxable income increases above $150,000 and is then completely eliminated at $310,000. The $40,000 exemption amount is reduced by twenty-five cents for each dollar that minimum taxable income exceeds $150,000. ***(8)*** For example: A C corporation has taxable income of $50,000. Assume that after additions for tax preferences, adjustments for substituted AMT methods, and net operating loss adjustments, the C corporation's AMTI is $75,000. The AMTI of $75,000 is then reduced by the $40,000 exemption to determine net AMTI of $35,000. The 20% tax is then applied to $35,000 resulting in the AMT before credits, of $7,000. Assuming no tax credits, the AMT is $7,000. The income tax liability on $50,000 of taxable income is $7,500. Since $7,500 is greater than $7,000, there will be no AMT payable.

All of the preference items from the old law (with the exception of capital gains) are retained, but there are some changes in application. The 1986 TRA contains a new corporate preference item that is "designed to raise significant tax revenue and to stress the perception of fairness of the new law."***(9)*** This preference item will be one-half of the difference between the adjusted net book income of the corporation and the alternative minimum taxable income (before including this item) of the corporation. ***(10)*** For years after 1989 an earnings and profits calculation will replace book income.

For corporations that have not prepared financial statements in the past, it will now be a requirement to determine this tax preference item. Earnings and profits will be treated as book income if financial statements cannot be produced. ***(11)***

CONCLUSION

The impact of the 1986 Tax Reform Act on small businesses was addressed with discussion of various provisions and their effect. Sensitivity analysis depicted the impact of the entity choice upon the tax liability.

After considering the tax factors identified in this paper, it becomes apparent that a small business with a single owner would have a lower tax liability if it operated as a C corporation when taxable income is $152,250 ($157,230 if single) or less. This assumes that the net profit will be reinvested, rather than distributed as dividends. Most small businesses would fall within the $40,000 exemption for the AMT computation and therefore would not be negatively affected by the alternative corporate tax. A C corporation would also be able to choose a taxable year different than that of its owners.

A tax disadvantage of a C corporation is the possible double taxation if the net income is distributed to shareholders. This has always been a deterrent for small, closely-held businesses that wanted to incorporate.

For a small business with over $125,275 of taxable income any of the other entity choices would provide a lower tax liability than incorporation. To determine the best alternative between a partnership and an S corporation the type of organization must be considered. To elect S status a business must meet the requirements set forth in the Internal Revenue Code.

After studying the various forms of business organizations that are available and determining the tax treatment for each alternative, a business organization can then decide which legal form to operate under. Both tax and non-tax considerations must be studied before arriving at a conclusion. The 1986 Tax Reform Act contains many provisions that will have a great impact on the tax consequences of the entity choice.

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(3) Internal Revenue Code Section 55.

(4) Internal Revenue Code Section 56.

(5) Internal Revenue Code Section 441.

(6) Internal Revenue Code Section 706.

(7) Internal Revenue Code Section 1.706.

NOTES

(1)For the purposes of this paper, a small business is defined as a business with annual gross receipts of no more than $5,000,000 average for the preceding three years.

(2)Internal Revenue Code Sections 706 (b) (1) (B) (i) 441 (i) (1) and 1378 (a), (b).

(3)Internal Revenue Code Sections 1.706-1 (b) (4) (iii)

(4)Donald C. Wiese, "The Fiscal Year: An Endangered Species Under Tax Reform," Journal of Accountancy, (January 1987): p. 78-79.

(5)Internal Revenue Code Section 1.706-1 (b) (3).
(6)Internal Revenue Code Section 55 (b) (1) (A).

(7)Internal Revenue Code Section 55 (d) (2).

(8)Internal Revenue Code Section 55 (d) (3) (A).

(9)Coopers & Lybrand, Tax Reform Act of 1986, (Washington, D.C.: Coopers & Lybrand, 1986): pp. 74-81.

(10)Internal Revenue Code Section 56 (f) (I).

(11)Internal Revenue Code Section 56 (g) (1) and 56 (c) (1) (B).

[FIGURE: “TAX RATE COMPARISON,” OMITTED]

THE STATEMENT OF CASH FLOWS: A FINANCIAL FOCUS FOR SMALL BUSINESS

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ABSTRACT
The Statement of Cash Flows (SCF) replaces the Statement of Changes in Financial Position as part of a full set of financial statements for all business enterprises. Small business historically has underutilized funds flow statements because of their cumbersome format, working capital emphasis, and cost of preparation. The SCF's checkbook approach to cash flows streamlines its preparation and enhances its relevance to small business. The long ignored statement may prove to be small business' most important source of financial information. Consequently, the SCF should be an integral part of SBI financial analysis.

INTRODUCTION
The use of funds statements is not a recent phenomena. They first appeared in the United States in the 1890's. By the turn of the century such statements had evolved three definitions of funds (cash, current assets, and working capital). In the 1920's H. A. Finney spearheaded a drive to focus on the working capital definition as the best means of providing liquidity information. The statement's format remained virtually unchanged for the next 50 years [1, p. 20].

The utilization of a funds statement dramatically increased in the 1950's. Its inclusion was recommended in 1963 [2] and mandated in 1971 [3]. As recent as the 1980's, the vast majority of firms still defined funds as working capital [4, p. 74]

A rash of bankruptcies in the late 1970's by ostensibly sound companies led to reexamination of the working capital definition [5]. Although this represented a positive step for financial analysts, more specific guidelines were desirable for the long term [6, pp. 22, 23]. Accounting and financial professionals, with the exception of local accounting firms, have agreed that a cash definition of funds better facilitates user understanding and cash flow analysis [1, pp. 23, 24].

Although not required by the Financial Accounting Standards Board, the clear trend was towards a cash definition of funds. Accounting Trends and Techniques reported that of 600 companies surveyed by the American Institute of Certified Public Accountants, the number of companies defining funds as cash or near cash increased from 10% to 52% from 1980-1983 [7, p. 27]. Big business' response was even more dramatic. By 1985 approximately 70% of the Fortune 500 firms had changed their focus to a cash format [8, p. 3]. This trend continued through the new Exposure Draft [9], and has culminated with the Statement of Cash Flows [10].

REPORTING GUIDELINES

The Statement of Financial Accounting Standards No. 95 (SFAS 95) promulgated standards of financial reporting for the Statement of Cash Flows (SCF). The SCF replaced the Statement of Changes in Financial Position which was mandated by APB Opinion No. 19 [3]. Because APB No. 19 lacked a clear definition of the denominator for the preparation of the SCFP (Funds = working capital or cash plus or cash); a definitive classification format (sources and uses or activity); and a clear objective for the statement, it was necessary to issue a statement which dealt with these stortcomings.

SFAS 95 eliminated the ambiguities in APB 19 related to the purpose, the denominator, and the format as evidenced by the following quotes:

> "The primary purpose of the Statement of Cash Flows is to provide relevant information about the cash receipts and cash payments of an enterprise during a period...
>
> To achieve its purpose of providing information to help investors, creditors, and others in making those assessments, a Statement of Cash Flows should report the cash effects during a period of an enterprise's operations, its investing transactions, and its financing transactions." [10, paras 4, 6 (emphasis added)]

The denominator was precisely defined as cash and cash equivalents. Cash includes cash on hand, demand deposits, and other deposit accounts where withdrawals can be made without prior notice or a penalty [10, para 7]. Cash equivalents were defined by the following:

> "Cash equivalents are short term, highly liquid investments that are both: a. readily convertible to known amounts of cash; b. so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.
>
> Generally, only investments with original maturities of three months or less qualify under that definition" [10, para 8] (Examples are Treasury Bills, commercial paper, money market funds).

SFAS 95 addresses the format issue in paragraphs 26 and 27. Cash flows are to be reported for operating, investing, and financing activities in a fashion so that the sum of these flows when added to the beginning cash and equivalents balance will equal the ending cash and equivalents balance. Also, SFAS 95 encourages the use of the direct method wherein major classes of gross cash receipts and gross cash payments are disclosed for net cash from operations. The gross cash receipts and payments at a minimum should include: "a. cash collected from customers, including lessees, licensees and the like; b. interest and dividends received; c. other operating cash receipts, if any; d. cash paid to employees and other suppliers of goods or services, including suppliers of insurance, advertising, and the like; e. interest paid; f. income taxes paid; g. other operating cash payments, if any" [10, para 27]

Further detail of items a. and d. is encouraged if this would increase the usefulness of the statement. As an alternative, the indirect (reconciliation) method can be used wherein net income is adjusted for changes in balance sheet accounts and noncash charges and credits to income.

The disclosure of the cash flows from financing activities and the cash flows from financing activities and the cash flows from investing activities will be the same regardless of whether the direct method or the indirect method is used. Also, disclosure must be made about noncash investing and financing activities either in schedule form or in a narrative [10, para 32]. The end result of either method is to report net cash provided or used by each of the activities and the aggregate effect of those flows on cash during the period. In addition, if the direct method is used, the reconciliation of net income to cash flow from operation must be shown in a separate schedule.

DIRECT VERSUS INDIRECT

There are two methods of preparing the SCF: the direct method and the indirect method. The direct method illustrates the composition of all operating cash receipts and payments, whereas the indirect method only shows net income adjusted for deferrals and accruals. Regardless of method used, net cash flow from operations is the same.

The direct method is more informative and consistent with the primary purpose of the SCF. It eliminates much of the confusion that now exists regarding the relationship between business activities (income) and cash receipts and payments (cash flow) [12, p. 57]. Also it provides the direct transition necessary to maximize Statement use for planning, monitoring, and evaluating cash flows. The direct method emphasizes cash received and paid from business operations. Finally, this method is simple and practical for the small business. All data is readily available in the cash receipts and payments journals. The task becomes merely one of organizing the information into a form usable by management.

The indirect method focuses on the difference between net income and net cash flow from operating activity [10, para 108]. Although this information is important to investors and creditors when there are material accruals, deferrals, and noncash items depreciation, amortization, depletion, etc.), they are seldom significant in a small business enterprise. (The direct method requires supplemental disclosure of these items.)

The indirect method's major weakness stems from the fact that it does not disclose operating cash receipts and payments. These items are particularly important in assessing a business external borrowing needs and its ability to repay principal [10, para 111]. The complexity of reconciling net income and cash flows also diminshes the indirect method's usefulness to small business.

A SCF using the direct method appears in Exhibit Ia. It shows all cash flows from operating, investing, and financing activities. Exhibit Ib reports the reconciliation and the supplemental disclosures required by SFAS 95. This information is required as part of the SCF for all companies that desire statements prepared in accordance with generally accepted accounting principles. Exhibit II illustrates the indirect method. Although not encouraged for small business, it was included for comparison purposes.

ADVANTAGES FOR SMALL BUSINESS

Cash is the small business entrepreneur's basic frame of reference. It is viewed as the true discretionary resource available to business and it serves as the standard measure by which its financial wealth and progress are measured [12, p. 22]. The direct method of preparing the SCF highlights specific operating sources of cash and specific operating uses of cash. This information provides the focus of four critical small business analyses: (1) forecasting cash flows; (2) monitoring cash flows; (3) evaluating the quality of cash flows; and (4) valuing the business.

Although the exact prediction of future cash flows is not possible, the analysis of historical cash receipts and payments which affect the firm over time is fundamental if users of financial information are to make predictions [1, p. 20]. The forecasting of cash requirements can be easily acheived from the accululated data used to prepare the SCF [13, p. 31]. Using the historical relationship regarding operating receipts and sales and operating disbursements and sales, provides the basis for a major component of cash flows from operations. In addition, passive cash receipts and disbursements and nonrecurring cash receipts and disbursements can be projected. The data provided in these steps can be summarized into a cash operating budget for the upcoming period. This same procedure can be repeated for various levels of anticipa ed sales, thus providing a sound basis for forecasting a flexible operating cash budget.

Monitoring of cash flows is important for a small firm. It is not unusual for a small company to have increasing revenues and decreasing cash. The SCF can be instrumental in monitoring cash receipts and payments during the period by preparing an interim statement. Since cash receipts and payments are visualized as checkbook entries, they are easily organized in a recordkeeping format that facilitates the preparation of an interim report [12, p. 22]. This interim statement should be compared to the flexible operating cash budget whose sales level corresponds with the sales level for the period. The comparison provides management with the information necessary to either go ahead as planned in the cash budget, or delay certain expenditures as necessary. This process should be repeated as often as deemed necessary by management.

The Statement also enables small business management to analyze the quality of cash flows. The SCF delineates each type of cash flow, highlighting what flows are not usual in operations such as nonrecurring items and passive cash flows.

The impact of each type of inflow or outflow on total cash generated from operations is also displayed. Stability and sustainability are two important characteristics that enter into the determination of future projections [14, p. 291]. This assessment of funds provided by operations is also a key component of long-run strategic planning. This data is important to management because adequate funds must be generated from operations for an enterprise to maintain its operating capabilities and provide for future growth [15, p. 1096].

Income has become a standardized measuring device for the success or failure of business. It is often ignored or forgotten that income involves a high degree of estimation. Income is not a specific amount, but can vary depending on the assumptions, estimates, and valuations used. A more appropriate measure of potential success is the normal, recurring cash flow from operations. Except in special cases, this type of earning power is predominantly recognized as the single most important factor in the valuation of the company [14, p. 301].

Investors and lenders look ultimately to future cash flows for returns and safety [14, p. 301]. The cash flow generated from operations may be a crucial factor in a firm's ability to receive financing from outside sources. This data is also used extensively by commercial bankers to evaluate credit risks since there is uniformity of definition in conjunction with completeness of the information presented [11, p. 52]. The SCF provides the necessary data for both management and creditors to quickly confirm their perceptions of the quality of the cash flows [16, p. 55]. The relationships among the individual types of operational receipts and payments necessary to evaluate the ultimate risk are displayed in the direct format of the Statement.

CONCLUSION

Cash flow provides an incisive financial benchmark for small business performance. It gauges short-term solvency, and it predicts long-term potential.

The Statement of Cash Flows (SCF) focuses on the firm's operating receipts and payments. Rather than a cumbersome, costly mandate, the SCF provides immediate utility to the small business. The Statement affords the opportunity to manage cash. The small business owner can not only forecast and monitor cash flows, but s/he can evaluate the quality of cash flows. Also, the SCF allows managers and creditors to accurately assess the value of the firm for future financing decisions.

The Statement of Cash Flows provides valuable information to the small business. Its ease of calculation makes it a natural consequence for comprehensive financial analysis. All SBI teams should be encouraged to include this valuable tool in their projects.

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EXHIBIT Ia

Illustrative Company
Statement of Cash Flows
For Year Ended xx/xx/xx

Cash Flows from Operating Activities		Amount
Cash received from customers	+	
Cash paid to suppliers and employees	-	
Dividends received	+	
Interest received	+	
Income taxes paid	-	
Interest paid	-	
Other receipts or payments	+/-	

Net Cash from Operating Activities		Sum
Cash Flows from Investing Activities		
Proceeds from sale of plant assets	+	
Proceeds from sale of long term investments	+	
Principal payments on long-term receivables	+	
Purchase of long-term investments	-	
Issuing long-term notes receivable	-	
Down payment or advance payments	-	

Net Cash from Investing Activities		Sum
Cash Flows from Financing Activities		
Proceeds from issuing equity instruments	+	
Proceeds from long- or short-term borrowings	+	
Payment of dividends	-	
Acquisition of treasury stock	-	
Repayment of principal on borrowings	-	

Net Cash from Financing Activities		Sum

Net Increase in Cash		Sum
		+
Cash at Beginning of Year		---------
		Sum
Cash at End of Year		---------

EXHIBIT Ib

Reconciliation of Net Income to Net Cash Provided by Operating Activities:

Net Income		$
Adjustments to Reconcile		
Depreciation and amortization	+	
Changes in deferred liabilities	+/-	
Changes in deferred assets	+/-	
Changes in accrued liabilities	+/-	
Changes in accrued assets	+/-	
Changes in receivables	+/-	
Changes in payables	+/-	
Changes in inventories	+/-	
Gain or loss on sale of plant assets	+/-	
Gain or loss on discontinued operations	+/-	
Gain or loss early extinguishment of debt	+/-	
Advance provision for uncollectible accounts	+	

Total Adjustments		Sum

Net Cash from Operating Activities		Sum

Supplemental Schedule of Noncash Investing and Financing Activities:

- Conversion of debt to equity
- Acquiring of assets by assuming directly related liabilities
- Acquiring assets by entering into a capital lease
- Exchanging noncash asset of liability for noncash asset or liability

EXHIBIT II

Illustrative Company
Statement of Cash Flows
For Year Ended xx/xx/xx

Cash Flows from Operating Activities	Amount	
Net Income		$
Adjustments to Reconcile		
Depreciation and amortization	+	
Changes in deferred liabilities	+/-	
Changes in deferred assets	+/-	
Changes in accrued liabilities	+/-	
Changes in accrued assets	+/-	
Changes in receivables	+/-	
Changes in payables	+/-	
Changes in inventories	+/-	
Gain or loss on sale of plant assets	+/-	
Gain or loss on discontinued operations	+/-	
Gain or loss on early extinguishment of debt	+/-	
Advance provision for uncollectible accounts	+	

Total Adjustments		Sum

Net Cash from Operating Activities		Sum
Cash Flows from Investing Activities		
Proceeds from sale of plant assets	+	
Proceeds from sale of long term investments	+	
Principal payments on long-term receivables	+	
Purchase of long-term investments	-	
Issuing long-term notes receivable	-	
Down payment or advance payments	-	

Net Cash from Investing Activities		Sum

Net Increase in Cash		Sum
		+
Cash at Beginning of Year		---------
		Sum
Cash at End of Year		---------

Supplemental Schedule of Noncash Investing and Financing Activities:

Conversion of debt to equity

Acquiring of assets by assuming directly related liabilities

Acquiring assets by entering into a capital lease

Exchanging noncash asset or liability for noncash asset or liability

USING PRO FORMA PREPARATION TO RAISE STRATEGIC AND OPERATING PLANNING QUESTIONS

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ABSTRACT
There is considerable documentation providing evidence of the lack of planning among small business managers and the impact of lack of planning, and managerial ignorance/inexperience, on small business failure.

There is a need for more prescriptive information on the appropriate methodology for outsiders to introduce planning, management education, and strategic management thinking into starting, new, and mature small businesses.

In this article, the author provides a series of questions and information needs suggested by elements of the pro-forma statements, required by lenders and investors for financing. It is suggested that the incremental, task oriented, nature of this approach will increase the likelihood of acceptance, by the small business owner, of the need for planning, decision support systems, and an appreciation for the value of business information.

INTRODUCTION
The benefits of planning, especially long range planning, have been well documented by various small business authors such as Robinson[1,2], Orpen[3] and Sexton[4].

The SBA estimates that 30 percent of new businesses close the first year. Bank of America[5] findings conclude that many entrepreneurial failures relate to the lack of formal planning. In their studies, of causes of bankruptcy, Kashefi[6] and Dalton[7] conclude that the majority of the failing companies lacked a systematic approach to long range planning. Robinson[8] provided a summary and review of scholarly articles on the nature and value of small business planning.

Small business owners seem to be aware, according to Peterson[9], that lack of management expertise is the most significant cause of business failure, with management education the most frequently cited suggestion for reducing small business failure.
In addition, Pelham's[10] and Albaums studies[11] of small business managers perceptions support Petersons premise, and indicate that internal problems, such as developing advertising and sales programs and raising capital, are perceived to be the most important small business problems that must be addressed with the aid of outsiders.

METHOD TO INTRODUCE PLANNING
Despite the large body of normative literature on the nature of small business planning, there is a scarcity of literature that can aid the outsider in efforts to introduce planning to the small firm. Authors such as Thurston[3], Gilmore[13], Moyer[14], and Golde[15] have provided suggestions to small business owners on how to introduce formal planning procedures appropriate for the small firm, but readership by small business owners of academic publications is unlikely.

If independent reading, regardless of source, is not a likely remedy for small business managerial ignorance or lack of planning, the intervention of outsiders such as bankers, lawyers, and consultants becomes crucial. Robinson's[1] and Pelham's[16] study document the positive impact of public consultants (SBDC) and small firm clamming on financial results. A contrary study sponsored by the NFIB[17] contended that university based sources ("business teacher") are not highly trusted sources of management advice, compared to private consultants, retired business owners, and trade association personnel. Roitman's[18] study confirmed that professional consultants, such as OPAs and lawyers, were the most likely sources of management information, compared to seminars and universities and cited barriers between small businesses and colleges, such as academic culture, but also found that a college was considered a likely source for useful management assistance.

Robinson[19] suggested that successful small firm planning should be frequent, informal, in short time periods, without a lot of paperwork, include specific goals, focus on functional areas, and include outsiders.

Pelham[20] suggested elements of operational and strategic planning which would address common factors in small business failure, suggested an incremental model for introduction of planning tools, and suggested that the business plan provides an appropriate framework to "sell planning as a process".

COMPUTER GENERATED PRO FORMAS

The consulting situation that results from the new or prospective small business owner seeking advice on business plan preparation is rich with opportunity to educate the client on the value of planning and planning tools. However, the consultant must recognize that the impetus for the business plan is its requirement by lenders and investors. In addition, the consultant must deal with entrepreneurial impatience with the "paperwork" details and eagerness to "get the business started." An incremental, versus a synoptic, approach, has been a successful technique, based on observations' of SBDC clients in Iowa. This technique involves an initial attempt at pro-forma preparation for a computer spread sheet which results in small business client understanding of the need for more information and future consulting sessions.

QUESTIONS SUGGESTED IN PRO FORMA PREPARATION CLIENT INTERACTION

The typical SBDC/SBI client at our University tends to be inpatient to complete the immediate task such as loan proposals, and is reluctant to undergo logical synoptic formal planning. For this reason the initial contacts tend to move into starting the work on the clients task and follow-up sessions dealing with goals, objectives, revisions of assumptions, and information gathering analysis.

The initial sessions that prepare rough proformas from client assumptions and perceptions and initial searches of public data (census, revenue, state per capita spending etc.) tend to show the client the need for more accurate information, the interrelationship of decisions, and tend to relieve anxiety about the process of planning, budgeting, accounting, and information gathering.

The first or second contact with the client can be used to sit at the computer with rough information to prepare optimistic and pessimistic ranges of income statements and cash flows, along with a break-even analysis. Robert Morris and Associates data or other financial ratio sources can provide the client with a starting point and benchmark percentages for sales levels, margin, fixed expenses, inventory levels, working capital levels, and debt/equity proportions. Going through this process leads the client to an appreciation of accurate market forecasting due to the importance of sales estimating errors to the level of profit.

After the initial sessions and client surveys (formal or informal) of potential customers, vendors, distribution channel members, and non-competing similar businesses, a clearer positioning strategy tends to emerge and guide the client toward more realistic sales and share estimate as well as guide the client toward more effective communication strategy. With this customer feedback, a more accurate pricing strategy will be used to revise pro forma input. This feedback also infuses realism into retail pricing, margins, and retail requirements for manufacturing clients. For retailing clients, site analysis and selection tends to be improved from the survey information, combined with a traffic study, space costs, and an adjacent business study.

Although the following question list seems imposing, the consulting process usually occurs over five to ten sessions, so the consultant and client have multiple opportunities to cover, in depth, the more detailed aspects of each subsection. However, even in the first session the client should be provided an overview of the process, the subsections to be completed, and one or two questions raised in each subsection. If the consultant assures the client that there is standard methodology and information sources to complete the pro-forma, anxiety can be reduced. The consultant should also indicate the relationship in the first session of the written portion of the business plan and the pro-forma section.

The following provides a list of major questions suggested by the data input necessary for the pro-forma completion. These questions, in turn, suggest the need for information gathering for operations planning and strategic thinking, that should precede the business startup, and should become part of ongoing business planning.

The questions flow from the input requirements on the pro-formas (tables 1 and 2).
A. Pro Forma Question (12 month income statement):
1. What are your sales estimates by month by type of product/service?

a. Who are your potential customers (demographics) and why do they need the product/service? heavy users? light users?

b. How have you defined your market niche in a way that positions your product/service to be superior (in some way) to competition? Why is that niche (product-market) attractive?

c. Who is your competition (narrow and broad) and what are their strengths and weaknesses? size? growth? profitability? financial resources? management resources/philosophy?

d. What is the market size, geography, sales trend, and seasonality for your market?

e. Is your sales estimate assumption based on a projected share of market or on customer count/purchase cycle basis?

f. What was the feedback from your customer market research? dissatisfaction with competitive products?

g. What is the potential for yearly growth of your products sales, and share of market? geographic expansion, industry expansion? geographic or industry trends?

h. What do you consider your competitive advantage to be? Your distinctive competency?

i. What is your product/service price and pricing strategy, relative to competition's strategy? Compared to value? How will competition react to your market entry and price strategy? Have you provided for promotions and sales to move slow moving merchandise?

j. If you plan to market more than one product or service, how are the different products different from each other in terms of different customers served, growth potential, profit potential, fit to company capabilities, and relationship to other firms products?

k. Is your sales estimate consistent with operating capability and marketing resources employed (sales organization and advertising budget)? Is the distribution channel (retail, wholesale, direct) consistent with the timetable for sales growth?

l. Do you need to increase your knowledge of selling, sales management, or advertising and how will you do this? Pro Forma Question:

2. What is your cost of goods by product/service?

a. How did you determine the cost of raw materials variable labor costs?

b. Are these costs volatile or stable?

c. How does the cost of goods percentage compare to industry standards?

d. What is the impact of firm size on cost of goods (efficiencies of scale) versus product quality and customer service?

e. Are vendors reliable? Lead times on delivery? Credit terms? Purchase discounts?

f. Is labor available? skilled? training needs?

g. What are the tradeoffs in overtime costs, inventory carrying costs, and out of stock?

h. Have you set up an accounting system that accurately provides inventory, labor, and cost of goods information? cost or accrual basis? if accrual, what method?

i. What is your manufacturing plan? layout, process?

3. What are your fixed expenses by month?

a. What will be your depreciation? What is the value of your equipment, fixtures, and other assets? New or used? Why not lease? does equipment costs include installation and engineering modification?

b. Are you renting or buying the facility and why? Why did you pick the location? Is the size of the facility appropriate for current and future operations? Is the cost/rent per square foot competitive with other locations? Does the facility need improvements to begin operations and who will pay for those improvements? How long is the lease? Who is responsible for building maintenance and repairs? What kind of location analysis did you perform?

c. What will your utility costs be?

d. What will your phone costs be? How many lines will you need? Will you need a secretary or an answering service? Will you need an ad in the yellow pages?

e. What will your supplies (office, janitorial, etc) cost per month?

f. What will be your typical monthly repair cost for your equipment?

g. What will your insurance cost be? product liability? property owners liability? casualty? fire? theft? bonding?

h. What will your payroll costs be? for management? Office employees? sales employees? production employees? Are these wages and salaries sufficient to attract and hold the type of employees needed to make the firm successful? What type of individual is needed to fill the various firm positions? Will the prospective business owner need to hire professional management to complement his/her background? Can the firm take advantage of public job training wage funding? What will fringe benefits cost (vacation, medical insurance, pension)? What will payroll taxes cost (unemployment, workmans compensation, social security)?

i. What will your accounting/legal cost be? Who will prepare journals and ledgers? Is the business complex enough to need a computer immediately to facilitate record keeping? Is the firm to be incorporated and why? Does the prospective business owner know how to use financial reports? If not, how will the owner obtain the necessary training?

j. What will the travel/entertainment cost be for the owner and the sales force? How were these costs determined?

k. What is your advertising/promotion budget? What is your media and message plan and why? How many potential customers do you expect to reach? What do you want them to believe? Is the budget sufficient to generate the sales estimate?

1. What is the estimated percentage of bad debts? Was the estimate determined from an industry average? What will the firms credit policies be and how will credit checks be made? Will the firm use bank card services or a credit bureau?

m. What other operating costs may have been overlooked by the prospective owner? Dues? Fees? Research costs? Sales commissions? Sales, property, use taxes?

TABLE 1

Monthly Income Statement		Cash flow Statement	
Item	Questions	Item	Questions
Gross Sales	A1 a to i	Inflows:	
Cost of Goods	A2 a to i	Sales Revenue Current	B1 a
Gross Profit/margin		Sales Revenue 2nd Mo	B1 b,c
Fixed Expenses:		Sales Revenue 3rd Mo	B1 b,c
Depreciation	A3 a	Loan Proceeds	B2 a-g
		Equity Proceeds	B2 e
Rent	A3 b	Total Inflows	
Utilities	A3 c	Outflows:	
Telephone	A3 d	Fixes Exp.-Depr.	
Supplies	A3 e	Taxes	
Maintenance	A3 f	Cost of Goods	
Insurance	A3 g	Equipment Purchase	B2 a,b,c
Wages/Fringes/ Payroll Taxes	A3 h	Inventory Purchase	B2 a
Accounting/Legal	A3 i	Owners Draw	
Travel/Entertainment	A3 j	Other	B2 b,c,f
Advertising/Promotion	A3 k	Loan Principal	
Bad Debts	A3 l	Loan Interest	
Other Operating	A3 m	Total Outflows	
E.B.I.T.			
Interest	B2, B2g	Starting Cash:	B2
Earning Before taxes Inflows:			
Federal Tax	A4 a-c	Outflows:	
State Tax	A4 a-c	Surplus/Deficit:	B2
Net Income			

4. What will the federal and state tax rate be?

a. Will your firm be organized to provide the most favorable tax treatment for owners or stock holders?

b. What is the timing of your tax payments?

c. Are you familiar with IRA, Keogh, and pension plans which can reduce taxes?

B. Pro Forma Question (Cash Flow):

1. If a portion of your sales are for credit, what will be the timing of collections (percent in 30, 60, 90 days)?

a. What credit limit system will you have? Will you employ a collection agency? Will you give payment terms? Have you discussed with your bank the methods to accelerate payments credited to your account?

b. Will the cash flow impact of delayed payments in peak seasons require periodic increases in your line of credit, factoring of receivables, or more initial working capital?

c. Will the accounts receivable system easily flag problem accounts (aging of receivables)?

2. What are the capital needs of the business?

a. Do you have an itemized list and cost of needed equipment, initial inventory and supplies?

b. Do you have firm quotes on needed leasehold improvements and equipment/fixture installation?

c. Have you provided for potential delays in delivery of equipment or construction delays? How many months coverage of fixed expenses will you have in working capital?

d. If you are buying land and a building how does the price compare to appraisal value and other commercial property? Why are you buying instead of leasing?

e. What is the proportion of equity to proposed debt? Is this proportion appropriate the lender and compared to comparable firms?

f. Have you provided for deposits for the lease, phone, utilities, and rented equipment?

g. What will be the interest rate and term of the loan? Have you investigated the possibility of economic development agency loans or grants? Will the SBA guarantee the loan?

C. 4 Year Income Statements:

1. What will be the growth (decline) in sales, cost of goods, and expenses?

a. What are the assumptions that justify these increases or decreases?

b. Can growth be funded from internal cash generation or must provision be made for future debt or equity infusion?

c. What will be the growth demands for additional equipment, employees, and facility space? What is the pay back period for these investment requirements?

d. How much additional sales and margin must be generated to justify additions of employees, equipment, and facilities?

e. What is the impact on net profit with the increases (decreases) in sales?

f. Is the increase in fixed expense disproportionate to the sales increase? Why?

g. Does the yearly pro-forma show reasonable return on assets and equity and yearly improvement?

2. Does the yearly proforma statement indicate the ability or need to accelerate debt retirement?

TABLE 2

4 Year Income Statement		Balance Sheet	
Item	Questions	Item	Questions
Sales	C1 a-g	Cash	D1
Cost of Good	C1 a, A2 g	Inventory	C2 a, D2,
Gross Profit/Margin	D4		
Fixed Expenses	C1 a,d	Accounts Receivable	A3 l, B1 a,c
EBIT			
Interest	C2	Other	D4
Earnings Before Taxes		Total Current Assets	D3
Fed. Tax		Deposits	C2 f
State Tax		Notes Receivable	D6
Net Income	C1 g	Equipment (less Depr)	2a
		Vehicles	2a
		Land	2a, d
		Buildings (less Depr)	2a,d
		Total Non Current Assets	__________
		Total Assets	C1 g

Balance Sheet (continued)

Item	Questions
Accounts Payable	A2 e
Current Notes Payable	B1 b
Accrued Wages	
Accrued Taxes	
Other Current Liabilities	
Total Current Liabilities	D3
Notes Payable	C2
Other Long Term Dept	D5
Total Long Term Dept	D3
Owner's Equity	C1g, C2g, D3
Total Liabilities	

a. What is your break even sales level? How close is it to your sales estimate? What is your cash flow break even?

D. Balance Sheet

1. How much cash should be on hand to cover short term liabilities? Is cash excessive?

2. Is the initial inventory requirement typical of the average inventory level?

3. What is your current, quick, debt/equity ratios and how do they compare to industry standards.

4. What are your asset, inventory, receivable, payable turnover ratios and how do they compare to industry standards?

5. Is your debt service coverage adequate?

6. Is excess cash placed in interest bearing accounts?

While these questions are not exhaustive, they are questions which are immediately suggested by the data necessary to prepare pro-forma statements. For further investigation of questions and areas for discussion on specific topics, such as retailing, manufacturing, marketing, and counting, the prospective small business owner can turn to a wide variety of sources for information. These include small business books, SBA publications, extension service publications, textbooks, Bank of America publications, and industry association publications (such as NRMA).

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FIRM DISPOSITION ALTERNATIVES FOR RETIRING SMALL BUSINESS OWNERS

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ABSTRACT
A variety of company disposition alternatives are available to the small business owner planning for his or her retirement. This paper analyzes and compares the most common and effective methods in use: continuance of a family business, sell to an outside party, liquidation, internal sale to managers, and internal sale to employees.

INTRODUCTION

Every small business owner must at some time face the issue of the eventual disposition of his or her company. This is a complex rational issue and at the same time an emotional issue, involving questions of age, company value, taxes, continuance and ego.

At what age should a small business owner step aside from the top management position? What form of ownership transfer would maximize selling price and yet minimize taxes resulting from the sale? Who would the current owner like to see continue in control of the firm? Can the owner psychologically let go of control?

There are a number of basic disposition alternatives available to the small business owner, and this paper will discuss each of these.

CONTINUANCE OF A FAMILY BUSINESS

A "Family Business" can be defined as one in which two or more generations of a family are involved in the ownership and management of a firm, and there is a conscious plan to eventually pass on this ownership and control to still further generations of the family. Thus, if the current owner (or owners) perceive their company to be a "family business," there is really only one disposition alternative that is desirable - the eventual passing of their ownership and control to the next generation of the family.

Yet even this alternative is not as simple as it might seem. Current research and data indicate that the concept of a "family business" is weakening, and that fewer small business owners are successfully transferring their firms to their children or other heirs. As the younger generation's educations and values digress from those of their parents, they perceive less potential satisfaction and reward from the prospect of owning and managing the firm, and they place less emotional value on the idea of the continuance of family control. Evidence also suggests that owners tend to hold onto their firms too long and thus past the time when their children are ready and interested in assuming control. (1, pp. 53-55)

Even if there are interested members of the next generation, and if the current owner recognizes the appropriate time to transfer ownership and control, other problems still remain. Transfer of control can not be instantaneous. The younger generation must be brought into the firm early, and then trained and developed so that they are able to assume top management positions and are accepted by their non-family subordinates. If there are several interested younger family members, a determination must be made as to which of them are most able and should be given the greatest initial control. Transfer of financial ownership also requires time. Generally, advance planning and the transfer of ownership over time will minimize taxes paid on such a transfer.

SELL TO OUTSIDE PARTY

The sale of a small business to an outside party is the most common form of disposition. (1, p. 51) If other individuals purchase the firm, then it may remain a separate entity as before. If bought by another company, it may still remain separate, but more likely will become a division or an integral part of the acquiring firm. The most critical issue in such a disposition is the valuation of the business, and much has been written on this subject. (2, 4, 5, 8, 16, 21, 23, 24) The owner who wishes to sell a company should plan ahead, so that the firm is most attractive at the time the sale is desired. This means working to make financial statements and sales and profits trends as positive as possible. While a prospective buyer may already have shown an interest in the firm, higher selling prices are generally realized when the availability of the company is discretely publicized and subsequent negotiations are professionally and non-emotionally conducted, and thus the retaining of outside assistance in these efforts is generally a good idea. Timing is extremely important, and too frequently, the owner holds on too long, realizing the need to sell only when his or her age may have already set the firm past its peak performance and value.

While in a traditional sale to an outside party the buyer already possesses or controls the funds to purchase the company, a more recent trend is toward the "Leveraged Buyout." This is when a large amount of debt (or "leverage") is borrowed by the buyer to finance the purchase. This debt goes onto the balance sheet of the acquired firm, and its cash flow is used to pay off the debt. Although better known in large company takeovers, the Leveraged Buyout is also becoming quite common in the sale of small businesses to outside parties. (21)

As with the other disposition alternatives, the tax ramifications are of major concern to the seller, and here too professional advice should be obtained long before the need to sell arises.

LIQUIDATION

While obviously not the preferred alternative for most owners, liquidation is a fairly common form of small business disposition. One study of small family-owned business transfers found that about eleven percent were liquidated, and the percentage of non-family-businesses that are eventually liquidated is considerably higher. (1, p. 51) Unless the firm has no assets of value whatsoever, even liquidation poses problems of timing and valuation. Although an owner would certainly rather find a buyer for the business as an ongoing concern, if he or she must liquidate, its implementation in a planned and orderly fashion should result in significantly greater proceeds.

INTERNAL SALE TO MANAGERS
A common form of disposition is to sell the company to some of the owner's immediate subordinates - the current managers of the firm. This is a logical transfer of an ongoing business, as these managers are the most likely persons to have the combination of 1) the money to buy the company (or the ability to put together a Leveraged Buyout), 2) an interest in controlling the company, and 3) the knowledge and experience to be successful in taking over the company. In many ways, this alternative is very similar to a "Family Business" transfer, as the owner may often develop a close relationship with his or her top managers over the years, and find it emotionally satisfying to pass the firm on to them in a manner similar to a parent passing the business on to his or her children.

Here too issues of valuation and timing arise, and the ideal transfer of this nature is planned and agreed upon between owner and subordinates several years in advance, so that transfers of power and financial ownership can be gradual rather than sudden, and thus more effective.

INTERNAL SALE TO EMPLOYEES
This disposition alternative involves the sale of the company not just to a few top level managers, but rather to all or most of the entire group of employees. While the least common of the various alternatives discussed in this paper, this is a viable possibility in certain situations. There are three basic variations on this form of transfer. All three require the firm to be in corporate form.

Simple Sale of Common Stock
The most simple variation is closely related to the previously discussed "Internal Sale To Managers." In advance of his or her retirement, the owner arranges for the employees of the company to buy the corporate common stock of the firm. (7, P. 76) All employees are entitled to purchase shares, and in most arrangements the initial sale is limited to employees only. While the company then becomes "employee-owned," in practice that rarely means that ill employees now have an equal share in the control of the firm. This is because those with more financial ability generally purchase more shares than others, and it is the former management-level employees who are most likely to have more money available to buy the stock. If former management-level employees become the majority stockholders, then they will be able to elect the board of directors and control other strategic-level decisions, and thus the firm does not become worker-controlled, but rather management-controlled.

In the long-run, this "management-controlled" firm may become a more traditional corporation, with a separation between ownership and management. Restrictions on later sale of stock are uncommon, so over time many managers and other employees may leave the company and sell their stock, and eventually the control of the stock may fall into the hands of outside investors. Still, with professional assistance, this is a way in which a current small business owner can plan for the transfer of his or her company to the majority of employees and at the same time attain the financial liquidity desired for retirement.

Employee Stock Ownership Plan
In recent years, the Employee Stock Ownership Plan (ESOP) has developed into a popular way in which ownership of a company can be transferred to most or all employees of that company. (15, p. 95) Most publicized as a means by which to keep a troubled plant open and to save jobs, this technique can also be appropriate for the owner of a successful business who simply wants a method of transferring ownership of the business to the employees. The advantage of the ESOP is that the employees do not need to have the current financial means to buy the stock of the company. Rather, a legal trust is established to temporarily hold the stock of the firm. In simple terms, the trust pledges the stock against a bank loan so that it can pay for the stock purchase, and it uses part of the company's annual profits to pay off the loan and thus gradually distribute the stock to the employees, who do not actually receive their stock until they retire from or leave the company. The previous owner of the company receives immediate payment for the company stock, and there are a variety of tax benefits for all involved.

In an ESOP company disposition, control again tends to fall into the hands of management-level employees, rather than all employees, because the allocation of shares by the trust is usually done according to wage/salary level and/or seniority. On the other hand, the existence of the trust and the long-term nature of the actual stock transfer to employees tends to reduce the movement of ownership to non-employees of the company. (7, p. 79)

True Cooperative
While a rarity in the United States, it is possible for a retiring small business owner to transfer his or her company to its employees so that each employee receives a truly equal share of ownership and control. Although there is no effective legal framework for such a cooperative, it is possible to modify the by-laws and internal capital accounts of a corporation so that each current employee (and each new employee, after a probationary period) will pay a membership fee that effectively buys a number of shares in the company equal that owned by every other employee. (7, p. 80) Only employees can be members, and when they leave the firm, their membership fee is returned to them, along with any increases in the value of their share during their employment. Often a second class of non-voting stock is created so that the corporation can raise additional capital, but only the employees own voting stock in the firm.

In this cooperative corporation, each employee has a single and equal vote in elections of the board of directors and in other voting issues, and generally employees serve on that board. Thus, employees have control at the top level of the firm's hierarchy, and at every level beneath that.

This alternative poses a variety of financial problems for the retiring business owner, since (unlike an ESOP) it is difficult to set up a true cooperative that has the funds to immediately buy the company from the retiring owner. If the business owner really wants to transfer his or her company to its employees on a truly equal basis, it would probably involve a partial gift of stock to the employees or a long-term payment schedule for the sale of the stock. Thus, this alternative may provide high emotional satisfaction to some retiring owners, but most likely at some opportunity cost in terms of financial satisfaction.

CONCLUSIONS

Although statistics show that certain of the various company disposition alternatives discussed in this paper are much more common than are others, any one of them is a possibility for the retiring small business owner. Obviously the choice must be determined by the objectives and philosophy of the owner, and the situation in which he or she exists.

Regardless of the preference of the owner, and of the final alternative chosen, advance thinking and planning is a highly desirable prerequisite, and will help insure that the retiring owner's preferred alternative becomes the best alternative.

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SBIDA MEMBERS EXPRESSIONS ON SKIP TRACING

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ABSTRACT
A lot of people have not given thought to skip tracing and have not encountered skips.

Results of a national SBIDA membership survey suggest that experiencing skips may lead to a change in attitude toward skip tracing.

The survey responses show that Small Business Institute students should not search for missing clients.

The survey sought to determine how well the clients disclose full financial information. SBI directors who reported low disclosures also reported the most skips. The study concludes that the higher the disclosure of full financial information, the less likely the clients will skip.

INTRODUCTION

A skip occurs when a business owner flees, usually taking the records and some of the assets such as cash or inventory. If the business owner skips while serving as a client to Small Business Institute students, three dilemmas arise. First, how may the SBI school fulfill its contract with the Small Business Administration to render management and/or technical assistance to small business owners? Second, how do the students earn academic credit for incomplete work? Third, how may the SBI program help the owner who has skipped, who clearly needs the SBI team's efforts?

One School's Experience

At the SBIDA Washington meeting the author presented a paper entitled, Skip Tracing: Client Consulting after the Client Skips(1). He described student initiatives after skips occurred. He encouraged SBI directors to consider ways to follow up on skips, if their students ever experience skips. The question-and-answer period afterward brought forth the query, "What would a national membership survey show?" Hence, the present project started.

THE NATIONAL SURVEY

Purpose

The national survey's purpose focused on SBIDA members' experiences with skips and skip tracing. The survey sought evidence across the SBI membership as to skip occurrences, hardships on SBI programs at the various schools, and directors views on the learning experience. In addition, the survey sought to determine how well the clients disclose full financial information, as a possible skip predictor.

Methodology

A total of 462 mail questionnaires (Appendix A shows the form) went out to the SBIDA membership with covering letter dated June 27, 1986. The SBIDA secretary furnished membership mailing labels and blank letterheads on which to xerox the cover letter. A dean's grant paid for postage, envelopes, xeroxing, and a pilot run to test the questionnaire. School secretaries and graduate assistants supplied the clerical effort.

A total of 92 responses came in. These returns divided into four groups. First, 18 invalid responses resulted from incomplete answers or from agencies that do not take SBI cases. Second, 31 responses reported zero skips. Third, 23 responses reported one-to-three skips, referred to herein as lowskips. Fourth, 20 responses reported four or more skips, referred to herein as highskips.

A computer analyst examined the responses on an IBM 4381 computer using SPSSX Statistical Package for the Social Sciences. Further work involved an IBM/XT desktop computer using Microsoft Microstat to sort, plot, and analyze for regressions.

Findings

On average, the SBI director
-- takes 10 cases per semester,
-- has handled 182 cases since his/her school started SBI participation in 1976,
-- has seen four clients skip, half within the last five years and all within the last 10 years, typically restaurants, and
-- estimates that students get full financial statements from their SBI clients 49 percent of the time.

Respondents answered specific questions as condensed in Exhibit I.

DISCUSSION OF RESPONSES

Beginning Year

The Highskip group's schools started SBI participation much earlier, 1967, than the other groups, as Table 1 shows. Compared to the Lowskip group, the Highskip group averaged three times more cases and five times more skips. Some SBI directors recall the weak cases that the SBA sometimes assigned in those early days. moreover, more cases may lead to more skips.

Skips and Skip Tracing

Zeroskips. The Zeroskip group's responses reflect that no skips occurred despite the low percentage of financial disclosures that half of them experienced.

How do schools that report full financial disclosures in 50 percent of the cases or less manage to operate without experiencing skips? Do the two factors operate independent of one another? Do potential skips hold back information from their teams?

By contrast, the Highskip group's evidence implies that the better the information, the fewer the skips.

Lowskips. Respondents who stated, "No, don't attempt to trace the skips" report cooperation in disclosing finances ranging from five percent of their cases to 95 percent.

They typically occasioned only one skip throughout their SBI history. Their Percent Skips, that is, 100 times the number of skips divided by the number of cases, ranged from zero to five percent.

TABLE 1
Comparison of Answers by Groupings

	ZeroSkip (n=31)	LowSkip (n=23)	HighSkip (n=20)
Earliest Year Beginning SBI Participation	1972	1972	1967
Average Total Cases Since Starting	166	118	329
Skips	0	47	232
Skips/School	0	2	12
Percent Skips*	0	3.4%	5.8%
Full Financial Disclosure in % of Cases Avg	52%	51%	36%
Median	60%	50%	25%
Should Trace:			
No	12	15	6
Yes	5	2	6
Don't Know	5	5	6
No Opinion	9	1	2

*Tot. Skips
---------- X 100
Tot. Cases

Highskips. Respondents who stated, "Yes, should trace" get the most financial information and have moderate numbers of skips. Highskip respondents who reported, "No, don't attempt to trace the skips" get the least financial information and have the most skips.

Should trace. The Highskip group splits equally among no, Yes, and Don't Know, 6, 6, and 6, respectively. However, like their Lowskip counterpart, very few have No Opinion, 1 and 2, respectively. This factor implies that skips do something to SBI directors no matter what skips do to the students' education. That is, having more skips moves people from "No, there's no cause for action," to "Yes, there is cause for action." Also, having skips moves people from Don't Know or No Opinion to other positions.

Don't Know and No Opinion. These responses in the Lowskip group mean that a lot of people have not given thought to skiptracing and have not encountered skips. Don't Know and No Opinion responses in 45 percent [(5+9)100/31] of the Zeroskip group, 26 percent of the Lowskips reveal genuine uncertainty as to skiptracing's value as academic experience, or the likely success in finding the client who skips. This finding supports the author's view (1, p. 182) that "SBI students do not have the time nor the expertise generally to perform detective work...." However, serving a distressed client who later skips has educational value, according to some respondents.

Full Financial Disclosure. The 50 percent median response for the Lowskip group suggests that for this group, skips stand independent of full financial disclosure to the SBI teams. That 50 percent median response combined with 60 percent median response for the Zeroskip group means that skips occur 0, 1, 2, or 3 times whether or not the SBI teams obtain full financial disclosure. When skips do occur, a lower percentage of full financial disclosure occurs, perhaps because the owner has fled with the books.

The 25 percent median response for the Highskip group implies that for this reporting group the less information, the more skips occur.

Scatterdiagrams

The Figure 1 scatterdiagram of Percent Skips versus Year of Beginning SBI Participation for the Lowskip group merits inspection. Significance level equals .001 with Pearson's Product-Moment Correlation Index of .719. its standard error of the estimate, 2.58, measures the tight extent of spread or scatter of points expressed in units of the dependent variable Percent Skips. The older the program, the more cases to dilute the Percent of Skips per Cases handled. Could this also mean that the older programs have more experience which perhaps inhibits skips from occurring?

The Figure 2 scatterdiagram of Percent Skips versus Year of Beginning SBI Participation for the Highskip group has a .196 significance level. Thus, it hardly merits inspection. However, it confirms that early SBI programs fought the burden of skips, along with low Percentage of Full Financial Disclosures.

Figure 1
Skips/Cases * 100 vs Year of Beginning SBI Participation
Lowskip Group

Year of Beginning SBI Participation	Percent Skips
1972	
1973	1
1974	2
1975	1, 3
1976	
1977	2, 6
1978	2
1979	1, 3
1980	1, 4
1981	3, 9
1982	
1983	5, 10
1984	4
1985	15

Figure 2
Skips/Cases * 100 vs Year of Beginning SBI Participation
Highskip Group

Year of Beginning SBI Participation	Percent Skips
1967	1, 10
1969	9
1971	1
1973	1, 2, 10
1974	2, 4, 7, 9
1975	10
1976	3, 6, 7
1978	3
1980	4, 12
1984	13

Scatterdiagrams of Percent Skips versus Percent Full Financial Disclosure for the Lowskip and Highskip groups do not merit inspection. Regression analysis computes a high .544 significance level for the Highskip group, for example, and a similar figure for the Lowskip group. This measure represents the probability of mistakenly claiming that a relationship exists when no such relationship does exist.

Likewise, the Highskip data for Percent Skips versus Year of Beginning SBI Participation show a .196 significance level, too high to plot with confidence. The best guess would state that in general, 20 percent of the time a correlation exists such that the greater the disclosures, the fewer the skips.

SUMMARY

SBI students and directors should predict distress before a small business client staggers and skips. The survey sought to determine how well the clients disclose full financial information by which the SBI consultants might predict distress. Stated another way, the survey sought to find that SBI programs used full financial disclosure for predicting distress. Respondents reported gaining full financial information in about one out of every two cases.

Each campus needs a plan to react to skips. Expressions shared by this survey should help all SBI directors when need arises.

The aggregate responses state, "Do not attempt to trace the skip. Work on a new case."

A counterview merits observing. The least afflicted by skips, the local SBI should help employees, vendors, customers, creditors, and owners by completing the project for use by the skip if he/she ever returns.

At the incubation stage of distress before flight, the owner may pull up red distress flags, admitting "I'm in trouble." An SBI program that senses such warning signs may prevent the distress from going from bad to worse, from failure to skip.

Deliberate concealment or inability to furnish records may signal sloppy accounting practices. The owner may not know where to begin. SBI's intervention may provide the chance for special help on short notice to a case in the midst of coming unglued. A shift from the reporting mode, that is, from passive case study observing and reporting what happened, to the intervention mode may constitute the SBI program's crowning achievement.

Future study should plot Percent Skips versus an economic index such as the Small Business Health Index (2, p. 15). The aim would focus on the question, Given a case, what skip probability arises? Correlation analysis may find the answer.

Meanwhile, in general, the survey shows that the less financial information, the more skips occur. SBI directors must emphasize full financial disclosure to avoid skips.

REFERENCES

1. Thompson, George H., "Skip Tracing: Client Counseling after the Client Skips," Small Business Institute Directors Association Proceedings, 1986, pp. 180-184.

2. The State of Small Business: A Report of the President Transmitted to the Congress 1986. Washington: United States Government Printing Office, 1986.

APPENDIX A   Specimen response

<u>*** SBI SKIP SURVEY *****</u>**

On average, approximately how many SBI cases do you take per semester or quarter?	12 (number)
When did your school begin participating in the SBI program?	'74 (year)
How many SBI cases has your school handled since beginning participation in the program?	166 (number)
How many clients have skipped since your school started participating in the program?	4 (number)
How many clients have skipped during the last 5 years?	1 (number)
during the last 10 years?	1 (number)
beyond 10 years ago?	2 (number)

Please specify the kinds of firms that skipped?
(For example, a computer store or luncheonette)

Electrical contractor	Restaurant
Paving (asphalt) contractor	Retail clothing (women's)

On average, in what percentage of your consulting cases do students get full financial statements?	25% (percent)

In addition to financial figures do your students look for any of the items listed at the right to detect a business in distress? (Please circle yes or no)	Inventory runout (Yes) No Inventory overstock Yes (No) C.O.D. with vendors (Yes) No Collection problems (Yes) No Recently divorced owner Yes (No) Other (specify below)
From what business school field do your best SBI students come? (Please put an "X" on the appropriate line to the right)	Accounting _____ Finance _____ Management __X__ Marketing _____ Other (specify below) _____

Specimen response continued

In the SBI program, should we skip trace?
(Please put an "X" on the appropriate
line to the right)

Yes _____
No _____
Don't know __X__
No opinion _____

How do skip and skiptracing affect your students' education?

minimally

If your students found (traced) the skip, what did your students do for the rest of the semester?

Continued on project as if owner was still cooperating if this occurred late in the semester. If it occurred early we undertook another case.

If they did not trace the skip, what did your students do for the rest of the semester?

same as above

When in the semester or quarter does client skipping become a problem? (Please mark on the line below)

Beginning Middle End
!-----------------------------!-----X------------------!

Please describe the problems you face when a client skips?

Very demotivating for a student team. We begin anew if possible but it lacks the excitement.

What business failure factors do your students look for?

Cash flow mgmt.; poor acc'ts. receivable mgmt.; capitalization.

Typically, how cooperative are clients in revealing financial matters?

The better their education the more cooperative. I've found a direct "correlation".

What kinds of businesses ask for your SBI assistance?

Mfg.
Retail
Dining

Thank you for your assistance. Please return this response sheet to:

G.H. Thompson
Department of Business Administration
Trinity University
San Antonio, TX 78284

EXHIBIT I
Questionnaire Response

In addition to financial figures, do your students look for any of these items to detect a business in distress? Positive responses came from:

Collection problems	28%
Inventory overstock	25%
Inventory runout	23%
COD with vendors	18%

From what business school field do your best SBI students come?

Marketing	28%
Accounting	28%
Management	22%
Finance	13%

Should we skip trace (track down the skip)?

No	40%
Don't know	19%
No opinion	19%
Yes	16%

How do skip and skiptracing affect your students' education? 40% respondents did not answer or answered not applicable. Of those who answered:

Claimed no experience with skips	29%
Answered they had no effect	22%
Little effect	13%
Saw them as an educational opportunity	11%
Saw them as real world/ real life experiences	9%

If your students found the skip, what did your students do for the rest of the semester? 59% of respondents did not answer or answered not applicable. Of those who answered:

Assigned an new case	41%
Reported on the original case	32%
Assigned a non-SBI project	24%

If they did not trace the skip, what did your students do for the rest of the semester? 56% did not answer or answered not applicable. Of those who answered:

Assigned other SBI cases	53%
Reported on original case	25%
Completed other non-SBI project	22%

When in the semester does client skipping become a problem? 52% did not answer or answered not applicable. Of those who answered:

|------22%------|------26%------|------46.6%------|------34%------|------34%------|
Beginning Midsemester End

Problems faced when client skips? 51% did not answer or answered not applicable. Of those who answered:

Reassignment of students	33%
Grades or proper credit for students	16%
Students demoralized and/or discouraged	16%

What business failure factors do your students look for? 30% did not answer or answered not applicable. Of those who answered:

Financial management problems	33%
Managerial problems/lack of managerial expertise	33%
Cash flow	24%
Accounting problems/bookkeeping	19%
Capital adequacy	17%
Inventory management	17%
Total overall analysis	17%
Marketing problems	16%

Client cooperativeness in revealing financial matters? 9% did not answer or answered not applicable. Of those who answered:

Generally cooperative	25%
Very cooperative	18%
Reluctant	15%
Somewhat uncooperative	13%

What kinds of businesses seek your SBI assistance? 6% did not answer or answered not applicable. Of those who answered:

Retail	50%
Service	44%
Manufacturing	27%
Wholesalers	6%
Restaurant/food industry	6%

THE POISON IVY ISSUE

John Trinkaus, Baruch College (CUNY)

Abstract
Higher education is on the defensive. Contemporary conventional wisdom is faulting the academy's quality and cost. Reinforced with stories about a high default level for student loans, and questionable practices by colleges and universities in their efforts to field winning athletic teams, the resultant is an operating environment for the Small Business Institute (SBI) which is perhaps more turbulent and hostile than placid and friendly. Add to the mix a growing perception by some segments of small business, fueled by market place uncertainty, that institutions of higher education are unfair competitors, and there is created a setting which is dysfunctional relative to the SBI mission. However, the condition is not irreversible and, in fact, can be converted from a latent liability into a potential asset. With proper awareness, the SBI can become a significant determinant in changing a poison ivy image into a sweet flowering likeness.

Introduction
"The proper role of a university is to educate and conduct basic research. Today we have rampant duplication and competition with tax-paying businesses in areas that have nothing to do with education and basic research"--so declares Joseph O'Neil, chairman of the Business Coalition for Fair Competition, a group of more than 20 small business trade associations. In answer, Sheldon Steinbach, general council of the American Council on Education, replies: "Many of the claims of the small-business community are excessive and exaggerated. They are directed not toward establishing what they call a 'level playing field', but for driving colleges and universities out of the stadium". (Jaschik, 1987). Accompanying the rhetoric, distressed small business leaders and their political allies have actively mounted a legislative campaign to restrict many of the ancillary business activities of colleges and universities--such as the sale of popular consumer products (clothing and magazines for example), and the offering, for a fee, of the performance of common commercial services (such as catering and travel). It is reasoned that the academic community will have difficulty, in the existing social setting, in mounting and effective defense. For instance, pushing too hard for the right to operate certain businesses could convey to the public an impression that the leaders of academia are more concerned with making money than dispensing learning. Such an image is perhaps not one with which to be cloaked when appealing for communial support for altruistic educational missions under attack by government spending cut-backers. Further, most of the legislation being proposed is being introduced in a form that will channel it, for initial discussion and resolution, to tax and small business committees. As campaign contributions to members of such groups generally flow more from owners of small companies and trade associations, than from college administrators and professional educational assemblies, most of the burden of proof, it is reasoned, will probably fall to the ivied halls (Jaschik, 1987, A).

For their part, colleges and universities are beginning to recognize what is happening and realize that the matter can easily become a dysfunctional societal issue--one in which the academy could be portrayed as a large powerful uncaring elitist running roughshod over small weak emerging businesses (Trinkaus, 1987). Knowing that a reactive defense has limitations, conventional thinking is moving toward a posture of possible proactive offensive strategies. For example, services provided by the academy to the small business community are to be highlighted and the importance of on-going helping activities stressed. Too, the role of the unfair competitor is no longer to be passively accepted as a given. Those suggesting that it is an existing state of the world are to be challenged to substantiate their contention with validated supporting evidence (Jaschik, 1986, B).

At the time of this writing, Spring 1987, three states have already enacted some initial limiting statues--Arizona, Illinois, and Louisiana--with 15 others considering some form of similar legislation. The federal tax code, too, is presently being reviewed by the Congress. As now written, it allows colleges and universities to enter into business operations of any type, provided they pay taxes on all income unrelated to their basic educational mission. The determination of unrelated, while subject to challenge by the Internal Revenue Service on an issue by issue basis, is left to the school. It is being proposed by some, the Business Coalition for Fair Competition, for example (O'Neil, 1985), that colleges and universities first prove that supplemental business operations are directly related to their essential instructive undertaking, or are unavailable from the private sector, in order to claim tax exemptions (Chronicle, 1987).

On balance the issue is far from being a back-burner item. For many, it is a matter of more than passing concern. As an example, the question was a relatively hot topic at the 1986 White House Conference on Small Business: a national meeting of over 1800 delegates representing a cross-section of the American small business community (Thompson, 1986). This gathering was a culmination of an 18 month process involving over 55 state and regional convocations attended by thousands of individual entrepreneurs. Working with an initial base of about 2000 recommendations for Federal action, the Conference came up with 50 operational points (White House Conference, 1986). Ranked third in importance was prohibition of unfair competition—the first and second recommendations treating, respectively, liability insurance reform and the elimination of government- mandated employee benefits. Singled out were those nonprofit organizations which use their tax-exempt status and other advantages in marketing products and services also provided by small businesses. To provide relief, passage of new laws was requested, as well as the establishment of an advisory group to review the activities of nonprofit organizations that compete with small business (Blackman, 1987).

The General Accounting Office (GAO), the investigative agency of the Congress, however, feels that at present there is insufficient hard data on which to base a definite judgement on whether colleges and universities do indeed enjoy an unfair competitive advantage over small business. Information currently available, according to the GAO, has been compiled informally and is largely fragmentated and anecdotal (GAO, 1987). But, despite the result of the GAO inquiry, the issue continues to draw increasing attention (Jeschik, 1987, C). The American Council on Education, for example, an organization within the independent sector, sees a growing threat to the tax exempt status and legal privileges of colleges and universities (Bailey, 1987). The Tax Reform Act of 1986, by eliminating tax exemptions for nonprofit companies, is viewed as an ominous sign. Vocational activities, university hospitals, and joint university-industry research projects are believed to be among the areas of higher education that face the greatest risk of early loss of their tax-exempt status (Hansmann, 1987).

The Issues

It was probably about 1948, when a group of alumni donated the Muller Macaroni Company to the New York University Law School, that for-profit firms first started to become seriously concerned about competition from colleges and universities. The two basic grievances then raised still generally form the fundamental underpinnings of contemporary arguments: because of the tax break which they enjoy, nonprofits can price below that which for-profits can charge; and, because they can accumulate earnings faster, nonprofits can grow more quickly and are less vulnerable to bankruptcy than for-profits (Rose-Ackerman, 1982). While updating with the addition of newer points, such as nonprofits enjoying the benefits of sales tax exemptions and access to public-service advertising, the for-profit refrain continues to remain the same: "foul". As colleges and universities try harder to compensate for cuts in federal spending (Geist, 1981), and in some cases declines in enrollments, by expanding their fields of interests, the protests grow louder: "nonprofits, with an unjust edge resulting from not having to live with the same rules as for-profits, compete unfairly" (Simpson, 1987).

One rationale offered by colleges and universities for their involvement in a number of industries is the "thin market" thesis (DiLorenzo, 1987). The argument suggests that because of the limited demand for certain products, small businesses are not interested in supplying them. Hence, without the colleges and universities these products would not exist at all. However, small business being so concerned about academy entry into so many segments of the market suggests that the "thin market" justification may well be an over simplification.

Perhaps an over simplification, too, is the small business panacea that all that is required to achieve equity is to have the nonprofits play by the same rules as the for-profits. Forgotten is the special status and esteem which society normally bestows, in great measure, on its non-profits—particularly colleges and universities. Goodness and greatness is generally informally assigned in massive amounts, with haloing existing and persisting in overwhelming abundance. In such a setting it is not unusual that regardless of the flatness of the arena, an image exists that if a product or service is being offered by a college or university surely it is being done, not to achieve a profit but, for the public good. All other things being equal, existing social norms most times suggest to the consumer the nonprofit as the seller of choice.

Separating the emotional from the pragmatic, the hard from the soft, the involved issue on which most attention tends to focus is income tax. Even though nonprofits are the recipients of a number of special treatments and exemptions under Federal legislation, such as antitrust (Webster, 1970), bankruptcy (11 U.S.C., 1982), competition (15 U.S.C., 1982, A), copyright (17 U.S.C., 1976), minimum wage (29 U.S.C., 1982), postal rates (39

U.S.C., 1976), securities regulations (15 U.S.C., 1982, B), Social Security (42 U.S.C., 1976), and unemployment insurance (26 U.S.C., 1976), the matter which appears to be focal is the Federal income tax code.

Up until 1950, nonprofit organizations were exempt from any form of Federal corporate income tax. Two justifications were generally offered for the exemption. First, nonprofits provide goods and services required by society that, for a number of reasons, are not offered by the for-profits. For providing these goods and services, which otherwise would have to be offered by the government, they should be granted tax exemptions. Second, is a justification which argues that nonprofits offer goods and services about which consumers are not sufficiently knowledgeable to make informed judgements. Having these goods and services provided by nonprofits assures society of suitable quality and fair price in situations where unscrupulous for-profit firms might well provide inferior products at inflated charges (Unfair Competition, 1984).

Presented with a proliferation, following World War II, of tax-exempt organizations acquiring and operating commercial enterprises wholly unrelated to their exempt purposes (Urban Institute, 1983), coupled with growing protest by for-profit businesses, the 1950 Congress enacted the Unrelated Business Income Tax (UBIT) (Sect. 501, 1950). Parts 511 to 514 of the amended Internal Revenue Service Code imposed a tax on income from any unrelated business conducted by a tax-exempt organization. To be subject to the tax, the activity had to: (a) constitute a trade or business; (b) be regularly carried on; and (c), be unrelated to the fulfillment of the tax exempt purposes of the organization. In its wisdom the Congress did not preclude nonprofit organizations from freely operating commercial ventures, but sought only to curtail unfair competition with for- profit firms. Undertakings by colleges and universities which are basically exempt from UBIT fall into four major categories: (1) educational activities; (2) activities conducted primarily for the convenience of the students, and staff, and immediate publics; (3) research activities; and (4), community service. Small business progressively had, and increasingly continues to have, problems with all four of these exemption categories. Particularly troublesome are: (a) the sales of products and services to the members of the academy and the community and (b), applied research (Steinbach, 1987). The aggrieved believe that because of these overly broad exceptions, and the maze of legal ambiguities which developed, the law has failed to fulfill its intended purpose.

Thus, what the Congress had hoped would be a simple legislative solution to a public policy matter has become a rallying point for growing contemporary unrest. For example, the research activities of colleges and universities are under particularly heavy attack by small business. The onslaught started with the tax exemption allegation, but, as with many disputes, the flash-point was unable to be contained and a full fledged conflict has ensued. The escalations which followed includes, on the side of the small business, such points as: there is a revenue loss to the government from the tax-exemption of contract payments; and, full overhead, such as costs of equipment acquired with pre-tax dollars, is not allocated to research contracts. Universities and colleges countered with such arguments as: small businesses benefit from set-a-side programs which reserve certain classes of work exclusively for small businesses; and, some government agencies are mandated to apportion a fraction of their research budgets solely to small business (Troyer, 1987). The tax issue provided a starter footing on which were built, as a function of the specifics, a host of differing, but related, conflict situations in need of solution. The Congress, seemingly not having removed, in 1950, the underpinning on which much of the unrest is cast, is now posturing for what might well be another try (Comm. on Ways and Means, 1986).

SBI Role

The literature (Flippo & Munsinger, 1982, for example) suggests the characteristics of a conflict to be: (a) two or more parties involved in an interaction; (b) mutually exclusive goals; (c) behavior designed to attain victory; (d) mutually opposing actions and counteractions; and, (e) attempts to create relatively favored positions of power. In the case at hand, all these ingredients are present, to some extent, thus creating, potentially or in actuality, what can be relatively unfriendly, but not unmanageable, settings for Small Business Institute (SBI) operations. This is particularly true when the Institute is perceived as a distinct arm of the college or university, rather than a supporting Small Business Administration (SBA) ancillary.

Such an environment in itself, however, intrinsically is neither good nor bad, for conflict is simply a process that leads to certain results. What is important is whether these results are positive or negative relative to the well being of the state of the world--generally a function of the working of the conflict process: the resolution measures used and the objectives sought. When conflict serves to diffuse more serious confrontation, stimulates the search for new facts or solutions, and increases the involved parties' cohesion and performance--placed within a win-win mentality that seeks to provide acceptable gains to both- -the result is normally constructive. Changed to a posture where the intent is the harming, defeating and driving away the opponent--in an win-lose atmosphere heavy with anger and stress-- and the result is generally destructive.

While SBI agents are normally in no position to resolve the overall existing competition conflict between small businesses and college and universities--nor probably should they take it upon themselves to try and do so--they can, when suitable and proper, incrementally attempt to upgrade the tone of the conflict process. For example, they can suggest and support an environment in which the dispute is treated by such methods as problem solving, and consensus based on the concepts of cooperation and trust. Towards this end can be displayed by SBI agents, for both their clients and schools to see, a positive system of beliefs. For instance, an optimistic view can be held that a mutually acceptable solution will be found. Reinforcement can be added by exhibiting a well supported understanding of the desirability and value of such a solution. Too, but running some what counter to conventional social norms, would be an espousing of cooperation rather than competition. It can be reasoned that normally cooperation brings to the parties of the dispute, in addition to an enhancement of conflict resolution, greater satisfaction, more internal effectiveness, and increased operational efficiency. (Filley, 1975). Also, the belief that everyone is of equal value, regardless of power and status, can perhaps be advanced. To see differences is to encourage separatism, by forming a "we-they" footing--which is generally dysfunctional for enlightened problem solving. Further, encouraging adoption of a posture that accepts trustworthiness and views difference of opinion as helpful, would probably be a plus. People who trust others will normally not conceal feelings and information. Too, those who accept reasonable disagreement are normally receptive to creative problem solving initiatives.

In addition to advancing for consideration a set of constructive setting beliefs, which generally should be helpful in establishing a healthy environment in which the conflict process can function, SBI agents can contribute by also suggesting, when the situation is conductive to do so, operating styles which might well be used in working the process. For example, a strategy of avoidance--withdrawal from the scene--normally is not a desirable course of action. While the power of individual firms and schools is relatively small, and hence an inherent tendency to perceive little opportunity to be instrumental in affecting change understandable, if avoidance is adopted by all, grassroots will have little or no impact on any outcome. Compromise, too, normally is a technique that generally should be avoided--particularly in the early stages of action pointed toward resolution. Its quick use can have such dysfunctional consequences as less exploration of the nature of the conflict, incomplete diagnosis, and prescriptions oriented only toward alleviating symptoms. However, if eventually it appears that a win-lose outcome is starting to take shape, the compromise through bargaining (lose-lose), if enlighten and properly thought through, may then be desirable, perhaps should be pursued. Smoothing, simple appeals for cooperation and understanding, as well as forcing, the application of coercive power, similarly are probably not operating styles which one should suggest for adoption. The first generally only succeeds in encouraging cover ups and the hiding of true feelings, while the second normally results in ignoring effective and efficient solutions and the creation of latent pockets of festering hostility. As the technique of choice, problem solving should probably be offered. This operating style basically entails an open recognition of the issues, followed by planned sharing, examining, and assessing of the involved variables and associated relationships (Hellriegel and Slocum, 1978). Such an approach, a win-win outlook, known also as "integration" (Follett, 1941), needless to say is relatively difficult to achieve. But, when the consequences of a poor resolution are significant, the benefits to be realized from pursuit of such a strategy generally can be expected to far outweigh the associated costs.

That the SBI agent, functioning in his or her proper role, can have some beneficial impact on draining latent toxicity out of the existing conflict situation is generally a conservative assumption, when viewed in terms of the SBI agent's situational power and knowledge base. For example, having relatively little real direct say over the future of the parties, but enjoying a close relationship, the parties will probably see little or no risk in candidly discussing the matter. Too, as the parties do not perceive a risk, there will be no posturing, courting favor, or seeking approval. Hence meaningful dialogue is both possible and sustainable. Also, the dual organizational membership held by the SBI agent should bring with it a moderate, but sufficient, knowledge of the parties, background factors, and central issues.

Thus, there should present an acceptable level of credibility with which to help insure that the intervention to be practiced is properly targeted and constructively disbursed.

As to avoiding or minimizing possible down-sides, it is important that the SBI agent be scrupulously neutral in stance. This neutrality, on balance, both explicitly and implicitly, should encompass all facets of the matter ranging from the supported facts to the perceived emotions. Too, the agent should be suitably linked to the principals: both formally and in some what of an informal personal way. There should be a deep feeling of mutual trust and respect, a tolerance for diversity of views, and some measure of shared norms and common goals. Discussion should be open and free. Ideas, thoughts, and feelings should be easily verbalized without having to overly evaluate and prejudge their possible unintended between-the-line short term impact and potential long term effects.

Proper intervention of SBI agents into the conflict between small businesses and colleges and universities potentially has the ability to affect the outcome, accelerating, to some extent, the resolution of the underlying issue--if not that, then enhancing the parties abilities to better control the situation, in the form of less of a negative drain on the system. Understandably, the productivity of the intervention will differ with the circumstances and the persons involved--as well as a number of other variables, such as the parties' levels of motivation to reduce the conflict, and the facilitation skills of the intervenor (Walton, 1987). However, as productivity can be a negative number, in that not only is there an absence of efficiency but also a cost to sustain the loss, it is important to recognize that SBI agent intervention, in some settings, may be entirely imprudent. Hence, it should be selectively practiced; only when the probability of success is judged to be acceptable.

Conclusion

The Oversight Subcommittee of the House Ways and Means Committee has opened its hearings on the issue of alleged unfair competition by colleges and universities. While initially this Congressional group had no plans on introducing any bills in Congress on the subject, some Committee members are now explicitly stating that legislation will definitely be proposed. Small business seemingly has launched a major attack, the depth and intensity of which appears to have taken many segments of the educational community somewhat by surprise (Jaschik, 1987, D).

Basically, what is being discussed are changes in the way the Internal Revenue Service determines whether a commercial activity by a college or university is tax exempt--whether or not the activity is substantially related to the academy's primary educational mission. Some of the accompanying specifics include: possibly changing the way organizations are allowed to shift their expenses between taxable and tax-exempt operations; more closely examining the practice of ancillary taxpaying subsidiaries making large payments or donations to their nonprofit funders; providing more appropriate guidelines as to the types of applied research income that is tax exempt; and, more closely scrutinizing joint ventures between tax-exempt and taxable organizations (Jaschik, 1987, E).

In addition to inputs from the small business sector, the Subcommittee is hearing from the Treasury Department--which is seeking changes in the interpretation of UBIT standards so that an activity of a college or university would no longer be considered related solely because it was operated for the convenience of the institution's employees, customers, and clientele. Counter arguments as to the positive roles colleges and universities play in the economy, their overall importance to society, and claims as to the financial pressures on higher education, thus far seem to be ineffective in a setting where it is perceived by some that by providing the relief being sought by small business there is an important accompanying spill-over benefit--revenue generation for the United States Treasury, Colleges and universities are being put on the defensive by being cast as a monolith that enjoys squashing emerging "mom and pop" undertaking, and funneling of as much money as it can, regardless of the source, into its coffers (Jaschik, 1987, F).

The one major effort, to date, by colleges and universities to collectively address the issue, a policy statement and guidelines on educational business activities, prepared by the National Association of College and University Business Officers (NACUBO, 1987), has been placed on hold at the request of the American Council on Education (ACE). ACE, in requesting the tabling, felt that the document was incomplete and needed amendments. Further, they believed that if released it would become the focus (and target) of the Congressional hearings. This strategy, however, seemingly has backfired in that it is reinforcing small businesses' contention that the academic community is uncarring-- they have not taken a single step toward self-policing. Some higher educational officials are now critical of ACE's actions and are questioning the lead role which the academy has assigned to ACE in this controversy. The result is that instead of unifying in the face of the attack by small business, colleges and universities are beginning to bicker and fragment—a secondary conflict may well be festering within the bounds of the initial dispute.

Entry into this arena is being suggested as an informal, but informed, step to be taken by SBI agents. It is recognized that their business clients will not be too interested in the subject, per se, probably sitting at the bottom step of the hierarchy of needs (Maslow, 1954)--physiological wants for the business being their major concern. However, next in their order of prepotency, most likely, is safety--freedom of the firm from fear of external harm. And, this concern, which intrinsically feeds on an inherent belief by many emerging small business persons that the "establishment" may well be out to capture off their idea, given the chance, is something which normally has a relatively low triggering threshold point. On the side of the SBI agents' employing colleges and universities, admittedly many are not directly involved in the matter. However, most have a keen interest in how the academy is perceived by the outside world. The SBI provides a port for such viewing, framed within this specific context. Even if things which have a direct relevance are not sought out through such a window, indirectly there might be seen happenings which would be of pass-on interests to others, such as the professional associations in which colleges and universities hold memberships. Hence, a potential for helping does exist; on an individual basis it is probably small, but collectively it may well be significant.

SBI agents, potentially, are uniquely qualified to play a role in this conflict between small business and colleges and universities. Being skilled in bringing to pass greater levels of personal and interpersonal effectiveness, they are specifically equipped to help establish a climate in which the present dispute can be equitably resolved. Further, they can probably meaningfully contribute to putting into place a healthy environment in which growth, development, and renewal are brought about in the field as a natural part of its regular operation. Helping to develop behavioral competence in communication, decision making, problem solving--as a consultant rather than a teacher--is something the SBI agent can do well. That something is what is required here; a qualified intervenor to assist in developing thinking in the initial phases of the present conflict and helping in the establishment of on-going participant postures that can respond to new problems and difficulties which may be encountered.

Epilogue

This past summer, the National Association of College and University Business Officers (NACUBO) submitted their recent formulated and approved policy statement and guidelines, on educational and business activities of colleges and universities, to the Congressional Subcommittee on Oversight of the House Ways and Means Committee. This was done to demonstrate to the Committee that colleges and universities are serious about self-regulating their business activities and reporting unrelated income to the Internal Revenue Service.

In the fall of the same year, the Association of American Universities requested that the presidents of the nation's major research institutions put cease and desist pressure on those groups, such as the NACUBO, within the academy who are now lobbying to block changes in the federal laws that govern the business activities of tax-exempt organizations. It is the Association's feeling that such lobbying tends to portray colleges and universities as greedy. Organized efforts on Capital Hill, at this time, the Association believes, should be limited mainly to issues affecting student aid and basic research.

For their part, small business organizations seemingly more united in their efforts, have been actively pushing for change. In part, as a result of this effort, Republican members of the Oversight Subcommittee have prepared legislative proposals which they hope will be adopted next year. These proposals, among other things, would: Allow a tax exemption for the sale of items to students for convenience only if the items were primarily for use on the campus and had a useful life of less than one year; and, the tax exemption on research would be limited to inquiries which are basic in nature; applied research would be exempt only is the work was "substantially related" to the mission of the college or university.

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AN EXAMINATION OF ENVIRONMENTAL FACTORS RELATED TO A DOWNTOWN SMALL BUSINESS DISTRICT

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ABSTRACT
Concern by a local city's Merchants' Association over why people traveling through the city's central business district failed to stop and shop, lead to this study. The examination of Merchant's perceptions and public responses found several environmental factors that affect the degree of downtown shopping by the public. The results indicate that there are important environmental factors affecting where the public does most of their shopping. It is suggested that future research can contribute greatly to the success of small businesses by examining the combinations of management practices that are used by successful small businesses within the various subsets of environmental variables.

INTRODUCTION
Thirty eight percent of the Gross National Product is accounted for by small businesses (7). In addition, 51 percent of the current jobs and approximately 70 percent of the new jobs are accounted for by our Nation's small businesses. The social and economic benefits conferred by small businesses justify research to better understand the environment that they operate within and thereby help their chances of survival.

While today's small businesses are confronted by a multitude of management factors critical to their survival, it is expected that the firms dealing correctly with environmental factors would also be significant to their survival. For instance, several studies have shown the importance of management practices as critical success factors for small businesses (6) (2) (5) (3). However, studies such as, Marcel and Greene's (1) not only report several critical management practices but also included the social context element "failure to pick the right location" as a critical success factor for new businesses. Included in this critical environmental factor is parking: an element of the "right location." However, other than warnings such as Marcel and Greene's, research has not shown how an established small business can and should deal with those environmental factors, that once a business has established a location, may lie outside the business' control. Nor has research shown whether management can operationalize a strategy if they do decide to try and affect a level of change for an environmental factor such as parking.

The concern for the survival of our Nation's small businesses is supported by the statistics reported in THE STATE OF SMALL BUSINESS: A Report by the President (4, p.3). It was reported that the number of small business start-ups, during 1985, increased by 16.4 percent (compared to 1984). However, during this same reporting period the number of small business failures increased 9.6 percent and small business bankruptcies increased 11.5 percent. This study was initiated when the city's Merchants' Association became concerned why several thousand cars each day passed through their city but relatively few stopped at their central city business district. To add to this frustration, over half of those driver's that did stop to shop usually made a purchase.

This research examines merchants' perceptions and public attitudes toward the contextual factors present in their business environment. A questionnaire was first administered to the local merchants and asked for their perceptions of how area residents would response. This initial data was then compared to the questionnaire responses given by the area's population. It was expected, given the small size of the city, that the merchants' perceptions would match the public's responses. The study involved several graduate students in the data gathering and in the analyses. The study site was a small Northeast city within a 50 mile radius of our University. The Merchants Association asked that the site not be identified because of business reasons. In this report the site therefore will be referred to as "city".

The pattern of the responses and their statistical relationships will first be reported. The implications of the findings relative to small business will then be discussed. Finally, the researcher suggests that further studies be conducted to validate and verify the questionnaire and these results.

RESEARCH ISSUES

A small business once it has selected its location may be placed in a situation where there are several critical environmental factors that lie outside the business's control but which may greatly affect its performance. It would be expected, that while these factors may be important, they would not be the sole determination for whether a small business succeeded or failed. For instance, the availability and convenience of parking may be critical to whether consumers consider shopping at a specific business district. Environmental factors, such as parking, would be controlled by the city planning board which, it is assumed, would have as a top priority the city's interest in having a healthy, active, and successful business district. However, the planning board may be confronted by at least two groups: the tax payers (who may not want the tax expense of additional parking), and the business owners (who may need the additional parking but who individually or collectively can not afford the cost). If survival of the small business(es) depends on additional parking or parking space turnover, then the question becomes: how does the small business merchant implement a change strategy directed toward environmental change agents?

The purpose of this research was to determine whether the merchants perceived correctly what they thought were deterrents to customers shopping in City's business district. The research questionnaire was first used to measure the merchants, predictions of how they felt the local public would respond. After the questionnaire was given to the merchants, the questionnaire was distributed to the local public for their responses. Each response group (merchants and public) was then analyzed separately and the response patterns plus statistical analyses of the means were used to give an indication of whether the merchants' perceptions agreed with the public's responses.

METHODOLOGY
Data for this study was collected in the Spring of 1987 by means of a questionnaire inserted in City' local weekly newspaper. The newspaper produced 6000 copies with one questionnaire included in every newspaper whether it was directly sold to a customer, delivered to an address, or mailed to a subscriber. The reader was then asked to return the questionnaire to one of four local collection points or to mail it back to the newspaper office. The only distribution of the questionnaire was in the one production run for that week. The questionnaires were collected from the drop off points each day during the last three working days of the week of distribution. The Merchants' Association, to encourage a better response on this one-time distribution, donated four ($25) food certificates which were used in a lottery drawing. The drawing used a detachable name and address slip that was dropped off separately, but at the same location, as the questionnaire. The winning certificates were good at any of the local grocery stores.

The questionnaire was designed: 1) to assess how the public felt about the local business environment, 2) to assess where and why the local person was doing his/her shopping, and 3) to allow the respondent a chance to express, using his/her own words, how he/she felt about city's business district. (See Appendix-A for the list of questions and response choices analyzed by this study). This analysis was done using the University's VAX system and SPSS (Statistical Package for the Social Sciences) software.

RESULTS
The administration of the public questionnaire resulted in 273 usable responses (4.5 percent) being returned. The merchant questionnaire, however, was handled on a one-to-one interview basis and all 53 merchants contacted completed a questionnaire. It should be noted that doctors, lawyers, and other similar professionals were not considered merchants and that public service organizations, such as banks, were also not included as merchants.

The initial analyses of the questionnaires found that a majority of the respondents shopped within city's business district one or more times a week. In fact, the responses by both the merchants and the respondents closely agreed on the frequency of shopping. The merchants' perceptions were that 76 percent of the time they expected that local people would shop one or more times a week in City's business district. The actual public response was 81 percent (see Table 1).

TABLE 1
FREQUENCY OF SHOPPING IN BUSINESS DISTRICT

	MERCHANTS	PUBLIC
Never	3.7%	.7%
Once a Month	14.8%	10.3%
Twice a Month	3.7%	8.4%
Once a Week	27.8%	31.5%
Greater than Once a Week	48.1%	49.1%

The examination of both the merchants' and the public's response to the question "If you shop in City's business district, how would you rate it on each of the following (parking, snow removal, and general appearance)?" found agreement in direction. Ninety percent of the merchants reported "parking" as "Poor" or "Fair" and 80 percent of the customer responses also reported "parking" as "Poor" or "Fair". However, a standard two tail-test of significance of the means did find a significant difference at the .01 level of significance (see Table 2).

The Hypothesis that the difference in means is attributed to chance is therefore rejected.

TABLE 2
PARKING *

	MERCHANTS	PUBLIC
Poor	66.7%	46.9
Fair	24.1%	33.0%
Adequate	3.7%	13.6%
Good	5.6%	4.4%
Excellent	0.0%	1.5%
Don't Know	0.0%	.7%

* Means statistically different at .01 level of significance

SNOW REMOVAL*

	MERCHANTS	PUBLIC
Poor	75.9%	63.4%
Fair	16.7%	18.3%
Adequate	7.4%	10.6%
Good	0.0%	7.3%
Excellent	0.0%	0.0%
Don't Know	0.0%	0.4%

* Means statistically different at .01 level of significance

GENERAL APPEARANCE

	MERCHANTS	PUBLIC
Poor	51.9%	49.5%
Fair	33.3%	29.3%
Adequate	11.1%	10.6%
Good	3.7%	9.9%
Excellent	0.0%	0.7%
Don't Know	0.0%	0.0%

Likewise, the analysis of the "snow removal" responses for both groups found more than 80 percent of each group reporting "Poor" or "Fair". As was found, for parking, the test for significant differences between the two means (merchants and public) for snow removal was statistically significant at the .01 level. The response for "general appearance" was likewise heavily weighted toward "Poor" or "Fair" (see Table 2). The two-tail test at the .01 level of significance, did not find the means statistically different. Therefore the hypothesis was not rejected for this variable.

The question "Have you seen or heard any advertisements concerning the shops in City's business district in the past few months?" was intended to assess what level of advertising awareness existed within the population. The merchants predicted that approximately half of the responses would be "Yes a few" and then approximately a 20 percent response for each: "Yes very few" and for "Yes quite a few". A smaller percentage than was predicted reported "Yes a few" advertisements had been seen or heard (see Table 3). However, the public response was much higher than the merchants' prediction for "Yes quite a few" and "Yes a lot".

TABLE 3
ADVERTISING

	MERCHANTS	PUBLIC
No None	1.9%	5.9%
Yes Very Few	18.5%	17.9%
Yes a Few	51.9%	37.4%
Yes Quite a Few	18.5%	26.4%
Yes a Lot	9.3%	12.5%

When comparing City's Shopping district against other malls, plazas, and near-by village shopping districts the merchants perceived that the mall (approximately 8 miles away) would be their main competitor (see Table 4).

What the public reported was the main competitor being the plaza right outside their own city. In fact, 43 percent of the respondents reported the plaza as where they shop the most. On-the-other hand, the merchants perceived that over 27 percent of the respondents would indicate that City's business district was where they shop the most. However, examination of the public responses found only 15 percent selected City.

TABLE 4
SHOP AT THE MOST

	MERCHANTS	PUBLIC
Nearby Mall	25.9%	17.2%
Nearby Plaza	7.4%	17.2%
Nearby City	0.0%	1.5%
Nearby Village	11.1%	2.2%
Downtown Scranton	1.9%	1.5%
Plaza Outside City	22.2%	42.9%
City's Business District	27.8%	15.4%
Other	3.7%	2.2%

When asked why they did most of their shopping at the location indicated in the previous question the response "parking" was the major consideration by both the merchants and the public (see Table 5).

TABLE 5
ATTRIBUTES WHERE MOST SHOPPING IS DONE

	MERCHANTS	PUBLIC
Better Quality	11.1%	7.7%
Parking	61.1%	49.5%
No Youths	16.7%	7.3%
Better Police	1.9%	6.2%
Prices	13.2%	24.9%
Shops	37.2%	23.8%
Selection	25.9%	19.8%
Convenience	31.5%	32.2%
Other	22.2%	16.1%

Likewise, both groups reported that "store hours are more convenient" was also an important factor. However, the merchants perceived that the number of youths in and around City's business area would be an important factor (17 percent). Analyzing the public response to the question of youths found only 7 percent indicating that this factor affected their choice of shopping district. Prices, however, found the merchants prediction of 13 percent very low compared to the 25 percent public response which indicated this as another important reason for the public's choice of shopping district. The demographics for the segment of the public that responded are shown in Appendix-B. In general more than half of the responding public: were 55 years old or older, were female, had between 1 and 3 other members in their family, had a total income from below $15,000 to as high as $35,000, and lived within two miles of City's business district.

SUMMARY

Several observations emerge from this study. First, the merchants perceptions followed a very similar pattern to the responses given by the public. Second, the merchants had correctly identified several environmental factors that the shopping public were unhappy with in City's business district. For instance, the agreement by at least half of those responding, from both groups indicating that parking in the business district was primarily rated fair or poor and that parking was an important factor in determining where a person did most of their shopping. In addition, "store hours are more convenient" represented almost a third of the responses for why a person selects a particular shopping district. However, convenience for shopping began taking on a much larger and important picture relative to why customers selected a particular shopping area. The fact that parking is easier at the plaza, snow is routinely removed, and there are no meters to pay for or otherwise contend with, in addition to the store hours being more convenient, may account for why 43 percent of the respondents selected the plaza outside City as the place where the public shops the most. In addition, the majority of responses by persons 55 and older may indicate the segment of the population most sensitive to lack of parking, snow removal, and, in general, the overall convenience factors present in City's business district. Second, the limited number of younger people responding to the questionnaire may be due to their greater mobility or their shopping at a business area close to their job.

CONCLUSION

The limited response by the public prevents this study from drawing any strong general conclusions. However, the small and very specific response rate that did result from this study has possibly pointed the way toward a larger and more serious problem confronting the small business owner who has selected a site in a downtown or city business district. The convenience offered by a mall or plaza is hard to overcome at best and impossible to overcome without the help of those persons or groups responsible for the environment of the downtown business district. Once a potential customer has decided to go shopping, and if he/she must use a vehicle, than all other things being equal the customer will shop at the most pleasant and convenient business location. The choices for the downtown business owners become much more constrained if they are going to compete directly with the malls and/or plazas. The downtown businesses must offer products or services not available at the malls or plazas. They must also encourage change in their city's environment to help foster the improvement in attitude and motivation of their potential customer.

All businesses operate within a social context that consists of many environmental and non-environmental factors critical to their success and performance. How the businesses react to these various factors may vary depending on their specific business location, their type of business, and their type of customer. It is suggested that future research can contribute greatly to the success of small businesses by examining the combinations of management practices that are used by successful small businesses within the various subsets of environmental variables.

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APPENDIX - A
SURVEY QUESTIONS

1. How often do you shop in City's business district?

NEVER	ONCE A MONTH	TWICE A MONTH	ONCE A WEEK	GREATER THAN ONCE A WEEK
1	2	3	4	5

2. If you shop in City's business district, how would you rate it on each of the following

	POOR	FAIR	ADEQUATE	GOOD	EXCELLENT	DON'T KNOW
Parking	1	2	3	4	5	6
Snow Removal	1	2	3	4	5	6
General Appearance	1	2	3	4	5	6

3a. Of the following shopping districts which do you shop at most?

> Responses included names of near by malls, plazas and other village business districts.

3b. Why do you do most of your shopping at the district circled in number 3a? (Circle all that apply).

1. better quality
2. convenient parking
3. fewer young people on the streets
4. better police protection
5. better prices
6. greater variety of shops
7. greater selection
8. store hours
9. other

4. Which newspapers do you read?

> Responses included 8 local and regional choices plus "others"

5. Your age: __18-25 __35-44 __45-55 __55 or older

6. Your sex: __Male __Female

7. Number of members in your immediate family _________

8. Total income in your immediate family ______________

1. less than 15,000
2. between $15,001 & $25,000
3. between $25,001 & $35,000
4. between $35,001 & $45,000
5. greater than $45,000
6. fixed income (for instance:pension, Social Security)

9. How far from the City do you live? ____________miles

APPENDIX - B
DEMOGRAPHICS OF PUBLIC RESPONSES

<u>AGE</u>	
18-25	3.3%
26-34	8.8%
35-44	18.7%
45-55	13.2%
55 and older	56.0%
<u>SEX</u>	
Male	35.2%
Female	64.8%
<u>FAMILY MEMBERS BESIDES SELF</u>	
0 members	7.7%
1 member	15.8
2 members	30.8%
3 members	20.1%
4 members	14.7%
5 members	8.1%
6 members	1.1%
More than 6 members	1.9%

TOTAL INCOME OF FAMILY

	PREDICTION BY MERCHANTS	PUBLIC
Less than $15,000	13.0%	20.9%
$15,001 & $25,000	31.5%	19.4%
$25,001 & $35,000	13.0%	14.7%
$35,001 & $45,000	7.4%	6.2%
Greater than $45,000	7.4%	6.2%
Fixed Income	24.1%	6.6%

DISTANCE FROM CITY'S BUSINESS DISTRICT

	MERCHANTS	RESPONDENTS
0 Miles	31.5%	42.9%
1 Mile	27.8%	25.6%
2 Miles	7.4%	9.9%
3 Miles	5.6%	2.6%
4 Miles	5.6%	4.0%
5 Miles	5.6%	2.9%
6 Miles	0.0%	3.7%
7 Miles	11.1%	3.7%
8 Miles	3.7%	1.1%
9 Miles	0.0%	0.4%
10 Miles	1.9%	0.7%
More than 10 miles	0.0%	2.7%

OUTSHOPPING IN HAMMOND

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ABSTRACT
The purpose of this paper is to present a case study of the outshopping problem in Hammond, Louisiana and to present the methods used by the SBDC in cooperation with University Marketing Research classes to research the problem and disseminate information to local merchants that would help them deal with the problem.

Small businessmen today face a variety of problems; the failure to meet expected sales levels is perhaps the most widespread concern of small business retailers today. One cause of lost sales by retail merchants of smaller towns is consumer outshopping. Outshopping refers to consumers shopping outside of their hometown area. The number of outshoppers leaving small towns for larger nearby cities is considerable. Research studies report a median 65% of the residents of smaller towns outshop. Outshopping also occurs among residents of larger cities; about 20% of the population of larger cities shop beyond the trading area of local merchants (Papadopoulos, 1980; Thompson, 1971).

The focus of this study is to examine the extent of the outshopping problem in Hammond, Louisiana and the effects outshopping is having on the many small businesses and merchants within the Hammond, Louisiana area.

BACKGROUND
Since the late 1950's many researchers have examined the phenomena of outshopping. Previous research has indicated that the "typical" outshopper may be described as having a higher income level than shoppers that remain in their home towns to shop, and outshoppers appear to be younger than inshoppers (Darden and Perreault, 1976). Most researchers agree that occupation and education do not seem to affect outshopping behavior, although this hypothesis needs to be tested for the rural poor.

In addition to demographic profiles of outshoppers, psychographic lifestyle characteristics have also been examined. According to Darden and Perreault, outshoppers tend to be on the whole, more fashion conscious, self confident, optimistic about their futures, and demonstrate greater innovative patronage behavior. In regard to the outshoppers' motivations to shop outside of their city, researchers from several studies agree that outshoppers are dissatisfied with the selection of merchandise, prices, quality of merchandise, and services offered by local retailers.

The data for the study was collected in Hammond, Louisiana. Hammond has a population of approximately 25,000 residents. It is located between two major cities in Louisiana connected via interstate highways. New Orleans, 55 miles to the south, has approximately 1,000,000 people and has many shopping centers, regional malls, and active CBD retailers. Baton Rouge, 45 miles to the west, has approximately 250,000 residents and has two regional malls as well as several community shopping centers and smaller malls.

Hammond merchants are concentrated in three distinct areas: in a historic downtown district, in an area of community shopping centers and in a multilevel mall that has approximately 80 stores with 3 major department stores.

METHODOLOGY

Data Collection

The data collection method undertaken was a census approach. With only a few exceptions each subdivision, road, street, and apartment complex was canvassed. The field work was accomplished by assigning student teams of two to four students to every major north-south, residential street in Hammond.

A total of 1,000 usable questionnaires were gathered. The data was collected through drop-off self-report questionnaires. Respondents were asked to complete the questionnaires at their leisure and the questionnaires were picked up during the day originally contacted or the following day. A majority of the questionnaires were collected within 1 hour after drop-off. Individuals that were not at home during the primary drop-off day were contacted in the following week.

Every effort was made to contact as many Hammond residents as possible throughout the city. The comprehensiveness of the data collection method resulted in respondents from a broad range of socioeconomic groups. Since Hammond is the site of a university, many of the students responded to the study. In order to make the findings of this study more representative of small, non-university towns, the students were eliminated from the analysis. Students commuting from other towns would necessarily bias the study since it can be assumed that such Students would automatically shop out-of-town. Thus a total of 800 questionnaires were used in the following analysis.

Measures

The information collected in the study centered on four major areas: (1) residents' attitudes toward shopping in Hammond, (2) attitudes toward outshopping, (3) perceptions of local merchants' selection of merchandise and (4) the extent of outshopping behavior.

The respondent's attitudes toward shopping in the downtown area and in the mall were measured on a five point Likert scale. The attitude, interest, and opinions toward outshopping were also measured on a five point scale.

The perceptions of local merchants' merchandise selection and prices were measured with a three point scale. Perceptions of price were obtained through a scale with three choices: Hammond merchants are less expensive, more expensive or about the same as out-of-town merchants. Perceptions of selection were similarly measured with a three point scale: selection is better, about the same, or not as good as out of town merchants. Perceptions of selection were obtained for four product categories: automobiles, home furnishings, clothing and groceries.

The extent of outshopping behavior was measured through reports of frequency of out-of-town shopping trips and the percentage of money spent on out-of-town purchases. The four product categories were used to obtain information on the percentage of money spent out-of-town in Baton Rouge or New Orleans.

ANALYSIS AND RESULTS

The analysis of the data provided some interesting and surprising results to the town merchants. Approximately 72% of the residents surveyed were classified as outshoppers. For the purpose of the study residents that shopped out-of-town, once a month or more were classified as outshoppers. In our discussion of the results, the attitudes of both inshoppers and outshoppers will be presented when appropriate as well as the attitudes of the entire sample.

Attitudes Toward Hammond Mall and CBD

The survey included several questions about retail attributes of the mall and the downtown merchants. Attributes of friendliness of sales personnel, parking, convenient location, merchandise selection, pricing, and shopping enjoyment were surveyed.

Perceptions of The Mall

The majority of the sample agreed that the mall stores had friendly personnel, parking was not a problem, and that the location was convenient. In regard to pricing, selection, and shopping enjoyment the mall merchants fell below the majority in positive perceptions. The opinions of the total sample revealed that lack of selection was a serious problem with only 43% of the sample agreeing that the mall offered a wide selection of merchandise. Only slightly more than half (51%) agreed that the mall was a fun place to shop. Thus, lack of selection and shopper enjoyment present major problems for the mall merchants to overcome.

Perceptions of The CBD

The central business district stores were considered less favorable than the mall stores on all of the attributes surveyed. The central business district fared very poorly on selection of merchandise with only 17% of the sample agreeing that the CBD had a wide selection of merchandise. As indicated in Table 2 it appears that the respondents were also unhappy with the availability of parking and do not feel that the location is convenient. The majority of the respondents were neutral (46%) about the CBD prices. It also appears that lack of shopping enjoyment is a major problem for the CBD merchants with only 26% of the sample reporting that the CBD was a fun place to shop. Thus, it appears that CBD merchants face several problems. Lack of selection, poor parking availability, and lack of shopping enjoyment are major targets for improvement.

Attitudes Toward Shopping Outside of Hammond

One of the primary objectives of the study was to determine the presence or absence of a difference in inshopper and outshopper attitudes toward shopping outside of Hammond. The respondents were questioned about their loyalties to home-town merchants, time and costs of shopping out-of-town, and the purchase of gifts and expensive items out-of-town.

In general, the outshoppers and inshoppers tended to differ by fifteen to twenty percent in their attitudes toward outshopping behavior. The outshoppers consistently had more negative attitudes toward home town loyalty. When asked if people should shop where they live, only 31% of the outshoppers agreed with the statement. When questioned about the time, trouble, and costs of out-of-town shopping, outshoppers consistently responded that outshopping was worth the effort and that time was less important to them.

In regard to expensive purchases and gift shopping, the results appear to be mixed with no strong indication that gifts and expensive purchases are major motivations to outshop.

EXTENT OF THE OUTSHOPPING PROBLEM

There appears to be a sizable leakage of retail dollars spent on the four product categories surveyed. A major problem exists in the automobile and clothing areas particularly. Each product category will be discussed separately as well as the perceptions of price and selection for each product category.

Automobile Purchases

As was stated earlier there is a large amount of retail leakage in the automobile sales area with 40% of the respondents surveyed spending fifty percent or more of their automobile purchase dollars outside of Hammond. About one third of the respondents felt that Hammond automobile prices were more expensive than out-of-town dollars. A more serious problem is evident in the respondents' attitudes about availability of selection. Over 40% of the participants in the study stated that selection in Hammond was not as good as that of out-of-town dealers. With regard to inshopper and outshopper differences in perception, a larger percentage of outshoppers tended to view the prices of local merchants as higher and the selection more limited than did the inshoppers. Forty-five percent of the outshoppers reported that they buy one-half or more of their automobiles out-of-town, while 25% of the inshoppers reported spending half or more of their automobile purchase dollars out-of-town.

Clothing Purchases

One of the primary problem areas of outshopping in Hammond is the clothing market. Of the respondents surveyed 53% reported that they buy one-half or more of their clothing needs outside of the local area. The major motivation for outshopping behavior appears to be selection, with 60% of the sample surveyed stating that the local selection is not as good as selections offered by Baton Rouge and New Orleans. Pricing also seems to be a problem, but to a lesser extent than lack of selection. About one-fourth of the respondents indicated that prices in Hammond were more expensive than out-of-town.

The perceptions of inshoppers and outshoppers appear to differ slightly. Both groups indicated a displeasure with selection, with outshoppers disagreeing to a greater extent. Perceptions of price were similar among both inshoppers and outshoppers. Although the perceptions are similar, outshoppers purchase a larger percentage of their clothing (64%) out-of-town than inshoppers (27%).

Home Furnishings
About one-third of the respondents reported spending 50% or more of their home-furnishings expenditures out-of-town. Almost half of the respondents stated that the selection of home furnishings in Hammond was not as good as the selection in Baton Rouge and/or New Orleans. About one-third of the respondents perceived the pricing of Hammond's merchants to be more expensive.

In general, both inshoppers and outshoppers perceived selection to be a major problem. It is interesting that both inshoppers and outshoppers share very similar opinions about selection and pricing policies of the local merchants. Although both share similar perceptions, almost twice as many outshoppers buy half or more of their home-furnishings out-of-town.

Grocery Purchases
Grocery outshopping does not appear to be a major problem. Although it is interesting that 25% of the consumers reported spending 50% or more of their grocery dollars outside of Hammond. Neither pricing nor selection appear to be major problems, although 22% of the respondents reported that Hammond grocery prices were higher. It appears that consumers choosing to shop outside of Hammond for groceries may be motivated more by seeking lower prices than selection. The absence of a warehouse type superstore in Hammond along with the presence of one on the perimeter of both the New Orleans and Baton Rouge retail areas may be the reason for this perception.

Both inshoppers and outshoppers expressed similar opinions about Hammond grocery merchant's pricing and selection, although outshoppers are more inclined to seek out-of-town merchants for their perceived needs.

DISCUSSION
The results of the survey indicate an overwhelming dissatisfaction with selection of merchandise. The lack of selection within the automobile, clothing, and home-furnishings product categories is a major problem for both mall and downtown merchants. The major problem for mall merchants appears to be lack of "fun" when shopping as well as selection. The CBD merchants face several problems including pricing, selection, location, and lack of shopping enjoyment. Overall the CBD merchants have a poor image as seen by both inshoppers an outshoppers, and the mall is perceived much more favorably.

In regard to respondents' motivation for outshopping, they appear to be motivated by selection of merchandise. More importantly, although inshoppers also feel that selection is a problem, they are not as motivated as outshoppers to seek selection out-of-town. By almost a two to one margin outshoppers purchase more goods out-of-town. This is probably due to the inshoppers attitudes toward outshopping. That is, outshoppers feel outshopping is worth the effort and time. Inshoppers' are more time conscious and do not feel that going out-of-town is worth the time, gas or effort. Thus, outshoppers act on their perceptions and inshoppers do not. The majority of the outshoppers appear to be younger and more affluent. The outshoppers also appear to be more fashion conscious and sophisticated. Thus, if the merchants hope to recapture some of the dollars that are leaking into the nearby larger cities, they must reach this valuable market segment and attend to their discriminating needs.

RECOMMENDATIONS

Following an analysis of the data a meeting with the town merchants took place and the suggestions for overcoming the outshopping problem given to the merchants. Specific recommendations for each product category were made as well as general suggestions for all of the merchants of Hammond.

General Recommendations

General recommendations for retailers were divided into recommendations for each of the following areas that should be addressed in the store's marketing strategy:

Product selection is of primary concern. Stores should "show" themselves as offering both a wide selection and the latest in fashions. Breadth of selection is much more important than depth.

Promotion should be tailored to this market. Upscale, quality and selection are important here. Price promotion seems to be secondary in importance to product promotion.

Communicating what you have to offer and why the customer is likely to benefit from it (i.e. be fashionable, own quality) would be expected.

With regard to placement, consumers expect quality and selection. The store's interior should reflect the level of sophistication expected by this market. Lighting should be used so as to highlight those goods deemed relevant to this market.

Price is secondary to selection for soft goods. For big ticket and grocery items, perceptions may be misleading. Need to emphasize price competitiveness.

Specific Recommendations

The major recommendations for the automobile dealers included stressing price competitiveness and the availability of acquisition of automobiles from other dealers' lots through a computerized information network. The availability of in-town service work and custom ordered automobiles through local automobile dealers should also be stressed.

The clothing retailers major problem was lack of selection. The need for quality and fashionable clothing was also indicated in the analysis. Thus, clothing retailers may be able to bring new interest to their stores by using trunk shows and fashion shows.

MERCHANT REACTIONS

General Reactions of Merchants

Following meetings with the Chamber of Commerce and the Downtown Merchants Association, the Hammond retailers responded to the results of the study, and the suggested strategic recommendations favorably. Overall, the merchants were shocked at the size of the retail leakage from the Hammond area, and they were anxious to help overcome the loss of sales. The downtown merchants were also anxious to help overcome the negative perceptions of the downtown area.

Response of Mall Merchants

The problem of poor merchandise selection and quality among mall merchants was the major area that the merchants responded to. Since many of the mall stores were a member of a retail chain, a number of the store managers sent copies of the report to their superiors. Changes in the merchandise allocations of some of the stores followed the acceptance of the report. Also, some of the merchants ran advertisements specifically aimed at the "Outshoppers."

The merchandise selection problem of the small retailer is compounded by the fact that his small town location may require that he stock a more limited product line than a competing store in a larger market. Thus, an "Will Get It" program was recommended to satisfy those customers who could not find the item they wanted in a local store.

Response of Downtown Merchants

The Downtown Merchants Association were very concerned about their poor image. Following the report presentation, a committee of merchants was formed to help overcome the image problem of the downtown merchants. A number of festivals were planned as well as a co-operative advertising effort. The theme "Downtown Is Uptown" was adopted by the downtown merchants.

Response of Merchants from Other Towns

The outshopping study generated a lot of interest in the nearby smaller towns in the Hammond area. Following newspaper articles, radio interviews, and speeches, a number of the merchants in the nearby smaller towns also indicated that they would be integrating some of our suggestions into their businesses.

CONCLUSIONS

This study demonstrated that outshopping is a significant problem to the small-town retailer. Existing retailers have the opportunity to address this problem and penetrate the retail market of their own town.

Those contemplating entering the retail market of a small-town are well advised to consider the effects of outshopping on their sales projections. The effective population of the town may be significantly reduced when one considers the number of people who live in the town but shop elsewhere.

This study provided an exercise that brought the resources of the University's SBDC and Marketing Research classes to bear on a problem that affected the towns economic health. It created a basis for cooperation between the University Community, Chamber of Commerce, Mall Merchants Association and Downtown Development Committee. Many of the recommendations of the study were adopted by individual merchants and merchant organizations.

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SMALL BUSINESS BANKRUPTCY CAUSED BY POOR FINANCIAL AND LOCATION PLANNING

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ABSTRACT
The purpose of this study was to try to determine the cause of rapid small business failure. Most small business failures do not leave a trail that can be examined for causative reasons for the firm's demise. A small percentage (3% or 4%) of business failures do leave information that can be examined at a later time. From the later group, the closure of 725 small business firms was used as a basis for examining reasons for their failure. The primary reasons pointing toward their business downfall were (1) inadequate financial planning (especially operating capital for the early months of operation) and (2) inadequate location knowledge by the business owners. Although most owners seemed satisfied with the firm's location, it appears that the owners were largely unaware of the benefits or drawbacks of locational analysis.

INTRODUCTION
Small business, today, is a vital force in the economy. Small business has been the backbone of the economic recovery of the 1980's, since it has created most of the 11 million new jobs the nation has seen since the decade began.(1) More than 99 percent of the nation's 16 million businesses are small, even if we define small business as one that employs fewer than 100 people.(2) Further evidence of it's vitality is the fact that small business employs roughly half of the nation's workforce.(3) An even greater contribution by small business is the creation of new jobs in providing employment for the growing labor force. Dun and Bradstreet claim that nine of ten small business casualties can be traced to the underlying factors of managerial inexperience and aptitude.(4) On the other hand, small business is given credit for furnishing two out of every three workers with their first jobs.(5) Still another measure of small business vitality is the increasing number of businesses formed each year. Annual formation of new business crossed the 600,000 mark in 1983, of which only half live as long as 18 months, and only one in five lives as long as ten years.(6) Documented reasons for small business failure are difficult to obtain. Perhaps the most frequently stated problem facing small business owners today has been the failure to properly plan for the operation of their business.(7) Of course, planning and planning review include all aspects of business such as market segmentation, product demand, business location, and operating capital for the firm. The lack of capital is frequently given as a major business problem (or symptom). The unsuccessful owners do not see themselves in the same way that others do and they rarely attribute their failure to personal defects. The basic difficulty stated by researchers of small business mortality is poor management. However, few business owners will admit that they are poor managers and rarely attribute the business failure to their own personal disabilities.(8) It is expected that more specific determination of, reasons for small business failure should promote the basis for corrective action for future small business owners to use in minimizing future business mortality.

SURVEY

This study pertains to the closure of 725 small businesses in Arkansas through the process of bankruptcy. The survey was made by questionnaire and was distributed by mail with a copy of the questionnaire sent to each member of the total population under study. Information was requested concerning initial capitalization, operating capital level during the life of the firm, location, professional assistance and other research analysis prior to business entry, and use of a break-even point during the life of the firm. The study represented the number of businesses closed through the process of bankruptcy during the years of 1981 through 1986. Owner information regarding the bankrupt businesses was obtained from the public records of the federal bankruptcy court in Little Rock, Arkansas. Only those business firms that completed the bankruptcy process during the years of 1981 through 1986 with closure of court records were included in the study. After elimination of duplicate reference cards and non-business closures, a total of 279 returns were available for review. Although a larger percentage of returned questionnaires would have been desirable, it is felt that a sufficient number were returned to indicate some of the causative reasons for such business mortality. Perhaps such causative reasons could be used for illuminating future problem areas that might be correctable and minimize future business mortality. The research was a descriptive study in trying to determine reasons why the business owner was forced out of business. A convenience method was used in acquiring the population for study through the public records of the federal bankruptcy court in Little Rock, Arkansas.

LIMITATIONS

The limitations of the study included: (1) only those firms that had completed the bankruptcy process through the federal bankruptcy court in Little Rock, Arkansas; (2) the relatively small percentage of business closures of businesses through bankruptcy in relation to the total business closings; and (3) the respondents may or may not be truly representative of the entire population under study or of business closures through bankruptcy in other geographical areas.

Analysis By Question
1. Financial Resources:

Percentage Borrowed	Raw Score	Response Percentage
0-24	98	35
25-49	17	6
50-74	19	7
75-79	67	24
80-89	31	11
90-100	39	14
N/R	8	3
	279	100%

Zero to twenty-four percent borrowed was the largest group of respondents that went bankrupt. The largest percentage of the 0-24 percent group was zero. This data points out that you do not have to borrow a great deal of money to go bankrupt. Fifty-six percent of the respondents borrowed more than 50 percent of the money to go into business. There does not seem to be a clear cut way to determine how much to borrow to be safe but people who borrow over 50 percent seem to have much greater problems.

2. Total Investment:

Amount	Raw Score	Response Percentage
0-1000	50	18
1001-2000	0	0
2001-5000	0	0
5001-15000	59	21
15000 +	153	55
N/R	17	6
	279	100%

The response to this question clearly represents the wide range of sizes of the small businesses, and regardless of the amount of capital invested, all businesses are vulnerable to the financial problems. Fifty-five percent of the bankrupt small businesses invested more than $15,000 in the business. One tragedy of the bankruptcies is that many people lost their life savings.

3. How Much More Capital Do You Feel You Should Have Had to Begin Operations?

Capital	Raw Score	Response Percentage
0	67	24
500-1000	19	7
1,001-4,999	17	6
5,000-10,000	22	8
10,001-20,000	28	10
20,001-30,000	48	17
30,001-99,999	8	3
100,000-150,000	6	2
700,000 +	11	4
N/R	53	19
	279	100%

The largest response to this question was zero capital with 24 percent response percentage. When observing the response and non-response to this question the researchers got the idea that the majority of the respondents did not feel that beginning capital was a major problem. Yet, under capitalization is a major cause of bankruptcy. A sense of under capitalization was not even a problem for most until it was too late. The whole area of finance seemed to be a mystery to many of the small business respondents. They know their trade and that seemed to be enough.

4. How Long Did You Think It Would Take You To Generate Enough Income To Break Even?

Years	Raw Score	Response Percentage
Less than one year	78	28
One year	70	25
Two years	45	16
Three years	31	11
Four years	14	5
Five years and over	19	7
	279	100%

Fifty-three percent felt that they could break even in one year or less. This is not a realistic expectation, but most felt they could break even in that amount of time. Some of the respondents had a feeling that they would make a profit right away. A sad commentary of this in the non-response area was that some of the respondents wrote in, "what is break even?"

5. Did You Realize A Profit On A Consistent Basis?

Answer	Raw Score	Response Percentage
Yes	151	54
No	128	46
	279	100%

Over half the respondents realized a profit on a consistent basis. For many of the yes respondents, they were making a small profit and occasionally realizing a large loss which they could not make up. The last two years of this study we were seeing more and more businesses who were making a profit being closed and forced into bankruptcy by the IRS. Another increasing problem is the large amounts of bad debts that small businesses are holding which lead to their bankruptcy.

6. The Business Location Was:

Answer	Raw Score	Response Percentage
Good	151	54
Adequate	117	42
Poor	8	3
N/R	3	1
	279	100%

The answer "good" or "adequate" was stated by 96 percent of the respondents to their business location. This leads the researchers to believe that the people who went bankrupt were basically satisfied with their locations. Only 3 percent were dissatisfied with their location.

[Figure omitted]

7. Primary Reason For The Location:

Reason	Raw Score	Response Percentage
A. Owned the property	36	13
B. Most convenient vacant building	89	32
C. Only building available	0	0
D. Near similar businesses	20	7
E. Near supportive business	45	16
F. Lower rent	31	11
G. Other*	47	17
N/R	11	4
	279	100%

*Breakdown of "other" responses:
Directed by franchisor
Existing business was purchased
Fast growing area
Location was home
Location was owned by a friend

"Most convenient vacant building," was most frequently selected (32 percent) by small businesses that went bankrupt. The researcher's conclusion is that the owners first made some effort to choose a location then settled in the place that most closely fit the owner's needs. "Owned the property" and "lower rent" could be a plus or a minus. The researchers could not decide if this hurt or helped. It is very clear by looking at the responses that many of the small business people did not give location enough study or time.

8. How Many Competitors Were In The General Vicinity?

Answers	Raw Score	Response Percentage
0	64	23
1-2	78	28
3-4	58	21
5-10	17	6
10-20	45	16
N/R	16	6
	279	100%

Fifty-one percent of the small businesses that went bankrupt had less than three competitors. The problem with this question is that some businesses avoid locating near the competition and others seem to be aided by being located near competition. But the answers to this question would indicate that the small businesses that went bankrupt seemed to have a small number of competitors in the general vicinity.

9. Professional Assistance Obtained Prior To Opening?

Answer	Raw Score	Response Percentage
A. Accountant	67	24
B. Attorney	56	20
C. SBA	33	12
D. Consultant	14	5
E. Small Business Development Center	0	0
F. None	95	34
G. Other*	8	3
N/R	6	2
	279	100%

*The "other" response is mainly people already in the business. Forty-four percent of the respondents consulted with accountants and/or attorneys. One assumption the researchers made is that accountants and attorneys simply provide "how to" information, and no advice concerning the feasibility of the success of the small business was discussed. The accountants and attorneys probably try to avoid giving advice to limit their liability if the advice proves to be bad and results in a loss. Small business people expect a professional opinion, and if an opinion is not offered, they assume there is nothing wrong. Thirty-four percent had no professional assistance prior to opening their business. Many of this 34 percent said they could not afford the professional services, which meant they should not have gone into business because they were under capitalized.

10. Research Analysis Before Opening:

Answer	Raw Score	Response Percentage
A. Location	42	15
B. Competition	53	19
C. Local demand for your product/service	61	22
D. Economic condition trends of the community	22	8
E. Prior performance (if any existing business)	6	2
F. None	59	21
G. Other*	28	10
N/R	8	3
	279	100%

*Responses to "other"
Previous business experience
Directed by franchisor
Knew customers
Test market survey

The respondents indicated that 76 percent of them did some basic research prior to opening. The methods and extent of the research are highly questionable. Local demand for the product or service was researched by 22 percent of the small businesses. Twenty-one percent did no research at all. "Using no research" had to be a major factor in the businesses failing. The 19 percent who researched the existing competition must have failed to conduct an analysis of the strengths and weaknesses of their competition. The small business research analysis most likely consisted of locating and counting the number of competitors, without evaluating the percentage of the market each competitor held, and growth trends of the market place.

SUMMARY

The study found that a large percentage of respondents did not feel that the amount of beginning capital was a major problem. However, the lack of sufficient operating capital seemed to develop during the life of the firm for a variety of reasons. A majority of the respondents felt that their new firm would exceed their "break-even" point in one year or less which frequently was an overly optimistic view for the success of the business. Many of the respondents stated that their firm continued to operate on a profitable basis yet had been forced out of business because of changing business conditions including a rapid rise in credit, rapid increase in operating cost, increasing utility rates, or unexpected lawsuits. An unexpectedly high percentage of the respondents stated that their location was suitable for their business while others simply sought the most convenient vacant building.

The largest group of respondents stated that they did not seek professional assistance prior to business entry. The second largest group received professional assistance from their accountant and the third from their attorney.

The study supported the idea that unqualified or inept entrepreneurs appear doomed from the start. Even though sufficient capital may be available initially for starting the business, the firm may soon develop insufficient operating capital due to aforementioned changes occurring in business firms.

A lack of experience or inadequate planning may allow an increase in operational cost over time which will finally result in business closure.

A review of these reasons (or symptoms) may encourage small business owners to periodically review such problems as stated by bankrupt business owners in order to minimize business mortality. In addition, the specter of continuing unemployment, with an expanding labor force, will undoubtedly call upon small businesses to continue their important role of job creation and maintenance. Such continued vitality of small businesses can only be accomplished through increased planning to improve the success rate of those small businesses.

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FORECASTING SEASONAL VARIATION: AN INTEGRATED SPREADSHEET APPROACH

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An important part of sales forecasting is the study of seasonal variation. Seasonal merchandise, as implied, is in demand only at certain times of the year. Obvious examples include sleds, snow tires, bathing suits, sun glasses, lawn equipment, and patio furniture. Although some seasonal items can be secured during peak demand to replenish supply of inventory, many are not available, or cannot be obtained quickly at off times. Therefore, such merchandise is best bought well in advance of the selling season. Because seasonal items are fast moving in-season and slow moving or stagnant during off-season, it is very important to maintain an inventory to satisfy this on and off seasonal movement. Determining seasonal items (predicting, forecasting) relies heavily on knowing what customer demand for that item was in the past. One method of knowing previous customer demand on seasonal items is by maintaining a month-by-month tally of units sold, either by dollar value or the number of units sold. These records can then be analyzed enabling one to clearly determine selling trends and make buying decisions accordingly. The measurement or description of seasonal patterns is accomplished by constructing an index of seasonal variation. There are numerous techniques to prepare this index, however, the ratio-to-moving-average method is almost universally accepted as the method used to compute the typical seasonal patterns.

Two major reasons for measuring seasonal fluctuations are considered:

1. TO EVALUATE CURRENT SALES: An analysis of seasonal variations over a period of years can be of help in evaluating current trends. For example, typical sales of department stores in the United States, excluding mail order sales, are presented as indexes in Table 1.

Table 1. Seasonal Indexes for Department Stores

January	.87
February	.83
March	1.00
April	1.06
May	1.01
June	.89
July	.86
August	.99
September	1.01
October	1.05
November	1.11
December	1.26

Source: Computed from data in the Survey of Current Business.

Each monthly seasonal index in the table represents the variation from 1.0 that each month of data exhibits. If sales were even throughout the year - that is, if there were no seasonal pattern - each index would be 1.0. Actual sales for some of the months were above the average, and for other months the sales were below the average. For instance, the index for the month of November is 1.11 indicating that typically sales for November is 11 percent above the average for the year; and the index for January, .87 indicates that department stores sales for January is typically 12 percent below the average for the year. By having a measure or index of seasonal variation, one can determine, for example, if the sales pattern is a typical seasonal amount. This will permit one to know what quantity will be needed for the season.

2. TO FORECAST MONTHLY SALES: Secular trends may be projected as an aid in long-range planning and control. Well, seasonal variation patterns are also used for forecasting, but the emphasis is placed on short-term planning and control. For example, persistent seasonal patterns may be projected in order to plan for the appropriate hiring of needed personnel, and to maintain the most appropriate inventory levels. When orders cannot be placed during the season, or where suppliers could delay shipments, good forecasting is of utmost importance to help predict what quantity of each item will be needed for the season.

Seasonal Index Computation

This paper will present a methodology in which a small business manager or an SBI counselor can develop a seasonal index. To help facilitate and simplify the procedure, the author has developed an integrated spreadsheet template for Lotus 1-2-3 or BP Planner (See the Appendix for a print out of the cell formula setup.)

As the steps in the formation of the seasonal index are developed, the procedure will be illustrated with an example so the reader will have an understanding of the environment of a typical problem.

Let's look at how a firm can produce a seasonal index from its actual sales data. Figure shows the actual monthly receipts (in thousands of dollars) of the Ivey's women's apparel shop for a three year period to time. Even though our illustration has three years of data (B5 through D16), one may enter as much as six years of data for analysis (cells B5 through G16).

Figure 1

	A	B	C	D	E	F	G
1	Seasonal Index:		ENTER DATA IN THE APPROPRIATE CELLS				
2	____________________						
3	MONTH	1982	1983	1984	1985	1986	1987
4	====================						
5	January	10	9	10			
6	February	12	13	12			
7	March	14	15	15			
8	April	15	18	16			
9	May	15	17	18			
10	June	8	6	7			
11	July	9	11	9			
12	August	10	10	10			
13	September	12	14	15			
14	October	13	13	14			
15	November	15	16	16			
16	December	18	17	16			
17	====================						
18	AFTER ENTERING YOUR DATA PRESS THE "HOME" KEY TO RETURN TO						
19			CELL A1, PRESS THE PgDn KEY TO CONTINUE				
20							

To enable the user to have a better understanding of the seasonal index (enabling one to make changes to fit one's needs), a short description on the procedure is presented. The computations take place in a window starting at cell H1. This can be reached easily by moving your pointer back to cell A1 after entering your data and pressing the TAB key. The procedure basically has three steps.

1. SMOOTH THE SERIES: The first step is to compute the moving average. Each moving-average calculation averages the sales figures from the total number of periods in one year. You can divide the year into quarters, months, or any other time period that makes sense for the business you are analyzing. In our illustration, the company used monthly data, so each moving average reflects 12 months of sales figures. As you can see in Figure 2, the formula that calculates the first moving average appears in cell K13, opposite the actual sales figure for the month of July. These are called centered moving averages because the first one appears opposite the midpoint period of the year or is opposite the period that is closest to the midpoint of the first year's data. Because of centering, the first six months of 1982 and the last five months of 1984 do not have a moving average. For monthly data the above situation always occurs. If you were to use quarterly data, for example, then the first two periods and the last period of any quarterly set of data do not get a moving average.

2. OBTAIN THE SEASONAL COMPONENT: The seasonal component is isolated in column L by dividing the actual sales figures by it moving average to obtain what is referred to as specific seasonal relatives. They measure seasonal and irregular effects specific to each month.

FIGURE 2

	H	I	J	K	L	M
1	Computation of seasonal index by ratio to moving average method					
2	==========	==========	==========	==========	==========	==========
3				12-month		
4				Moving	Specific	
5	year	month	date	Average	seasonals	
6	==========	==========	==========	==========	==========	==========
7	1	January	10			
8		February	12			
9		March	14			
10		April	15			
11		May	15			
12		June	8			
13		July	9	12.6	.72	
14		August	10	12.5	.80	
15		September	12	12.6	.95	
16		October	13	12.7	1.03	
17		November	15	12.9	1.16	
18		December	18	13.1	1.38	
19	2	January	9	12.9	.70	
20		February	13	13.1	.99	
21		March	15	13.1	1.15	
22		April	18	13.3	1.36	
23		May	17	13.3	1.28	
24		June	6	13.3	.45	
25		July	11	13.3	.83	
26		August	10	13.3	.75	
27		September	14	13.3	1.06	
28		October	13	13.3	.98	
29		November	16	13.1	1.22	
30		December	17	13.2	1.29	
31	3	January	10	13.3	.75	
32		February	12	13.1	.92	
33		March	15	13.1	1.15	
34		April	16	13.2	1.22	
35		May	18	13.3	1.36	
36		June	7	13.3	.53	
37		July	9	13.2	.68	
38		August	10			
39		September	15			
40		October	14			
41		November	16			
42		December	16			

3. ISOLATE THE SEASONAL COMPONENT: When the seasonal pattern is stable, the seasonal component is isolated by averaging the specific seasonal relatives for each month. The idea is that irregular effects will tend to cancel one another in the average. It then follows that the average will reflect the seasonal effect for that month. The central tendency of the specific seasonals is referred to as a typical seasonal index. The means for each of the monthly data are shown in Figure 3, cells Q11 through AB11.

FIGURE 3

	P	Q	R	S	T	U	V
1	Arranging specific seasonals and computing seasonal index						
2							
3	Year	January	February	March	April	May	June
4							
5	1	.7	1.0	1.1	1.4	1.3	.5
6	2	.8	.9	1.1	1.2	1.4	.5
7	3						
8	4						
9	5						
10	6						
11	Mean						
12	Seasonal	.7	1.0	1.1	1.3	1.3	.5
13	Index	.7	1.0	1.1	1.3	1.2	.5
14							
15							
16							
17							
18							
19							
20							

	W	X	Y	Z	AA	AB	AC
1							
2							
3	July	August	September	October	November	December	
4							
5	.7	.8	1.0	1.0	1.2	1.4	
6	.8	.8	1.1	1.0	1.2	1.3	
7	.7						
8							
9							
10							Total
11	.7	.8	1.0	1.0	1.2	1.3	12.0
12	.7	.8	1.0	1.0	1.2	1.3	12
13							
14							
15							

(Figure 3 continued)

	AD	AE	AF	AG	AH	AI	AJ
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11	Correction factors=1.0019358						

One refinement sometimes used here is to "normalize" the seasonal indexes so that they add up to exactly the number of periods in one season. The example in this paper uses monthly data; therefore, you would normalize to 12.0. Because of the way that Lotus 1-2-3 and VP Planner store noninteger values, the sum of the indexes will vary from 12.0 by a small amount. To normalize the data, divide 12 by the sum of the monthly seasonal indexes and then multiply each monthly seasonal index by the result. This correction factor is computed in cess AF11.

The final seasonal indexes appear in cells B23 through B34 (see Figure 4).

FIGURE 4

	A	B
21	Seasonal Index	
22		
23	January	.73
24	February	.96
25	March	1.15
26	April	1.29
27	May	1.32
28	June	.49
29	July	.74
30	August	.78
31	September	1.01
32	October	1.01
33	November	1.19
34	December	1.34

PRESS THE PgDn KEY TO CONTINUE

Using and Misusing Seasonal Indexes

In short-term forecasting the basic procedure is to start with an annual forecast. If monthly forecasts are desired, the annual forecast is usually divided by 12 to obtain equal monthly rates in which no seasonal effects are acknowledged. These monthly rates are then multiplied by the seasonal indexes (in decimal form) to give you the monthly forecast of sales for the projected year. This form of forecast may help in planning the purchase of adequate products for the up-coming seasons, and help plan personnel needs for the heavy selling seasons. To forecast monthly sales the user enters the annual sales forecast figure in cell G41. The results of the forecast appear in cells B45 through B56 (See Figure 5).

Like any other model, seasonal indexes can also be misused. First, make sure that a seasonal pattern really exists before you develop a seasonal index. Although there are some statistical tests for seasonality, observation and intuition usually work well enough. Check the actual data in cells B5 through D16 to make sure that high and low points in the data occur in the same periods each year. Although you can observe the actual data to get a rough idea of the existence of a seasonal pattern, a graph of the actual data offers a more dramatic presentation (See Figure 6). To accomplish this, select the graphics mode by pressing/Graph (viewing a graph requires a graphics monitor and board). Select Type Line to indicate you want to create a line graph. To define the X axis range - that is, the range of numbers that will appear along the bottom of the graph – select X, indicate the range B3 through B15, and then press return. Then select up to six data ranges (A - F) for the vertical axis. This permits you to compare a number of different data ranges on the same graph. In our case we wish to compare three. To see the graph, select View from the graph menu. The spreadsheet temporarily replaces the worksheet with a window that displays the graph. After viewing this graph, return to the worksheet by pressing the Escape key.

Also, be sure that there is a good explanation of the seasonal pattern. Weather and holidays are the most common reasons for seasonality, although there may be other reasons. Just make sure that a pattern makes sense.

Also, you should have available at least three complete seasons of data before you compute a seasonal index. With less data, the averages may be biased.

Finally, make sure you keep the seasonal indexes up to date. The spreadsheet is set up so that you can add additional data and then copy the appropriate formulas to the additional cells. The more data points you use to compute the seasonal index, the more accurate they will be.

Conclusions

Sales volume, production schedules, manpower and inventory requirements, financial needs - all these variables are typically subject to short-term forecasts for planning and control. A seasonal index may be used in preparing such forecasts. If you keep the suggestions presented in this paper in mind, seasonal indexes should improve a small business manager's planning and control of the business venture.

FIGURE 5

	A	B	C	D	E	F	G
41	To forecast monthly sales, enter annual forecast in cell G41						160000
42							
43	The monthly forecast of sales is:						
44							
45	January	9695					
46	February	12764					
47	March	15316					
48	April	17191					
49	May	17644					
50	June	6535					
51	July	9926					
52	August	10353					
53	September	13428					
54	October	13409					
55	November	15926					
56	December	17814					
57							
58	Total	160000					
59							
60							

18-
16-
14-
12-
10-
-
8-
6

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```
A1' Seasonal Index:
A2'----------
A3' MONTH
A4'----------
A5' January
A6' February
A7' March
A8' April
A9' May
A10' June
A11' July
A12' August
A13' Sepember
A14' October
A15' November
A16' December
A17' ===========
A18' AFTER ENTERING YOUR DATA PRESS THE "HOME" KEY TO RETURN TO
CELL A1
A19
A20
A21' Seasonal Index
A22'---------
A23' January
A24' February
A25' March
A26' April
A27' May
A28' June
A29' July
```

A30' August
A31' September
A32' October
A33' November
A34' December
A35
A36
A37
A38
A39
A40
A41' To forecast monthly sales, enter annual forecast in cell G41
A42
A43' The monthly forecast of sales is:
A44
A45' January
A46' February
A47' March
A48' April
A49' May
A50' June
A51' July
A52' August
A53' September
A54' October
A55' November
A56' December
A57
A58' Total
B1
B2'----------
B3 1982
B4' ==========
B5 10
B6 12
B7 14
B8 15
B9 15
B10 8
B11 9
B12 10
B13 12
B14 13
B15 15
B16 18
B17' ==========

B18
B19
B20
B21
B22' ----------
B23 (Q2) +Q$13
B24 (R2) +R$13
B25 (S2) +S$13
B26 (T2) +T$13
B27 (U2) +U$13
B28 (V2) +V$13
B29 (W2) +W$13
B30 (X2) +X$13
B31 (Y2) +Y$13
B32 (Z2) +Z$13
B33 (AA) +AA$13
B34 (AB) +AB$13
B35
B36
B37
B38
B39
B40
B41
B42
B43
B44
B45(GO) ($G$41/12)*$B23
B46(GO) ($G$41/12)*$B24
B47(GO) ($G$41/12)*$B25
B48(GO) ($G$41/12)*$B26
B49(GO) ($G$41/12)*$B27
B50(GO) ($G$41/12)*$B28
B51(GO) ($G$41/12)*$B29
B52(GO) ($G$41/12)*$B30
B53(GO) ($G$41/12)*$B31
B54(GO) ($G$41/12)*$B32
B55(GO) ($G$41/12)*$B33
B54(GO) ($G$41/12)*$B34
B55(GO) ($G$41/12)*$B35
B57 (BO) @SUM(B45...B56)
C1'ENTER DATA IN THE APPROPRIATE CELLS
C2'----------
C3 1983
C4'==========
C5 9

C6 13
C7 15
C8 18
C9 17
C10 7
C11 11
C12 10
C13 14
C14 13
C15 16
C16 17
C17'==========
D1
D2'==========
D3 1984
D4'----------
D5 10
D6 12
D7 15
D8 16
D9 18
D10 7
D11 9
D12 10
D13 15
D14 14
D15 16
D16 16
D17'==========
D18
D19
D20
D21
D22
D23
D24
D25
D26
D27
D28
D29
D30
D31
D32
D33
D34

D35
D36
D37, PRESS THE PgDn KEY TO E1
E2'----------
E3 1985
E4' =========
E17'=========
E18
F1
F2'==========
F3 1986
F4'==========
F17'=========
G1
G2'----------
G3 1987
G4'==========
G17'=========
G41 160000
H1' Computation of seasonal index by ratio to moving average method
H2'----------
H3
H4
H5'year
H6'----------
H7^1
H19^2
H31^3
H43^4
H55^5
H67^6
I1
I2'----------
I3
I4
I5'month
I6'----------
I7'January
I8'February
I9'March
I10'April
I11'May
I12'June
I13'July
I14'August

I15'September
I16'October
I17'November
I18'December
I19'January
I20'February
I21'March
I22'April
I23'May
I24'June
I25'July
I26'August
I27'September
I28'October
I29'November
I30'December
I31'January
I32'February
I33'March
I34'April
I35'May
I36'June
I37'July I38'August
I39'September
I40'October
I41'November
I42'December
I43'January
I44'February
I45'March
I46'April
I47'May
I48'June
I49'July
I50'August
I51'September
I52'October
I53'November
I54'December
I55'January
I56'February
I57'March
I58'April
I59'May
I60'June
I71'July

I62'August
I63'September
I64'October
I65'November
I66'December
I67'January
I68'February
I69'March
I70'April
I71'May
I72'June
I73'July
I74'August
I75'September
I76'October
I77'November
I78'December
J1
J2'-----
J3
J4
J5'date
J6'-----
J7 +B5
J8 +B6
J9 +B7
J10 +B8
J11 +B9
J12 +B10
J13 +B11
J14 +B12
J15 +B13
J16 +B14
J17 +B15
J18 +B16
J19 +C5
J20 +C6
J21 +C7
J22 +C8
J23 +C9
J24 +C10
J25 +C11
J26 +C12
J27 +C13
J28 +C14
J29 +C15

J30 +C16
J31 +D5
J32 +D6
J33 +D7
J34 +D8
J35 +D9
J36 +D10
J37 +D11
J38 +D12
J39 +D13
J40 +D14
J41 +D15
J42 +D16
K1
K2'------
K3'12-month
K4^Moving
K5'Average
K6'------
K7
K8
K9
K10
K11
K12
K13(J1) @AVG(J7..J18)
K14(J1) @AVG(J8..J19)
K15(J1) @AVG(J9..J20)
K16(J1) @AVG(J10..J21)
K17(J1) @AVG(J11..J22)
K18(J1) @AVG(J12..J23)
K19(J1) @AVG(J13..J24)
K20(J1) @AVG(J14..J25)
K21(J1) @AVG(J15..J26)
K22(J1) @AVG(J16..J27)
K23(J1) @AVG(J17..J28)
K24(J1) @AVG(J18..J29)
K25(J1) @AVG(J19..J30)
K26(J1) @AVG(J20..J31)
K27(J1) @AVG(J21..J32)
K28(J1) @AVG(J22..J33)
K29(J1) @AVG(J23..J34)
K30(J1) @AVG(J24..J35)
K31(J1) @AVG(J25..J36)
K32(J1) @AVG(J26..J37)
K33(J1) @AVG(J27..J38)

```
K34(J1) @AVG(J28..J39)
K35(J1) @AVG(J29..J40)
K36(J1) @AVG(J30..J41)
K37(J1) @AVG(J31..J42)
L1
L2'--------
L3
L4'Specific
L5'seasonals
L6'--------
L7
L8
L9
L10
L11
L12
L13(J2) (J13/K13)
L14(J2) (J14/K14)
L15(J2) (J15/K15)
L16(J2) (J16/K16)
L17(J2) (J17/K17)
L18(J2) (J18/K18)
L19(J2) (J19/K19)
L20(J2) (J20/K20)
L21(J2) (J21/K21)
L22(J2) (J22/K22)
L23(J2) (J23/K23)
L24(J2) (J24/K24)
L25(J2) (J25/K25)
L26(J2) (J26/K26)
L27(J2) (J27/K27)
L28(J2) (J28/K28)
L29(J2) (J29/K29)
L30(J2) (J30/K30)
L31(J2) (J31/K31)
L32(J2) (J32/K32)
L33(J2) (J33/K33)
L34(J2) (J34/K34)
L35(J2) (J35/K35)
L36(J2) (J36/K36)
L37(J2) (J37/K37)
P1' Arranging specific seasonals and computing seasonals
P2'--------
P3'Year
P4'--------
P5^1
```

P6^2
P7^3
P8^4
P9^5
P10^6
P11'Mean
P12'Seasonal
P13'Index
Q1 T2'-------
Q2'---- T3'April
Q3'January T5(F1)
Q4'------- T5(F1)
Q5(F1) T6(L1) +L22
Q6(L1) +19 T7(L1) +L34
Q7(L1) +31 T8(F1)
Q8(F1) T9(F1)
Q9(F1) T10(F1)
Q10(F1) T11(F1)
Q11(Q1)@AVG.(Q5.. T12(F1)
Q12(F1) T13(TF)+T$11$$AF$11
Q13(QF)+Q$11*$AF$11 U2'-------
R2'-------- U3'May
R3'February U4'-------
R4'-------- U5(F1)
R5(F1) U6(L1) +L23
R6(L1) +L20 U7(L1) +L35
R7(L1) +L32 U8(F1)
R8(F1) U9(F1)
R9(F1) U10(F1)
R10(F1) U11(U1)@AVG(U5.U10
R11(R1)@AVG(R5..R10 U12(F1)
R12(F1) U13(UF)+U$11*$AF$11
R13(RF)+R$11*$AF$11 V2'----
M1
M2'--------
M3
M4
M5
M6'--------
N1
N2'--------
N3
N4
N5
N6'--------
W3'July--------

W3'July
W4'-------
W5(L1) +L13
W6(L1) +L25
W7(L1) +L37
W8(F1)
W9(F1)
W10(F1)
W11(W1) @AVG(W5..W10)
W12(F1)
W13(WF) +W11AF$11
X2'--------
X3'August
X4'--------
X5(L1) +L14
X6(L1) +L26
X7(F1)
X8(F1)
X9(F1)
X10(F1)
X11(X1) @AVG(X5..X10)
X12(F1)
X13(XF) +X$11*$AF$11
Y2'--------
Y3'September
Y4'--------
Y5(L1) +L15
Y6(L1) +L27
Y7(F1)
Y8(F1)
Y9(F1)
Y10(F1)
Y11(Y1) @AVG(Y5..Y10)
Y12(F1)
Y13(YF) +Y$11*$AF$11
Z2'--------
Z3'October
Z4'--------
Z5(L1)+L16
Z6(L1)+L28
Z7(F1) V3'June
Z8(F1) V4'--------
Z9(F1) V5(F1)
Z10(F1) V6(L1) +L24
Z11(Z1) @AVG(Z5..Z10)
Z12(F1) V7(L1) +L36

Z13(ZF) +Z$11*$AF$11
S2'-------- V8(F1)
S3'March V9(F1)
S4'-------- V10(F1)
S5(F1) V11(V1)@AVG(V5..V10)
S6(L1) +L21
S7(L1) +L33 V12(F1)
S8(F1) V13(VF)+V$11*$AF$11
S9(F1)
S10(F1)
S11(S1)@AVG(S5..S10)
S12(F1)
S13(SF)+S$11*$AF$11
AA2'--------
AA3'November
AA4'--------
AA5(L1) +L17
AA6(L1) +L29
AA7(F1)
AA8(F1)
AA9(F10)
AA10(F1)
AA11(AA) @AVG(AA5..AA10)
AA12(F1)
AA13(AA) +AA$11*$AF$11
AB2'--------
AB3'December
AB4'--------
AB5(L1) +L18
AB6(L1) +L30
AB7(F1)
AB8(F1)
AB9(F1)
AB(10(F1)
AB11(AB) @AVG(AB5..AB10)
AB12(F1)
AB13(AB) +AB$11*$AF$11
AC2'--------
AC3
AC4'--------
AC5
AC6
AC7
AC8
AC9
AC10'Total

AC11(QB) @SUM(Q11..AB11)
AC12
AC13 @SUM(Q13..AB13)
AD11'Correction factors
AF11 12/AC11

An Integrated Spreadsheet Approach to Advertising and Promotion Cost/Benefit Analysis for the Small Business

Ronald S. Rubin, University of Central Florida

Advertising is a necessary expense for any business concern. Whether a large or a small business, they must tell groups of people about who they are, what they sell, and where they are located. So advertisements must be placed in newspapers, on outdoor posters and possibly in magazines; and commercials have to be placed on radio and television in order to reach potential customers.

However, as the story goes, an executive of a large corporation, which spends millions of dollars on advertising, admitted that half of his advertising budget produced no results - absolutely, positively nothing. Wasted. Squandered. An interested observer asked "So why don't you cut half of your budget."

The executive replied "Because I don't know which half is producing and which half isn't." This story is true for large as well as small business, but it is less of a problem for the small business manager. Keeping track of the entire country, as a large company does, is more complicated than counting heads in a small town or community, even though the principle remains the same.

A small business owner/manger must know that the limited amount of money spent on advertising must return enough sales and profits in added business to justify the cost of using adverting as a sales promotional tool. Therefore, having spent money on advertising activities, an owner/manager would like to know what it produced. Small firms should measure the results of an advertising expenditure to determine whether it was a success. Unfortunately, advertising is one area where such precise measurements simply do not exist. However, there are some tools available which could be used to help evaluate the effectiveness of a small business advertising program. Such tools should be used at every opportunity, for they can materially affect funding and direction of future campaigns. Small businesses neither have the time nor the money to engage in complicated advertising measurement methods. However, with the use of a microcomputer and a spreadsheet model one can get a good idea about advertising results.

What Results Can You Expect

In considering the results of advertising, it is easier to divide promotion into two basic kinds: that which is expected to produce immediate results, and the kind expected to take longer, such as inquiries about the firm's products and services.

Immediate response advertising is designed to motivate a potential customer to buy a particular product within a short period of time - today, tomorrow, the weekend, or even next week. For example, promotion inserted during the Christmas season is designed to produce results within the given period. On January 1st, for instance, after all returns, an accurate measurement of the success of the Christmas promotional campaign can be made. Other examples are advertisements used for clearance sales, special purchases, and seasonal items such as "white" sales. Such advertising should be checked for results daily or at the end of the week. Since all promotion has some carry-over effect - no matter when it is done - it is a good idea to continuously check responses after the initial measurement, for example, after the second week after the insertion, third week after insertion, and so on to insure that no opportunity for utilizing profit making messages is lost.

To some degree, all promotion falls into the category of inquiry or response advertising, whether it was planned that way or not, potential customers may come into a store and browse around without purchasing. They may inquire whether a particular product is in stock or they may ask few questions about a particular product they are interested in possibly buying in the future. Even though a sale was not recorded, and an advertisement brought the individual into the store, this type of advertising helps keep the store's name and merchandise before the public. This form of advertising reminds people week after week about regular merchandise or services or tells them about a new or special service or policies. In short, an advertisement that fosters an inquiry or response lingers in the mind of those that have had some contact with the advertisement. These ads are sooner or later acted upon by people when they decide that they will make a certain purchase. So, besides a direct sale, an inquiry or response can be just as important for the small business for future sales.

When ads appear simultaneously in different media, such as the newspaper, on radio, on posters, and as handbills, an attempt should be made to evaluate the relative effectiveness of each. One approach in measuring the promotional effectiveness is for the manager to keep records on the sales and responses after the advertising program has started. Sales clerks should ask customers what made them come into the store. Of course, some customers may have come in because they saw a certain item in the window display, or they were referred by a friend. But some, without doubt, would have been attracted by the advertisement. By asking them, management will gain some interesting and valuable information which should then be recorded on the copy of a sales receipt, or on an inquiry card. Then the cost of the advertising can be compared to either the sales generated by the campaign, or with the number of responses.

The Spreadsheet Model

The spreadsheet model developed as a template for Lotus 1-2-3 and VP Planner allows the user to analyze various advertising efforts (See the Appendix for a print out of the cell and formula setup). The model consists of two parts. First, when a sale is made or a response is generated by an advertisement in a specific medium, the user can create a file for the medium. The user can record in this file on a periodic basis the number of responses or sales achieved. Normally, this recording should be done on a daily basis, but for long-term advertising campaigns a weekly, or what is deemed appropriate, entry can be used.

The model permits a separate file for each specific advertising effort. These separate files may be updated with sales or responses at any time by the user; and the files can be deleted (by using the range erase command) when the advertising effort has run its course and had been analyzed. The file space can then be used for a new advertising campaign effort. The second part of the model produces an analysis of the information that is in the file. If the results of additional advertising activities are to be analyzed, the copy command can be used to set up a new data input and analysis section.

After selecting the model from the file retrieve command, the model data input section appears on the screen. From this point on, the model is completely self-documenting so one can enter data as required.

Illustrative Example (Taken form an SBI Case)
Frank and Kate Smith, the owners of a small gift shop, began solving their promotional problem by reviewing their advertising plan. They noticed that even though they had been spending $500 a month on advertising, only a relatively small percentage of this figure had been used to purchase space in media that reached the two neighborhoods where most of their customers were located. Most expenditures had been spent for yellow page adds in the county telephone directory, adds in small, county wide newspapers, and some radio advertising on the local A.M. station. Mr. Smith decided to advertise in the local newspaper, the Town News, and a new radio station WTNS. He also decided to measure the effectiveness of these two new mediums. When customers walked into their stores, the sales personnel were instructed to ask the customers where they found out about their business. These answers were to be recorded on the back of the sales receipts, or on separate cards developed for this purpose. At the end of each day Mr. Smith input the data into the computer to analyze the effectiveness of his promotional efforts. Figure 1 shows the data input into the spreadsheet for the first week of recording. The cost of the Town News was $125.00 for the week, and for the radio station the cost was $60.00. Figure 2 indicates the results of the analysis for each of the medium.

Conclusion
The analysis you can perform using the methodology presented with the accompanying spreadsheet template can provide you with a sophisticated analysis of the cost/benefit of promotional activities. The microcomputer and the spreadsheet have taken all the drudgery out of a complicated analysis. The spreadsheet enables you to quickly create a model of a situation by entering labels, numbers, and formulas. Using the program's built-in functions, you can perform complicated calculations.

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FIGURE 1

	A	B	C	D	E	F	G	H
1	ADVERTISING & PROMOTION COST/BENEFIT ANALYSIS							
2	--							
3			NUMBER OF		NUMBER OF		DOLLAR	
4	THE TOWN NEWS		RESPONSES		SALES		SALES	
5	====================================							
6	10/20/87		60		30		298.50	
7	10/21/87		42		20		199.00	
8	10/22/87		10		8		79.60	
9	10/23/87		4		3		29.85	
10								
11								
12	--							
13	AFTER ENTERING THE DATA MOVE THE CURSOR TO CELL A1 THEN							
14	PRESS THE PgDn KEY TO ENTER DATA FOR ANOTHER MEDIUM OR							
15	PRESS THE TAB KEY TO MOVE TO THE ANALYSIS SECTION							

	A	B	C	D	E	F	G	H
21	WTNS RADIO		NUMBER OF		NUMBER OF		DOLLAR	
22			RESPONSES		SALES		SALES	
23	====================================							
24	10/20/87		3		0		0.00	
25	10/21/87		15		11		109.45	
26	10/22/87		20		16		159.20	
27	10/23/87		5		0		0.00	
28	10/24/87		1		3		29.85	
29	10/25/87		5		6		59.70	
30	--							
31								
32	AFTER ENTERING THE DATA MOVE THE CURSOR TO CELL A1 THEN							
33	PRESS THE PgDn KEY TO ENTER DATA FOR ANOTHER MEDIUM OR							
34	PRESS THE TAB KEY TO MOVE TO THE ANALYSIS SECTION							
35								

FIGURE 2

```
        I           J           K           L           M           N           O           P
1 ADVERTISING & PROMOTION ANALYSIS SECTION
2 -----------------------------------------------------------------------------------------------------
3       THE TOWN NEWS
4
===========================================================================
=
5       ENTER THE COST OF THE ADVERTISEMENT(S) IN CELL 05: 125
6
===========================================================================
=
7       TOTAL RESPONSES TO DATE 116
8       TOTAL NUMBER OF SALES TO DATE 61
9       TOTAL $ SALES TO DATE $606.95
10      COST PER NUMBER OF RESPONSES $1.08
11      COST PER $ OF SALES $2.05
12      AVERAGE SALE DUE TO ADVERTISING $9.95
13
14
15      AFTER ENTERING THE DATA MOVE THE CURSOR TO CELL A1 THEN
16      PRESS THE PgDn KEY TO ENTER DATA FOR ANOTHER MEDIUM OR
17

        I         J         K         L         M           N           O           P
21      WTNS RADIO
22 ========================================================================
23      ENTER THE COST OF THE ADVERTISEMENT(S) IN CELL 023: 60
24
===========================================================================
25      TOTAL RESPONSES TO DATE 49
26      TOTAL NUMBER OF SALES TO DATE 36
27      TOTAL $ SALES TO DATE $358.20
28      COST PER NUMBER OF RESPONSES $1.22
29      COST PER $ OF SALES $1.67
30      AVERAGE SALE DUE TO ADVERTISING $9.95
31
32
33      AFTER ENTERING THE DATA MOVE THE CURSOR TO CELL A1 THEN
34      PRESS THE PgDn KEY TO ENTER DATA FOR ANOTHER MEDIUM OR
35
```

APPENDIX

A1'ADVERTISING & PROMOTION COST/BENEFIT ANALYSIS
A2'--------
A3
A4'THE TOWN NEWS
A5'========
A6'10/20/87
A7'10/21/87
A8'10/22/87
A9'10/23/87
A10
A11
A12'-------
A13
A14
A15
A21'WTNS RADIO
A22
A23'========
A24'10/20/87
A25'10/21/87
A26'10/22/87
A27'10/23/87
A28'10/24/87
A29'10/25/87
A30'--------
B2'--------
B3
B4
B5'--------
B6
B7
B8
B9
B10
B11
B12'--------
B13'AFTER ENTERING THE DATA B14'MOVE THE CURSOR TO CELL A1
B15'THEN
B14'PRESS THE PgDn KEY TO ENTER DATA FOR ANOTHER MEDIUM OR PRESS
B15'THE TAB KEY TO MOVE TO THE ANALYSIS SECTION
B23'=========
B24
B25

B26
B27
B28
B29
B30'--------
B31
B32'AFTER ENTERING THE DATA
B14'MOVE THE CURSOR TO CELL A1
B15'THEN PRESS THE PgDn KEY TO
ENTER DATA FOR ANOTHER MEDIUM OR PRESS THE TAB KEY TO MOVE TO THE
ANALYSIS SECTION
C2'--------
C3'NUMBER OF
C4'RESPONSES
C5'=========
C6 60
C7 42
C8 10
C9 4
C10
C11
C12'--------
C21'NUMBER OF
C22'RESPONSES
C23'=========
C24 3
C25 15
C26 20
C27 5
C28 1
C29 5
C30'---------
D2'--------
D3
D4
D5'========
D12'-------
D23'========
D30'--------
E2'---------
E3'NUMBER OF
E4'SALES
E5'=========
E6 30
E7 20

E8 8
E9 3
E10
E11
E12'--------
E21'NUMBER OF
E22'SALES
E23'========
E24 0
E25 11
E26 16
E27 0
E28 3
E29 6
E30'--------
F5'=========
F12'--------
F23'========
F30'--------
G3'DOLLAR
G4'SALES
G5'=========
G6(F2) 298.5
G7(F2) 199
G8(F2) 79.6
G9(F2) 29.85
G10
G11
G12'--------
G21'DOLLAR
G22'SALES
G23'========
G24(F2) 0
G25(FF2) 109.45
G26(F2) 159.2
G27(F2) 0
G28(F2) 29.85
G29(F2) 59.7
G30'--------
I1'ADVERTISING & PROMOTION ANALYSIS SECTION
I2'-------
I3'THE TOWN NEWS
I4'========
I5'ENTER THE COST OF THE ADVERTISEMENT(S)
I6'=========
I7'TOTAL RESPONSES TO DATE

```
I8'TOTAL NUMBER OF SALES TO DATE
I9'TOTAL $ SALES TO DATE
I10'COST PER NUMBER OF RESPONSES
I11'COST PER $ OF SALES
I12'AVERAGE SALE DUE TO ADVERTISING
I21'WTNS RADIO
I22'========
I23'ENTER THE COST OF THE AVERTISEMENT(S) IN CELL 023:
I24'========
I25'TOTAL RESPONSES TO DATE
I26'TOTAL NUMBER OF SALES TO DATE
I27'TOTAL $ SALES TO DATE
I28'COST PER NUMBER OF RESPONSES
I29'COST PER $ OF SALES
I30'AVERAGE SALE DUE TO ADVERTISING
J2'--------
J3
J4'========
J5
J6'========
J15'AFTER ENTERING THE COST MOVE THE CURSOR TO CELL I1 THEN
J16'PRESS THE PgDn KEY FOR AN ANALYSIS OF ANOTHER MEDIUM
J22'=======
J23
J24'========
J33'AFTER ENTERING THE COST MOVE THE CURSOR TO CELL I21 THEN
J34'PRESS THE PgDn KEY FOR AN ANALYSIS OF ANOTHER MEDIUM
K2'--------
K3
K4'========
K5
K6'========
K22'========
K23
K24'=========
L2'----------
L3
L4'=========
L5
L6'==========
L22'========
L23
L24'========
M2'--------
M3
M4'========
```

M5
M6'========
M7 @SUM(C6..C10)
M8 @SUM(E6..E10)
M9(G2)@SUM(G6..G10)
M10(02) +O5/M7
M11(02) +O5/M8
M12(M2) +M9/M8
M22'========
M23
M24'========
M25 @SUM(C24..C29)
M26 @SUM(E24..E29)
M27(G2) @SUM(G24..G29)
M28(O2) +023/M25
M29(O2) +023/M26
M30(M2) +M27/M26
N4'=======
N5
N6'=======
N22'=======
N23
N24'=======
O4'========
O5 125
O6'========
O22'=======
O23 60
O24'=======

Computer Spreadsheet Business Plan Pro-Formas: A Model for Introduction of Small Business Strategic Planning

Introduction

Owner resistance to formal planning, entrepreneurial management ignorance, and entrepreneurial impatience to begin small business ventures contribute to high business failure rates. These factors also provide a difficult consultant/client environment in which to prepare necessary documentation for loan or investment proposals. In addition, entrepreneurial optimism may mitigate against understanding the value of information gathering to reduce business risk.

Fortunately for the entrepreneur and the consultant, the business plan, once required only by venture capitalists, is now being required by more commercial bank loan officers. The preparation of the business plan forces the prospective small business owner to perform a basic study of the marketing environment and prepare budgets/sales estimates in the form of pro-forma financial plans. When the prospective small business owner turns to a consultant, or university based counsellor, for help with the business plan, a rich educational framework is provided for understanding of the value of operational planning, controls, and strategic planning. The following discussion outlines a consulting model that has proven effective at the University of Northern Iowa Small Business Development Center.

Small Business Planning Overview

Small business researchers have suggested that small business planning should be different from large firms[1], flexible[2], and informal[3]. According to Golde[4] small business planning is done on an ad hoc problem basis, with inability to allocate time as a major reason for sporadic planning. And yet Robinson[3], Orpen[5], and Sexton[6] document small business long range and strategic planning sales and profit benefits, while others[7, 8, 9] have documented the impact of lack of planning as a cause of failure. The lack of formal planning and the reasons for this lack among small businesses has been well documented.[4,11]

In addition Robinson[12], and Pelham[13] have documented the positive benefit of outside consultants, including Small Business Development Center consultants, on small firm planning and financial results.

Cannon[14] identified two complementary strategic planning procedures: 1. Synoptic (from goals to alternative to best strategy) and 2. Incremental (from existing strategy to firm analysis to strategy improvement). Quinn's thesis of "logical incrementalism" (trial & error) and Lindblom's thesis ("muddle their way through with a purpose") provide understanding of the realities of manager's decision processes. Given these realities, Pelham[17,18] provided a incremental consulting model to introduce planning in small firms, and evidence of the receptivity to and results of this incremental model.

This article provides a discussion of the use of a computer spreadsheet proforma as a tool to aid in developing incremental strategic planning in small businesses.

Discussion
In larger firms, computer spreadsheet programs have been used to prepare and revise detailed budgets, and ask "what if" questions. For start up businesses, a spreadsheet programs designed to prepare pro-forma financial statements can act as a bridge to build a consensus between the consultant and the small business client as to the need for information.

A logical synoptic approach could be used to determine goals, objectives, environmental analysis, resources, options, strategies, tactics, and operating plans with the small business owner. Unfortunately, the impatience of the owner to finish the paperwork, the owners' short term orientation, and the lack of appreciation of relevance of the information tend to mitigate against this synoptic approach in favor of a more incremental approach.

Prospective business owners come to consultants with a wide range in degrees of preparation. Even with large information gaps, an initial attempt at preparation of proformas can be a valuable start in the consulting relationship because it tends to build an appreciation for the pragmatic need for information to adequately prepare the plan, reduce business risk, and increase business efficiency. This initial attempt also introduces many clients to standard accounting reports and reduces client apprehension about their unfamiliarity with these reports. A trial pro-forma, even based upon the most preliminary information and assumptions, provides the client with a framework for immediate information gathering, the reason for the information, the options/alternatives, the decisions which must be made, and a timetable for activities. The trial pro-forma provides a physical base upon which the client and consultant can build pragmatic business knowledge, as opposed to vague, unrelated discourses in business theory.

A MODEL FOR PRO FORMA PREPARATION
Exhibit 1 provides a suggested model for small business consultant interaction with the prospective or new business owner.

EXHIBIT I
Standard Planning Procedures

```
      Synoptic                                          Incremental
   Set Objectives                                 Identify Current Strategy
         |                                                  |
        \|/                                                \|/
Generate Alternatives                             Examine Strengths Weakness
         |                                        of Firm & Opportunity/
        \|/                                       Threats of Environment
Evaluate Alternatives                                       |
         |                                                 \|/
        \|/                                       Improve Existing Strategy
Select Alternatives
         |
        \|/
Plan Implementation
   of Alternative
         |
        \|/
Implement Alternative
```

Suggested Small Business Planning Procedure
(Existing Business)

```
Identify Owners'                  Identity (Current)
Percepetion of Task,   -->        Strategies, Results,    -->    Begin Task    ---
Firm situation,                   and Desired Results                            |
and Envoronment                                                                  |
                                                                                 |
Identity Range of                 Complete Tasks                                 |
Appropriate            <--        to identity Unknown     <-- Identity Unknown <-
Objectives/                       Elements (Mkt. Res.       Elements For Success-
Strategies/Tasks                  Finan. Anal./SWOTS          ful Task completion
      |                           Anal./Internal Anal.          (who, what, how,
      |                                                         where, when)
     \|/
Select Objectives/          Modify Internal                        Complete Modify
Strategies/Tasks       -->  Environment to       -->  Tasks  -->   and Repeat
                            Successfully Achieve                     Process
                            Results
```

The initial discussion will revolve around client background and perceived opportunities in the marketplace for the new product or new business. Open ended questions by the consultant tend to bring out client beliefs and assumptions about customer needs and dissatisfactions, competitive weaknesses, the dollar size of the sales opportunity, and client abilities to take advantage of the opportunity. After this discussion, the consultant should have an initial impression the nature and scope of the consulting task. At this point it is appropriate to determine the necessary timing to complete the business plan/loan proposal to keep within the clients timetable. At some future date the client and consultant may revise the timetable to adjust for the time needed to gather information. At this first meeting a brief discussion of the nature and use of income, cash flow, and balance sheet information is appropriate, leading to the first rough pro-forma preparation.

With the information provided by the client, whether vague assumptions or hard data, the first rough pro-forma should be prepared, starting with monthly sales estimates. Since many clients are uncertain as to market size or sales potential, the consultant can guide the client through sales estimation techniques and public data sources such as census, sales tax, and vehicle traffic data. At this stage the client should be introduced to library and other secondary data sources, which, hopefully, will become established sources of sales prospecting and planning data. Implicit in the sales estimate is a discussion of the pricing strategy and its impact on volume, share, competitive reaction, price/value relationship, market niche, and margin. The client should be encouraged to obtain competitive information, from vendors, advertisements, brochures, price lists, menus, and traffic counts, which will guide discussions on pricing strategy, competitive advantage, market niche, and lead to a more informed sales estimate. The sales estimate should be further broken down by product line and by month to improve profit forecasting, cash flow forecasting, and guide product line emphasis/alternative discussions. The final sales estimate, even with a significant information base, will be an educated guess, but should provide for best case/worst case scenarios, which should be reviewed in light of break even implications. The computer spreadsheet programs allow easy manipulation of product line proportion assumptions, market share assumptions, market trend assumptions, pricing assumptions, and customer count assumptions.

At this point the client should be encouraged to talk to potential customers and conduct customer oriented research to test product and price receptivity and competitive assumptions.

The cost of goods discussion will reveal client knowledge and information gaps in the areas of raw materials cost, labor/machinery productivity, equipment needs, layout, and competitive cost differential. After investigation of the realities of the cost of goods, and eventually fixed expenses, the initial pricing strategy and sales estimate may have to be revised. The fixed expense discussion provides a checklist to ensure that all significant operating expenses have been factored into the profit equation, and also provides a monthly operating budget. Of equal importance, it provides a framework for decision making discussion in two key areas: people and promotion. The prospective owner should be guided into discussion of who will perform key functions, such as selling, what qualifications are needed, and what salaries are required. The promotion discussion should uncover product/firm positioning, expected results of promotion, spending/sales relationship, and media choice rationale. This discussion will probably reveal significant client promotion ignorance and discomfort, which can lead to productive sessions with experts in the selling and advertising functions.

The final area for initial discussion, as a result of the above areas, is the list of startup needs such as cash, inventory, one time charges, and non current assets, and resultant debt and equity needs.

At the end of the first session, the initial rough income and cash flow pro formas provide a scenario, based upon initial client/consultant assumptions, and a framework that will be refined in future sessions based upon more accurate information. Comparison to industry standards are useful in all stages of the pro forma preparation, as an initial guide for assumptions, and, later, as standards for performance.

Example of Client/Consultant Interaction

Using the previous discussion and Exhibit 1 as background, the following provides a typical scenario of client/consultant interaction at the S.B.D.C. at the University of Northern Iowa. A pre-business retail client seeks advice on obtaining debt and equity financing and is advised to prepare a business plan to accompany the loan proposal and to use with potential investors. Although a thorough feasibility study is appropriate, the initial workup the first day or second day of contact will prove very beneficial to show the importance of sales and margin accuracy and the relationship of expense assumptions to sales goals. Rough initial estimates of sales from public data sources such as census data, sales tax data, and per capita spending data can provide optimistic and pesimistic ranges of yearly sales, which are then broken down by month and retail category. If the client is unsure of pricing strategy and expenses, income statement data from Robert Morris and Associates can provide preliminary cost of goods, margin, and expense assumptions. The asset and turnover data from this source, can then be used to estimate starting equipment, inventory, other working capital, debt, and equity needs.

After this process the client tends to appreciate the need for more realistic estimates for the proforma preparation, and lists the information needed and the steps to obtain that information. The number of consulting hours ranges from a low of 10 to a high of 30 to aid the client in the completion of the business plan, with at least 3 hours devoted to student consultant/client interaction inputting revised data into the computer. Expense estimates are usually obtained independently by the client from building owners, vendors, similar non competing businesses, and salespersons for the retail line.

The risk of poor sales estimating become more evident to the client, as the client moves through multiple versions of income statement and cash flow preparation. The clients become more motivated to seek advice on market research to reduce sales estimating risk. The typical client will audit competitive store customer counts at alternative sites and survey not competitive retailers in other locations. The results of this information search tends to lead to advertising spending decision making and promotion decision making.

Implications for Strategic Planning

The previous discussion provides the framework for a shared client/consultant decision making process, with implications for strategic, tactical, and operational/budgetary planning.

In an incremental way, strategic planning is conducted because sales and other objectives are developed, the environment is investigated, opportunities, options and alternatives are explored, the future impact of current decisions are discussed, firm resource limitations are explored, and mission/positioning decisions made.

Tactical planning is served because the most effective and efficient use of resources is discussed, and short term outcomes are predicted from the chosen marketing mix.

Operational planning is served because monthly fixed expense, sales, and cost of goods estimates become budgets and standards of performance.

A key benefit from the pro-forma approach to planning is that is clearly reveals to the client the inter-relationship of decisions and infuses strategic "what if" thinking into the clients operational planning.

Computer Spread Sheets

Exhibits 2-5 provide a monthly income statement, a cash flow statement, a 4 year income statement, and a balance sheet. These statements are the output of a Lotus 123 TM spreadsheet with the formula provided for each cell to provide a template for the second disc. Loan amortization data can be performed from loan input to the cashflow. Standard Lotus commands are used to replicate data, edit months, save, and print.

Summary

Small business consultants seeking to improve the level of planning among their small business clients, especially starting businesses, should consider using computer generated pro forma preparation as a framework to develop strategic, tactical, and operations/budget plans.

The tangibility of the pro-forma statements and the clear task definition provide the client and the consultant a clear consulting framework and agenda for information gathering and decision making.

The incremental and pragmatic nature of this approach tends to work well in the small business planning environment, where time pressure, impatience, and optimism tends to be high, and regard for information gathering and formal planning tends to be low.

[Exhibit II, III, IV, & V omitted]

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Effectiveness of the SBA Loan Referral Process: A Pilot Study

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ABSTRACT
This paper presents the results of a pilot study requested by the Kentucky SBA field office to assess the effectiveness of their loan referral process. The results indicate that a serious deficiency may exist in the SBA's promotional efforts and that further investigation is warranted.

INTRODUCTION
The Small Business Administration, formally created in 1953 by Congress, was established as an intermediary between the local small business community and the federal government. The agency was created to promote and nourish small business concerns in a number of different ways. One of the ways of doing this was the creation of a system of guaranteed financial support.

Commercial banks have remained the most important suppliers of external funds to small business. During the years 1980 through 1984, commercial loans to small businesses increased from $325.3 billion to $452.4 billion (1). Approximately three out of every four existing small Businesses have borrowed from banks. However a review of the records of recent years indicates a decline in the utilization of SBA-guaranteed financial support services.

The decline in the utilization of these programs in Kentucky has been slightly greater than in the United States as a whole. During 1980, 421 business loans approved by the SBA in Kentucky totaled $55,928,000. They represented 1.3 percent of the nationally approved SBA loans. During the years between 1980 and 1985, the number of SBA guaranteed loans in Kentucky dropped to 141 or 33 percent of the number in 1980. The total amount approved dropped from $55,928,000 in 1980 to $20,173,000 in 1982 and recovered only to $23,002,000 in 1985. (2)

It is not possible to determine all of the reasons for this decline from available secondary data. However, much of it may have resulted from the upward adjustment of interest rates on SBA loans making them competitive with commercial market rates, and from the decline in federal funding for SBA programs. These factors at least appear to have been concomitant with erosion in utilizaton and the consequent lost of awareness of the loan guarantee of the agency.

At the request of the Louisville field office, this project was designed to generate data which would assist in their effort to establish a greater awareness and utilization of the

SBA guaranteed loan programs and other SBA services. The Louisville office suggested chambers of commerce and banks as target groups for this study.

Similar projects were conducted concurrently by Kentucky Small Business Institute affiliated universities in other areas of the state. The study reported here was the most comprehensive of the SBI commissioned studies and was endorsed by the Louisville office as being an appropriate model for an expanded regional study.

METHODOLOGY

Chambers of commerce in four cities, Danville, Richmond and Somerset, and thirteen banks located in these cities were targeted for study. As the population of these designated referral channel members involved only seventeen organizations, it was possible to take a census rather than a sample. Therefore, sampling error is not a limitation in this study.

The directors or executive directors were contacted at each of the chambers of commerce. Contacts at each of the banks consisted of one president, one executive vice president, six vice presidents, and five assistant vice presidents. All were considered to be the/an officer to whom a prospective SBA client would be directed. The average years of experience in banking among the respondents was 15 years.

A telephone call was made to each chamber of commerce by the researcher indicating an interest in establishing a business in that city. The researcher further indicated an intention to seek financial assistance through an SBA loan. Information concerning SBA services requested included brochures, pamphlets, and suggestions regarding other sources. If these were available, a visit was made to the chamber of commerce office, to pick them up. During this contact, all information and impressions were recorded on a form designed for that purpose. However, due to space limitations, chamber of commerce data is not presented in this paper.

A census was made of the banks in all four communities. The surveyors utilized a questionnaire designed to measure banks awareness of SBA programs and policies. The measuring instrument included a variety of question types and rating scales. In the process of conducting the survey, and prior to the interview, the person making the call also attempted to determine whether any SBA information in the form of pamphlets or brochures was available at the bank.

An unannounced visit was made to each bank and the researcher asked to be directed to the person who would be able to discuss an SBA loan. Upon being introduced to the loan officer, the researcher explained the true purpose of the visit and asked the loan officer for permission to proceed with the interview.

In every bank, except one, the person interviewed was the person to whom a prospective SBA loan applicant would be directed. In the exception, the SBA loan officer was on vacation and the interview was conducted with the SBA loan officer's supervisor. One hundred percent of the officers participated. Responses were recorded on the questionnarie during the interview.

In view of the fact that this was a pilot study and that a limited number of responses were available from the census of loan referral channel members in these four cities, evaluation techniques were also kept simple. Tabular presentations of response frequencies and percentages were considered adequate for purposes of analysis.

FINDINGS

After the qualifying question, the next four questions measured the individual's knowledge of SBA guidelines and procedures. Question Q2: What types of Small Business Loans does the SBA participate in?

Types	Replies
Total	
Not Familiar	61.5%
Guaranty Loan	38.5%
Direct Loan	30.8%
Other (503)	7.7%

Over 61% of the bank officers interviewed indicated no knowledge of this basic service of the SBA. Question Q3: In a guaranty loan, what is the maximum percent the SBA will guarantee?

Percent and Limits	Replies
Not Familiar	69.2%
90% up to $155,000	30.8%
85% over $155,000	30.8%

Again, most were unfamiliar with the percentage and limits of SBA loan programs. Question Q4: What is the maximum dollar amount in which the SBA will participate?

Limits	Replies
Not Familiar	84.6%
$500,000	15.4%

As indicated, almost 85% were unfamiliar with the maximum participation amount. Question Q5: How does the procedure for an SBA guaranty loan differ from the procedure for a regular loan?

Categories	Response
Very Familiar	30.8%
Moderately Familiar	7.7%
Somewhat Familiar	7.7%
Not Familiar	53.85

This particular question indicated that one bank in each town acted as the primary SBA lender and representative. Although other banks were not precluded from making SBA loans, each city had one bank which made the majority of these loans. Those banks and loan officers who acted in this capacity were more familiar with SBA procedures.

Question Q6: How does an SBA direct loan differ from a guaranty loan?

Remarks included in Reply	Knew without Probe	Knew After Probe	Barely Recognized	Not Familiar
1. Administrative Max of $150,000	7.7%	-0-	-0-	92.3%
2. Client cannot get SBA guaranty loan	7.7%	15.4%	-0-	76.9%
3. Client cannot get regular bank loan	7.7%	23.1%	7.7%	61.5%
4. Priority given to high unemploy-ment areas, low income applicants, handicapped appli-cants, Vietnam Vets, and disabled vets	7.7%	23.1%	15.4%	53.8%

Replies to this question indicated a high degree of confusion about the guidelines required to qualify for SBA loans. As indicated, many were totally unfamiliar with the basic SBA client qualifications. Repsonses also indicated a question in the minds of many as to the "mission" of the SBA, particularly in the areas of commercial loans. Many believe there are no differences relating to loan rates, collateralization, or basic qualifying attributes. Except for the increase in marketability in the secondary market, many perceived no additional benefits to the borrower or to the lending institution. However, many indicated that they believed SBA requirements were higher than their own.

In fact, some believed these additional requirements should probably be made a part of the lending institution's requirements. They perceived the additional requirements superior to the current "good ol' boy" attitudes in their bank.
Question Q7: How effective do you feel the SBA is in helping the following?

Applicant	**Very Helpful**	**Helpful**	**Not Helpful**	**No Option**
1. Women starting their own business.	-0-	46.2%	15.4%	38.5%
2. Minorities starting their own business.	15.4%	30.8%	7.7%	46.1%
3. Veterans starting their own business.	23.1%	38.5%	7.7%	30.7%

Responses to this question generally indicated that these areas were perceived to be a part of the SBA mission. However, they knew of no specific instance in which these attributes resulted in quicker approval, less stringent requirements, nor any other priorities in the loan programs.

Question 8: How often do you assist your customers with the following SBA programs?

Program	**Very Often**	**Often**	**Seldom**	**Never**
1. Regular SBA guaranteed loans.	7.7%	7.7%	46.1%	38.5%
2. Local Development company loans.	-0-	-0-	38.5%	61.5%
3. Small General contractor loans.	-0-	-0-	15.4%	84.6%
4. Seasonal line of credit guarantees	-0-	7.7%	-0-	92.3%

Indications were that the respondents never participated in energy loans, handicapped assistance loans, disaster assistance loans, pollution control financing, nor surety bonds. In many instances, the respondents were unaware of the existence of these programs prior to this interview.

Question Q9: How can a small business get help in obtaining government contracts or subcontracts?

Points enlisted	Knew Without Probe	Knew After Probe	Barely Recognized	Not Familiar
1. Contact the Federal Procurement Specialist (SBA/Louisville).	15.4%	-0-	7.7%	76.9%
2. Contact SBA Procurement Center representative at Major Military and Civilian Procurement installations.	15.4%	-0-	-0-	84.6%
3. Ask SBA to issue Certificate of Competency	7.7%	7.7%	-0-	84.6%
4. Ask SBA about Procurement Automated Source System (PASS)	7.7%	7.7%	-0-	84.6%

In general, members of the banking institutions were totally unfamiliar with any aspect of SBA activities outside of the financing guarantees. This is reinforced by the fact that no meaningful replies were received in response to the next question.

Question Q10: I understand that the SBA intercedes with the various federal agencies on behalf of small business interests. Can you explain anything you have heard that the SBA does on behalf of small business involving the various federal agencies?

Respondents were not familiar with any such activities by the SBA.

Question Q11: Who would you refer a SBA loan applicant to if you were unable to help?

Referral	Response
SBA Office in Louisville	69.2%
SBDC Office in Lexington	30.8%
Another Bank	23.0%
Other	-0-

Most respondents were aware of the existence of the Louisville SBA field office. A limited number were familiar with the Lexington Small Business Development Corporation (SBDC) office. A number indicated they would refer the inquirer to another bank, reinforcing the idea that each community relied upon a primary bank within that community relied upon a primary bank within that community to represent the SBA. One loan officer replied that he would not refer an applicant to the SBA if he could not make the loan himself.

Question Q12: Can you suggest any sources of business counseling available to a small business?

Sources Mentioned	Knew Without Probe	Knew After Probe	Barely Recognized	Not Familiar
1. SCORE	23.1%	15.4%	23.1%	38.4%
2. ACE	-0-	7.7%	15.4%	76.9%
3. SBI	7.7%	15.4%	-0-	76.9%
4. SBDC	46.2%	15.4%	-0-	38.4%
5. Other	-0-	-0-	-0-	-0-

Roughly half of the respondents were aware of the existence of the SBDC in Lexington and/or the Somerset extention. A number had heard about the Service Corps of Retired Executives (SCORE). Otherwise, most would not be able to direct their clients to any source of business counseling.

Question Q13: Is there any SBA information available to Kentucky small business to help them get into international trade?

One respondent referred to information from the SBA monthly newsletter. None of the other respondents were aware of any available assistance in entering international trade.

Question Q14: Will there be any SBA related seminars offered in this area during the next six months to help someone learn how to run a small business?

With the exception of the Danville banks who were aware of the bi-weekly meetings which the Lexington SBDC office holds in Danville, no knowledge of seminars or courses was indicated.

Question Q15: If you were giving the SBDC a letter grade like you got in school, what grade would you give it for promoting small business interests in this community?

A	B	C	D	F
7.6%	30.8%	30.8%	15.4%	15.4%

Although information about the SBA appeared to be lacking, especially in the non-financial areas, respondents did not indicate an extremely low grade in reply to this question. Grades of "B" and "C" were the most frequent responses.

Question Q16: Do you think the SBA is effective in advertising its services?

Yes	No
15.4%	84.6%

Positive responses came from banks which were most active in utilizing the SBA loan services, and particularly in Danville where a number of business and Civic luncheon programs had been assisted by representatives from the Louisville SBA field office. One respondent indicated his impression that this area of activity was in direct relation to the federal funding available for advertising.

Question Q17: If not, how could the SBA make potential small business clients more aware of their services?

Responses	% Distribution
Increase advertising	23.1%
Work closer with individual banks	61.5%
Work with the chamber of commerce	30.8%
Other (work with CPA firms)	38.5%
No response	7.7%

Generally, the loan officers admitted a lack of knowledge about the SBA. Some were embarrassed about their lack of understanding. Most felt that educating the banking community should be the first priority toward helping the potential small business client.

Question Q18: What is the most important effort the SBA should be making to assist small business in this community?

Replies were: Planning and advertising educational opportunities; educational seminars; working closely with marginal firms; participation in civic clubs and public meetings; simplifying paper-work. Overall, the feeling was that insufficient planning assistance was given to potential clients. In addition, follow-up work and assistance after the business had started operation was not adequate.

Question Q19: What three areas/items of concern do you believe are most critical in the establishment/development of small business in the community?

Replies were financial planning, management ability and planning, and client experience. These three ideas correspond to the areas previously mentioned. A primary recommendation was that potential clients should give thought to the events following the opening of a business.

Question Q20: How many SBA loan inquiries would you estimate your bank received the first six months this year:

Quantity	Percent Replies
None	30.8%
0-5	7.7%
5-10	30.8%
10-20	30.8%

Indications were that many inquiries were received in which insufficient collateral, experience, or thought had been given to the extend of commitment and planning required to be successful. Consequently, few SBA loan applications resulted in an actual loan closing. Over 60 percent of the banks surveyed indicated that no SBA loans had been closed during the first six months of 1987. Of the remaining, fewer than five SBA loans per bank had been closed. Additionally, all banks had been closed. Additionally, all banks indicated that the SBA loans constituted a very small percentage of the total commercial loans closed.

CONCLUSIONS AND RECOMMENDATIONS

Although a census of the banks located in the targeted cities was taken, the results may not be representative statewide of bank loan officer awareness of SBA services and procedures. This possibility is evidenced by the fact that larger cities such as Louisville and Lexington have, in the past, reported a highter percentage of loans closed than other locations in the state. This may be the result of a number of factors such as the presence of the SBA field officer and/or location of the SBDC office. It may also reflect a higher population of potential and eligible businesses in these larger communities.

It is concluded from these findings that the loan referral channel suffers from an acute lack of knowledge about the SBA and its services. Most members of the banking establishments are familiar with little other than the agency title and have only a vague idea of its purposes.

It appears that a single bank in each city becomes the primary source of SBA guaranteed loans. Uncertainty about loan types, loan limits, general guidelines, requirements, and eligibility have served to create substantial confusion about the goals of the agency and what it offers. Even less is known about programs outside the financial mission of the SBA. Apparently when banks turn to the SBA it is in general a "last recourse" effort.

Since the adjustment of SBA interest rates to approximate those of the marketplace and the institution of more stringent qualification requirements for loan applicants, many banks perceive little or no benefit to entaglement in the bureaucracy and additional paperwork. Plainly, the goals of the SBA have not been adequately promoted through the loan referral channel to small business concerns. Furthermore, it is anticipated from the portion of the survey which contacted chambers of commerce (not reported here) that the goals of the SBA have not been communicated effectively to the business community in general and to other professions which are a part of the SBA loan (and other services) referral channel.

Since the local banks are a primary referral channel for SBA services, we recomment that the agency review its programs to educate personnel within these institutions. These programs should be made as convenient and inexpensive as possible to encourage participation from a high percentage of the bank officers at all levels. The programs should be well advertised and promoted to ensure thorough coverage.

PROPOSAL FOR EXPANDED STUDY

Based on the findings of this pilot study the problem appears to be serious enough to justify an expanded investigation of the effectiveness of SBA's promotional efforts. This further study should take place on a regional or national scale.

Although the present study concentrated on banks, the Louisville, Office has suggested that the referral channel population be expanded to include accounting firms, attorneys and perhaps others. The methodology would need to reflect the enlarged scope of the study and the feasible data collection technique would of necessity become a mail questionnaire rather than one administered through personal interviews.

In order to provide the necessary follow-up to a mail questionnaire, it may prove useful to conduct the study on a region by region basis. However, in order to insure that the survey results are entirely comparable, it would be desirable to designate a single institution as the "lead institution" in coordinating the wider research effort.

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SBIs, COMMUNITY ECONOMIC DEVELOPMENT, AND COLLECTIVE STRATEGY

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Abstract
Collective strategy, "the joint formulation of policy an implementation of action by members of interorganizational collectives" (1,2) is being increasingly addressed in the policy and strategy literature. Few studies exist which demonstrate this strategy in action and those that do fail to address the role of small businesses and communities. This paper documents the role that a Small Business Institute played in attempting to formulate and implement collective action among small businesses and governmental officials to enhance community economic development. Though not completely successful, the effort was a good one. It is instructive because it enables us to explain why the effort failed and present a three step model for future collective efforts of this type. The paper also provides the reader with a better understanding of the scope of such projects by discussing SBIs, community economic development, and collective strategy.

INTRODUCTION
As with most SBI projects, the typical SBI - Client relationship is one where a team of students works with a single client. Other businesses, whether of the same type of different types located in the same trading area, are treated only as they impinge upon the project, For example, when working with a clothing store, other clothing stores are studied in the treatment of competitors. Different businesses, record shops and ice cream parlors for instance, are addressed only if they exhibit some distinctive feature which can be of benefit to the client.

Given such a relationship, SBIs most often deal with strategy at the functional level marketing, finance, etc.) and the generic business level (cost leadership, product/service differentiation, and focus). Less often, but periodically, a client falls within the definition of a mall business which is large enough to serve as an example of corporate level strategies (horizontal or vertical integration, for example). Conspicuously absent from most SBI programs have been examples of collective strategy.

In our policy and strategy studies and research we have focused so much on functional, business, and corporate strategies that we tended to overlook the collective strategy there, as well. Recent work has reminded us that this higher level exists and is worthy of our attention (7,2,3,8,9,1,4). Even so, there exists a paucity of information about collective strategy applications and the void is even greater, as mentioned earlier, for small business applications. This paper explores an attempt at collective strategy formulation and implementation by a Small
Business Institute (SBI) for community economic development (CED) purposes.

THE ROLE OF THE SMALL BUSINESS INSTITUTE AND CED

As the SBIDA membership knows, benefits commonly attributed to the SBI programs around the country are numerous, but two are more common than others. First, the programs assist businesses which, because of financial constraints, time pressures, or location, cannot take advantage of private consultants and trainers. Second, the programs provide an exceptional praxis experience for business students as they apply classroom theories to solve the problems of real businesses.

Despite the benefits of the SBI program, two shortcomings were built into its structure. First, the program was designed to assist existing businesses rather than to help people start new businesses. Second, the unit of analysis and intervention was to be individual small businesses. As evidence of this, note the Statement of Work found in previous SBI contracts (Exhibit 1). The PURPOSE indicates "technical and managerial assistance [will be provided] to the small business community," suggesting that perhaps groups of small businesses can be assisted. In point two, however, it indicates that the assistance will be provided "to small business concerns." This has been interpreted by SBA Management Assistance Officers to mean existing individual businesses. The result of such an interpretation has been that SBIs have had minimal impact on community economic development and revitalization.

EXHIBIT 1
PREVIOUS SBA-SBI STATEMENT OF WORK

1. PURPOSE - The Small Business Act contemplates the cooperation of universities and colleges in providing technical and management assistance to the small business community.

2. The institution shall provide management counseling and technical assistance to small business concerns...

This also harbored serious consequences for the educational component of the program. While students were exposed in the classroom to the strategic management approach and four levels of strategy, functional, business, corporate, and collective, the consulting intervention excluded the latter.

Having recognized these shortcomings, the SBA has now changed its focus from management assistance to business development. While retaining management assistance efforts, this broader definition legitimizes work with new business ventures and small business- oriented community economic development and revitalization efforts. Note the change in wording in the latest SBA contract to permit the possibility of conducting business/economic development studies for appropriate community/special projects." (Exhibit 2) Despite the SBA's limitations on SBI activities, some universities became involved in CED efforts. The SBI at the State University of New York at Utica was involved in several such efforts. In one, students conducted an evaluation of the central business district (CBD) of an upstate New York town to develop strategies for generating economic activity. In another, the same SBI examined the economic impact of moving the local municipal building from the CBD (12). Shippensburg University's SBI conducted a Downtown Business Survey (11). Though no specifics are available, presumably it was tied to CED. More recently, the SBI at North Adams State College developed the Community Resource Center to administer the economic development activities of a variety of local organization (13).

EXHIBIT 2
NEW SBA-SBI STATEMENT OF WORK

1. [The SBI will]...provide management counseling and technical assistance to a small business client. In selected instances and with the approval of the ARA/BD, the SBI program shall conduct business/economic development studies for appropriate community/special projects and needs analysis.

Though all of these are fine examples of SBI involvement in CED initiatives, it is doubtful that the projects were approached with the purpose of formulating and implementing collective strategy. Furthermore, limited information precludes retrospectively applying collective strategy precepts to these efforts. In order to understand why this makes a difference, perhaps it is best to review collective strategy.

WHAT IS COLLECTIVE STRATEGY?

The premise behind collective strategy is that the external environment is so complex and rapidly changing that a single organization cannot possibly hope to change it. The only recourse for single organizations is to adapt, making the fundamental goal survival. Together, however, organizations can operate more nearly on an equal basis with elements of the environment, allowing members of the collective to pursue goals beyond survival.

On the surface it appears that collective strategy, like other forms, is reactive. It may be. But while other forms of strategy are only reactive, that is, the environment acts upon the organization, collective strategy may be proactive. Each organization does change, but to operate in concert with other members of the collective to shape better conditions.

According to Astley and Fombrun (2), there are many examples of collectives active in our economy. When farmers lobby for price supports or when forest products firms lobby for import restrictions, they are operating collectively. Trade and professional associations such as the American Medical Association and the American Institute of Certified Public Accountants are collectives as well. Even joint ventures between organizations are collectives because they have come together to pursue a common goal without completely sacrificing individual autonomy.

While localities can be viewed as organization which both compete and cooperate, they are actually organic collectives of organization. This means that member organizations are from many different industries; some of them are competitors and some of them are not. Their interdependence arises because of their membership in a larger system, in this case the locality (2).

Dealing with such collectives is never easy. Because of the diversity of organization, in both business type and experiences, the only common thread is often the desire for economic revitalization. Control over the group, if ever achieved, is limited and best pursued by negotiation and compromise. All this adds up to a very difficult situation for even the most experienced consultant, much less the inexperienced student consultant.

THE THREE FORCES: SBIs, CED, AND COLLECTIVE STRATEGY

In December 1985, the Town of Pulaski, a picturesque community of approximately 10,600 residents situated in the Blue Ridge Mountains of southwestern Virginia, contacted the Radford University SBI to assist with its downtown revitalization program. The SBI was approached because it was conveniently located nearby, the price was right, and it was available. Other resources such as a SBDC or the Main Street program have more experience with economic development than SBI programs generally but the state of Virginia does not have SBDCs and Pulaski was not participating Main Street.

With an economy based upon two major industries, apparel and furniture, both facing increasingly intense foreign competition, Pulaski had realized little economic growth over the past twenty years. In an effort to enhance the economic and social value of the town and spur new growth, Town Council had embarked upon downtown revitalization campaign. As part of the endeavor, the Town asked the Radford University SBI to conduct a survey to determine the shopping patterns and preference of town and county residents and to help the town determine the most effective strategies for downtown revitalization.

On the surface such a survey seemed to be logical part of Pulaski's ongoing revitalization effort. In 1980 the Town had hired a design and consulting firm that recommend renovations to the central business district. The first stage of these renovations was completed in 1983 incorporating improved traffic flow, better and more attractive lighting, sidewalk improvements, and landscaping, on a two block section of a main thoroughfare Stage two, similar renovations to a large area, was to begin after reactions to stage one were gauged.

One expectation shared by the manager, Town Council, and local businesses was that the renovation would increase business in the downtown district. They were mistaken, not only to the extent that business did not increase but the disruption from renovation sent some shoppers elsewhere and not all returned. Another expectation, this one shared by Town Council and the town manager, was that downtown property owners would upgrade storefronts. While some planned to, and a few did, most did not pointing to the lack of business as their justification. Town Council then used the same justification in delaying funding for stage two of the renovation.

It was against this backdrop of events that the SBI stepped into the Pulaski CEO effort. Although the SBI was charged only with conducting the survey mentioned earlier, discussions with the town manager raised the possibility of a more extensive effort. Using that opening, plans were developed for formulating and implementing collective strategy.

Using a survey questionnaire which was mailed to about two percent of the town and county populace, the SBI was able to arrive at some conclusions as to why people did or did not shop in Pulaski and what changes they would like to see. As a second step, the SBI conducted a similar survey of the teenage market. This group of questionnaires was administered through the local high school in an attempt to learn why the younger residents do or do not shop in Pulaski and how they think the Town can be improved. Few significant differences were found in the results of this group when compared to the adult responses. Based upon the results of both questionnaires, recommendations were made to the town manager. Additionally, a variety of information was collected to be stored on a database for future individual and collective consulting efforts.

While the survey was being conducted, related efforts were undertaken by the SBI. Several downtown businesses owned by opinion leaders were individual clients of the SBI. In addition to providing much needed assistance to these businesses, ready access to these people enabled the SBI to explore concerns about economic revitalization and to plant the seeds of cooperation. The local media, radio stations and the newspaper, were kept informed about the project and given copies of the results. Results were also distributed to participants and the local library. A planned meeting with the downtown merchants' association, however, never materialized.

The greatest outcome from this effort was an increased awareness by the community that they must be concerned about development. This led to the hiring of a part-time economic development director who now serves as the contact for individuals, businesses, and industries interested in Pulaski. Her activities include not only responding to requests for information, but actively seeding prospects and working with local organizations such as the downtown merchants association, the Chamber of Commerce, and local civic groups.

Downtown merchants have also become more aware of their role in economic revitalization. They no longer expect that street-side beautification alone can bring in business. Several new storefronts have been erected and store owners are more responsive to recommendations concerning individual and collective promotion, and merchandising and service improvements.

In essence, the concept of synergy, where the value of the whole is greater than the sum of the parts, is beginning to take root. As the marketing literature points out, this is a major step toward promotional and retailing success (14, 10).

Concurrent with the surveys, two additional forms of intervention took place. First, a series of eleven free seminars featuring films and speakers were offered on such topics as bookkeeping, financing, marketing, and personnel. These were appropriate for new or existing businesses. Attendance varied from ten to forty-five, not overwhelming, but a good start. Second, a short-term consulting service was established through the Chamber of Commerce (the area is not served by SCORE) to serve the management assistance needs of the small business community better. Results on this effort are modestly encouraging. About one-third of the clients needed only a one hour counseling session, often to review what was being done and to reassure them that they were doing the right things. Of the two-thirds that needed additional counseling, half followed through and became regular clients of the SBI.

The Pulaski project is not yet completed and is not yet what one would call a success. The biggest failing to date is that the collective has not been institutionalized and, without that, genuine and sustained success is not likely to be achieved. Local groups and businesses must be brought together to develop a plan of action and implement their strategies for community economic development.

FRAMEWORK FOR FUTURE ACTIONS

Given the above we have three steps which constitute a framework of action for future collective strategy efforts of this type.

1. **Commitment** - In Pulaski, students, faculty and town management were committed to the collective effort. Unfortunately, commitment was not solicited, nor was it forthcoming, from elected officials or the broader business community. For any collective effort to be successful all the principal actors must be involved.

Robert Chin and Kenneth Benne (5) have suggested that community change be addressed by a normative-re-educative approach in which attitudes, values, skills, and relationships are scrutinized to ensure that the change goal is congruent with them. If no, either the goal must be changed or the normative environment must be changed. To accomplish the latter, Chin and Benne suggest three common rules. First, help the client recognize that a problem exists and that he/she/they must solve it. Second, help the client look beyond the obvious for underlying causes and solutions. Finally, help the client look at problems from both a rational and a normative perspective. Implicit in all three rules is that the consultant will work with the client to improve the situation. Unanswered is the question of how to get the client group involved enough to follow these rules.

2. **Communication** - Channels of communication must be opened between the collective strategy agent and the collective. In an SBI project setting the director should meet with all members of the proposed collective. This may include elected and appointed officials, business leaders, representatives of outside agencies and businesses such as transportation officials and executives from telephone, electric, and gas utilities, and the media. At that time areas of concern can be outlined and levels of commitment/resistance determined, although the main benefit may be that channels of communication are opened and informal influence structures begin to develop.

3. **Publicity** - The next formal action is to generate publicity. Interviews, press releases, and stories all convey the project mission while alerting the community to an important priority - economic development and revitalization. This is another important influence structure which should not be overlooked.

Concurrent with publicity, concerted efforts should be made to meet with those resisting the project. One must determine the reason for their objections and find ways to make them active in the collective.

A variety of data collection methods should be used. In addition to survey questionnaires (mailed or telephone), on-the-street interviews and open meetings can be useful. The purpose is to gather as much appropriate information as possible to make some recommendations and, at the same time, let the community know that their opinions are valued.

Next, the recommendations should be developed and distributed. Another open meeting should provide comments and feedback for modifying the recommendations.

During the project the SBI team serves as a consultant to the collective, not an instrument of it. Thus the SBI helps the collective move through the various steps while keeping sight of the goal, community economic development and revitalization. If the SBI does the work, as in Pulaski, the collective will never be institutionalized and long-term success will be compromised.

SUMMARY

Communities, like organizations, use strategy to pursue goals. When the goal is economic development and revitalization, many different actors are involved and strategy must be collective rather than individual. Small Business Institutes previously excluded by the SBA from providing assistance to such projects, have not been given a mandate to become involved in them. This paper recounts the experience of one such effort and provides a model for future SBI involvement in collective strategy situations.

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PARTICIPATION IN GOVERNMENT PROGRAMS BY SMALL BUSINESS: AN EMPIRICAL STUDY

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ABSTRACT
Many federal and state policies concerning small business attempt to establish a facilitator role for government institutions that is designed to support and nurture the establishment and growth of small businesses. A fundamental assumption underlying the operation of these programs is that services can be effectively provided under conditions analogous to a free market. That is, government institutions sponsor programs and communicate the existence of these programs and interested consumers (small businesses) choose to participate based upon economic calculations of benefits and costs of participation. In this paper, results are reported of an empirical study of the conditions under which small businesses voluntarily participate in a select set of government programs aimed at improving and developing small business.

METHOD
A questionnaire instrument was used to collect data concerning three programs that are targeted at small businesses in the state of Illinois. These programs are known as JTPA (Job Training Partnership Act), ITP (Illinois Training Program) and the Illinois Department of Commerce "Incubator" program. The sampling procedure draws a sample of small businesses in three stages.

The relevant small business population is identified from a set of firms located within four zip code districts in two counties in Illinois. The definition of a small business follows guidelines established by the United States Small Business Administration. Firms in the manufacturing sector of the economy are defined as a small business if it employs five hundred employees or less and firms in the service sector employing one hundred or less employees are defined as small businesses. A stratified sampling of small businesses is taken from this population of small businesses. The basis of stratification is the percent distribution of small firms within the four zip code districts in five industries: wholesale trade (7%); retail trade (37%); finance, insurance, and real estate (10%); service (34%); and manufacturing and other industries (12%). The frequency distribution of firms in the four zip code area approximates the frequency distribution of small firms in the Small Business Data Base, SBDB, (SBA, 1985). In each instance, there is no statistically significant difference between the frequency distribution in the sample and for the firms in the Small Business Data Bank (SBA, 1985). A sample of firms was chosen randomly from each of the five categories of small businesses and the number of firms chosen from the sample are weighted by their frequency distribution in population of small businesses in the county. Eighty-one percent of all firms contacted by the author participated in the study. In all, usable data were collected from 123 small businesses.

The interviews generally lasted forty-five minutes to one hundred and thirty-five minutes. Respondents answered a series of questions concerning: their firm's current or prior participation in the set of government-sponsored programs (JTPA, ITP and Incubator), their knowledge of these programs, how the respondent or the firm came to learn of the existence of the programs, and their evaluation of the potential benefits of the program. In each case, either the owner of the firm or the operator or manager in the firm were interviewed. Of the 123 firms included in the sample, 101 firms (82.1%) satisfy the minimum eligibility requirements for at least one of the three programs.

RESULTS

The background characteristics of the firms included in the sample are listed in Table 1.

TABLE 1
MEAN AND STANDARD DEVIATION OF SELECTED CHARACTERISTICS OF FIRMS (N = 123) **IN THE STUDY**

Characteristic	Mean	Std. Dev.
Number of Full- Time Employees	64	26
Number of Part-Time Employees	29	23
Years of Operations	31	32

The results in Table 1 indicate that the characteristics of the sample are similar to that of small businesses in general (SBA, 1986). The mean size of the firms in the sample equals 64 full-time employees and a mean of 26 part-time employees.

The responses concerning the set of government programs yielded unexpected results. In the 123 firms, only 35 respondents indicated that they or any member of their firm had knowledge of the programs (28%) and 8 of the 35 firms had voluntarily participated in any of these three programs at any time. The rate of participation among the firms in the sample is relatively high for the county and for the state of Illinois (Robertson, 1986). Firms were grouped on the basis of whether or not someone in the firm had any familiarity with any of the programs.

Statistical tests of significance were computed to determine whether a pattern of systematic differences exists between the two groups (firms that are aware of the existence of these programs and those firms that are unaware). However, any inferences based on the results of these tests must be treated cautiously since the cell sizes are unequal (N=35 for the "Aware" group and N=66 for the "Unaware" group. Still, it is interesting to note that there are no significant differences between the two groups in terms of: the size of the firm (measured in terms of either the number of full-time employees or the total number of employees), the years in operation, the type of industry, the form of ownership, and the mean level of perceived value of entering into a collaborative effort with either a state or federal agency. In order to gain additional insight into this issue a network analysis is conducted.

NETWORK ANALYSIS

Network analysis refers to the study of regularities in the pattern of relations among social actors. In network analysis, the unit of analysis is dyad or network relation that binds two actors (Knoke and Kuklinski, 1982). A network relation is not an intrinsic characteristic of either party when considered in isolation but represents a property of the linkage between actors. Network structure refers to the pattern of linkages among the members of a network. In this study, patterns of awareness among firms concerning the existence of government support programs are treated as an information or communication network. For example, firm A becomes aware of a program from firm B. This indicates that firm A and Firm B have entered into a network relationship. Firm A is the receiver of a tie and firm b is the sender of the tie. The pattern of network relations to and from each firm that is aware of the existence of any of the programs is analyzed in a network matrix.

In this study, a method outlined by Burt (1983) using interview data is employed to assess social network structure. Respondents indicated whether they were aware of the program, and if so, they described how the firm had initially become aware of the program. Thirty-five firms indicated that they were aware of any of the programs and 30 firms were identified as being the source of information. Two firms indicated that they became aware of a program from conversations with government employees who worked with these programs, and the representatives from three firms could not identify the source of their initial awareness. Obviously, 30 of 35 (86%) suggests that the process by which firms become aware of the programs is not random but instead indicates that an informal communication network represents a statistically significant source of information. Of the 30 firms that were nominated, 8 of the firms are included in the original sample of small businesses. An interview was conducted with a representative from each firm that was identified during the first wave of the interviews but which was not included in the original sample. Among the questions asked of these additional eight firms are those related to how the firms became aware of the two programs considered in the study.

The patterns of communication are treated as a 30x30 binary matrix. In the matrix, the rows and columns contain the identical set of 30 firms. In each row, if a network relationship exists between the firm in the row and another firm then a "1" is placed in the matrix in the appropriate column. In the absence of a relationship then a "0" is placed in the matrix column. A path analysis is conducted (following the guidelines and techniques formulated by Burt, 1983) on the network matrix in order to identify clusters of firms within this information network that indicate the presence of Primary and secondary network positions. A primary network position is defined as a cluster of network members who provide information to other firms both within and outside of their cluster but who receive information only from other members of the same primary position. Thus a member of a primary position provide information to othersin the information network but do not receive any information. A secondary position is defined as a cluster of similarly situated members of a network who receive information from others but who do not provide information to any others within a network. Three network positions were identified. One is a primary position and the remaining are secondary positions. Seven firms occupy the primary network position, 9 firms occupy one secondary position and 14 occupy the other secondary position.

When the characteristics of the firms in the primary position are analyzed, a strong pattern of relations are uncovered, namely, firms owned by larger enterprises or who are the primary client (representing 30% or more of annual sales in dollars) of a smaller firm occupy the primary network position. Small firms that are owned neither by a larger enterprise nor have extensive ties with a single large corporate client tended to occupy secondary positions.

These results suggest that small businesses are far more likely to become aware of the government programs when they are subsidiaries of a larger company or have extensive business relations with a large corporate client. Large firms possess the greatest understanding of the existence of these programs and communicate this awareness to their small subsidiaries. Small firms that deal primarily with one or two large firms were significantly more likely to be aware of these programs than firms that did not engage in extensive relations with large firms, key executives had extensive prior experience in larger firms (often from a larger firm that currently is the primary client of the smaller business). All 8 firms that voluntarily participate in these programs occupy a primary position in the information network.

CONCLUSION

An assumption guiding government policies in the design of programs aimed at aiding small business is that economic factors determine the pattern of participation by small businesses. The results obtained in this study suggest that this assumption is not well-founded and can be summarized as follows:

1. Only a relatively small percentage of small businesses (28%) have any awareness of the existence of these government programs (ITP, JTPA and Incubator). In this sample, there is no significant difference between the group of small businesses aware of these programs and the group that is unaware in terms of many significant organizational characteristics: age, size, type, and evaluation of their potential benefits.

2. Despite the efforts by agents of the providers of these services, existing communication channels play an unimportant role in shaping patterns of participation by small businesses.

3. The key factor determining patterns of participation by small business is whether a small firm has a close link (legal or operational) with a larger firm. Although larger firms are not the target of these programs, apparently they are far more likely to be aware of and understand the purpose of these programs. This understanding is transmitted to the small firms within whom the large firms deal with on a frequent basis. Small firms that do not engage in extensive relations with more likely edge of these programs do have these relations.

These results suggest that a "free market" model does not capture the manner in which information is exchanged. Additionally, the "free market model" does not explain the manner by which small businesses decide to participate in government-assistance programs. Instead, those firms that represent the target population of these programs (small and developing firms) are far less likely to voluntarily participate in these programs than small firms that have: well-developed economic ties with large firms or who have entered into some form of legal relationship with a larger enterprise, or have in their employ executives who became familiar with the existence of programs while working with a larger firm. Reduced to simplest form, the results of the study indicate that those small businesses targeted by agencies for support are among the least likely to either be aware of or participate in these programs. Conversely, the results also suggest that those firms that are most likely not to require the assistance of services are also most likely to participate (e.g., smaller businesses with well-developed economic or legal ties with large firms).

If federal policy continues to be directed towards developing and maintaining support programs for smaller businesses, then the implications of the prevailing model for the delivery of these services should be examined and evaluated directly rather than implicitly--assuming that the operation of the model leads to positive economic and policy effects.

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PRIVATIZATION: OPPORTUNITY FOR ENTREPRENEURS WITH LOCAL GOVERNMENT

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ABSTRACT
The paper initially presents the history of demand for privately produced/provided government sponsored goods and services (hereafter referred to as services) together with the philosophy of social action adhered to by government administrators in making services available. A discussion of the rationale for such provision of services is then provided, followed by indications of the extent of the recent role of private enterprise. Areas offering high potential for further private sector involvement and guide lines for offering such services to governmental bodies are provided.

INTRODUCTION
In recent years there have appeared a number of articles, books, and program sessions in the field of public administration focusing on options that local government should consider in coping with the demand for services by the citizenry in the future. Within this discussion a jargon has developed referring to the increased use of private sector organizations in providing "alternative delivery systems". These terms which include privatization, private-public partnership, load shedding and others refer to situations in which private businesses take on the role of producer/provider of services otherwise carried out by the public sector. This paper focuses on privatization which, in reference to local government, typically is viewed as referring to the contracting with a private business to provide particular services or franchising private sector organizations a providers of a service in a defined geo-political area. While privatization has been extensively used for some services such as trash collection and street construction, interest in the expanded use of the private sector is now driven by reductions in Federal support of a variety of locally provided services. Such major fiscal changes are now resulting in consideration of approaches to more economic delivery of services by public officials (4,1).

BACKGROUND
Historically, the provision of "public" services in the United States by private enterprise has gone through significant change. At its inception, one of the characteristics of this country that distinguished it from the nations of Europe was the absence of established institutions. The emphasis placed on individual freedom and independence resulted in a large portion of political and economic power being available to those who chose to gain control of it. Many individuals availed themselves of the opportunity and acquired great wealth in providing the fledgling county and states with most of the services government sponsored. Indeed, the intertwining of the private and public sector was so great that the historian Beard argued that some of the delegates to the Constitutional Convention stood to personally profit by the adoption of the document (9,40).

It was not until the early 20th century that the lack of separation of the public and private activity began to be seriously criticized and the conviction that they must be kept separate developed. The Crash of 1929 and the subsequent failure of the private sector to restore a quality of life to the society confirmed the need for government control and provision of social action. The growth of welfare state which reached its climax in the Great Society programs of the 1960's however, resulted in criticism of government functioning as an efficient producer of services. This generated a reconsideration of the ability and effectiveness of the private sector and the initiative of the entrepreneur in meeting societal needs (1,5). Regardless, the growth of government services, at both federal and local government services began to change in the 1980's. The climate for continued growth of local government services began to change in the 1980's as the amount of federal and state aid declined. While the citizenry signalled there was a simultaneous message of expectations that service levels would be maintained. From these conflicting requirements a realistic possibility of increased use of privatization has emerged.

The new "looking to business" for help in meeting the demand for service is, however, in conflict with local governments' mode of operation. It has occurred through a rethinking by government administrators of both the definition of social needs and of their approach to social action (6,89). Typically when administrators discuss "doing something" they are usually referring to two separate types of decisions that become linked together in "taking social action". Government units in the past, especially at the local level, have operated as both policy maker/planner and producer/distributor. Their operations might be viewed as monopolistic policy maker/buyer engaged in transaction with themselves as monopolistic producer/sellers. It is easy to see that the policy decision to make something available to the public can be functionally separated from actually becoming the producer/provider. It is, however, the production/provision function of government that is most visible, involving the direct contact with taxpayers, as well as representing the major portion of the budget allocation (6,91).

Recognition of this pragmatic rationale of government operation as an impediments to the development of privatizations becomes fundamental to exploiting the potential opportunity. Understanding the objectives sought by government administrators and their self-imposed constraints as they search for alternatives gives insight into what a potential private sector provider must consider in seeking out contracting opportunities.

RATIONALE FOR PRIVATIZATION

The provision of any service requires the three primary business functions discussed in management theory. Finance, production and distribution must occur whether the output is a function of business of government. If local government come to see themselves as policy decision makers and financiers, rather than as public service producers, numerous alternative delivery systems involving the private sector come in to focus. Recent changes in local political-economic environment involving the confluence of tighter fiscal constraints and the limited possibility of cost reduction and/or quality improvement within departments and agencies have furnished impetus for such a rethinking (5,113). Spurred by the reduction of intergovernmental grants associated with the "Great-Society" federal welfare programs, administrators are being forced to consider parcelling out provision of some government service as well as contracting for disaggregated components of any service that might still be directly provided.

When one looks at such issues as why government provide fire protection but refuse collection is frequently contracted out, or why sewer, lines are provided by government while power lines are provided by the private sector, little consistency can be found for what is included in the public domain. This quickly lead one to question if there is theoretical justification for consigning any particular service to be produced/provided by the public sector. Most economists and political scientist argue that services relating to the public good should be the domain of the public sector but this criterion appears to have been applied inconsistently by local governments (10,26). Lack of rationale not withstanding, it has been said that "Much of what cities and counties do is essentially the operation of service businesses. But they very seldom operated these services like businesses" (10,23). There is a strong perception that government service delivery has been over-professionalized perpetuating wasteful practices and unnecessary overhead expenses (1,5). Further, that public sector monopolies have no internal incentive to increase efficiency and may even tend towards utilizing less efficient methods and featherbedding (4,13) (7,8).

Regardless of the basis upon which a service has been deemed to be public service, little reason exists for believing that public production/provision of the service is the economic approach to its delivery. Privatization may afford a means of gaining greater efficiency and may represent a lower cost delivery alternative. For while not universally accepted, certain studies provide solid evidence that in almost every case of use of private sector producers/providers studied, the private sector has provided services more effectively and more economically (10,22).

When privatization is considered by government administrators, it will be in terms of a "make or buy" decision. Consideration will be given to all the factors that are impacted on by the decision, with direct cost reduction being but one of them. Government officials will find it necessary to consider such things as labor relations and resistance by public sector unions, possible related incidence of corruption in terms of potential for bribes, lack of contractor responsiveness to the citizenry, and the impact on their political power base (3,22). While the greatest impetus to consideration of alternatives is economically motivated, officials will attempt to select those alternatives which will least decrease their visibility or dilute their control (5,112).

In addition to these inhibiting factors there are factors on the positive side similar to those that would be considered in a "make or buy" decision in the private sector. The Urban Institute, a public administration research center, has identified eight for consideration in the decision to privatize. They are:

Providing specialized skills. Where the full-time services of specialized personnel are not required, contracting offers a lower cost way to obtain their services. The advantage also applies to costly, special purpose equipment.

Limiting the growth of government. Full-time employees can be held down or cut back. This may also indirectly save money by reducing the need for central administration in such areas as payroll and personnel departments.

Avoiding large initial cost. New large projects can be undertaken without the initial investment in land, facility, and equipment.

Permitting flexibility in program size. Implementing increases and reduction in level of service is facilitated by avoiding internal labor relations problems.

Providing a yardstick for comparison. Service provided in part by private firms and in part by government agency affords a means of comparing cost and performance.

Promoting increased objectivity. When operational responsibilities are in an outside organization, administrators can be expected to be more objective in evaluation of performance.

Producing better management. When operations are separate from control, administrators can devote more attention to planning and monitoring rather than day-to-day problems of service delivery.

Producing better management information. Contract specifications for services to be provided that include required performance levels become a basis for monitoring and evaluating services actually provided (10,28).

EXTENT OF PRIVATIZATION

All levels of government have typically looked to the private sector for the provision of equipment, supplies and goods classified as "public works" (i.e. building, road, and utility construction). In the areas of services per se, however, local government has typically seen itself functioning as the producer/provider. Even with these traditional limitations on what government has looked to the private sector for, there have been some forays into the involvement of private producer/provider. It has, in fact, been stated that virtually every area of government production/provision activity has been provided by the private sector in the United States (10,26). For perspective, and to provide insight concerning what is possible, some instances of business involvement will not be presented.

Orange County, California has contracted out their entire data processing activities since 1975. All fire fighting services in Scottsdale, Arizona, were turned over to a private provider more than 25 years ago and has become a prime example of some of the advantages of privatization. Pomona, California contacts out legal work to include the function of public defender. All vehicle repair for Gainesville, Florida, was taken over by private enterprise in 1980. In 1979, Poughkeepsie, New York contracted out the operation of its waste water treatment facility.

Less dramatic in terms of government use of private sector producers/providers, but radical in terms of attempting to increase efficiency and economy has been the introduction of price competition between government and private producers/providers. Phoenix, Arizona, requires city agencies to bid along with private firms to provide services from custodial maintenance to street landscaping. Minneapolis, Minnesota, has defined two intermixed and comparable refuse collection service zones. One is serviced by a public agency and the other by a private contractor. In a related approach to increase competition, Montgomery county, Maryland, divided up its refuse collection service area into a number of small service districts to encourage the competitive bidding among smaller contractors (5,18).

In addition to the service areas of potential contracting included in the foregoing examples, there are other areas that constitute typical services that local governmental units have contracted for. The list that follows was taken from a survey of members of the National Institute of Governmental Purchasing (2,30). While not exhaustive, it illustrates the range of activities that have been available to the private sector. Listen in order of frequency mentioned as having been used, they are:

Engineering Services
Building Repair
Ambulance Service
Day Care for Children
Equipment Maintenance
Administrative Support
Recreational Activities
Park Maintenance
Building Inspection

Another survey conducted by the Diebold Institute for Public Policy Studies, Inc., provides a very extensive list of areas of contracting along with indication of the percent of local governments included in the survey contracting for them (5,117).

PROPOSAL STRATEGY

The decision on the part of public administrators to use alternative delivery systems appears to revolve around three issues; a perceived need for change, a willingness on the part officials to give up some degree of control, and the knowledge of alternatives along with their advantages and disadvantages (5,134). In the preceding sections, the realities facing local governments that attempt to fulfill the demands and expectations of the citizenry are described. Also, the philosophy of public services have been presented. In this section the focus will be on the third issue; that of educating officials in terms of providing proposals for service that are likely to be acceptable given the political realities.

Until governmental administrators come to view governments' role as that of a pragmatic decision-maker rather than as a service provider, potential private sector producers/providers need to develop an effective strategy for offering their service. As administrators, to include purchasing agents, may not be used to contracting for a wide range of services, the strategy should be to provide proposals that will be the least threatening to the entrenched philosophy of government operation and easiest to implement within the existing structure. Therefore, if the possibility of success is to be enhanced, an entrepreneur should engage in an analysis of the relevant factors before attempting to make an offer of service.

Fundamental to this analysis is consideration of the philosophical perspective of public administrators. Their concern with visibility, control, and political influence is apt to eclipse concern for direct economic benefit until the concept of privatization has become an established way of administering. Also, the business person must recognize the typical public administrator's concept of private sector attitudes and management orientation.

Relevant here are criticisms of the business community's lack of concern for the objectives of public sector. Business is seen as emphasizing profit and therefore focusing on efficiency to the detriment of effectiveness and quality service. Also, administrators may be defensive and are apt to view business people as not being interested in understanding the special problems of government operation and critical, scornful and patronizing of public sector management (3,22).

Those activities most likely to be available to a potential contractor are those that will have low visibility and are like private sector business activities. Further, those activities that are subject to objective verification, or have quantifiable objectives, and are routine have higher potential for being privatized initially. Reflecting these criterion are data processing, servicing of area lighting and equipment maintenance. Also relevant and reflective of restraint in how contracting might initially be employed are such arrangements as dividing solid waste collection between public employees and private contractors and employing a contractor to handle communications for a police force. Splitting responsibility with a contractor provides protection from the impact of contractor labor problems or financial failure and allows for intervention if performance is unacceptable. It also incorporates other advantages of contracting previously noted; instilling a competitive environment and providing a basis of comparison of performance. The last example, which is an instance of the disaggregation of service previously referred to, epitomizes the type of service having the greatest potential to a broad range of potential contractors to include very small businesses.

While these considerations reflect some of the political realities which must be addressed, other factors exist that deserve the attention of an astute businessman. First, as privatization is frequently a response to economic realities, areas of fiscal strain facing administrators should be scrutinized for opportunity. To the extent that private sector involvement can be shown to provide even a partial solution to a problem already in focus by the officials, potential for its being seriously evaluated is enhanced. Second, because power in the public sector is seen as being highly related to the size of an administrators domain, territorial boundaries must be respected. Offers of service are more likely to be considered if they respect municipal or county structure and thereby avoid instigating internal power struggles. Third, relationships with business that offer a degree of impermanence and that are flexible and admitting of revocation or revision are likely to appear desirable. Implicit in these is the opportunity to pursue other options in the future and the freedom from the general rigidities of civil service and working with public sector union. Finally, and related to the previous issue, is the increasing cost of the civil service system that has contributed to the fiscal problem. Opportunity to contract out work will appear desirable to the extent that the alternative results in fewer direct municipal/state employees being required.

In developing a client's strategy to actual preparation of a proposal offering contract service, thought should be given to the criterion local governments might employee in evaluating alternative approaches to production/provision of services. Appropriate considerations include; cost of the ongoing government service vs. the new alternative, the quality/effectiveness of the service, the potential for disruption of service, the feasibility of implementation of alternatives, and the overall impact on relevant factions and constituencies. As a guideline in developing a proposal that is responsive to these considerations a client might proceed by including in a presentation those items which are typically required in a major request for proposals. These usually include a specific definition of the services to be supplied, a statement of the consistency of the services with statutory requirements, the facilities, resources and personnel to be employed, the system that will be established to manage the service, and the control system that will be established to report on and assure performance. These requirements provide a response to the need of administrators to: 1) know what will be done or provided, 2) assure them that the contractor can actually deliver, and 3) provide a basis for control to assure performance. A discussion of these from the purchasers' point of view is contained in Contracting Municipal Services: A Guide For Purchasing From The Private Sector, J.T. Marlin, Ed.

For the present purposes of assisting a client in developing a proposal two of these needs that are closely related topics will be briefly discussed; definition of service and assurance of performance. In defining the service to be produced/provided, adequate specifications are desired as a basis of accountability. Whether specified in terms of output per se or resources to be provided, administrators are likely to be more responsive to specifications that are clear and measurable. Whether they provide for direct quantitative assessment or provide a basis of substantive comparison the specification should be unambiguous. In the case where resources supplied are specified or where outputs will be measure qualitatively, proxies should be included in the specifications (8,41).

Due to the emphasis on continuity of performance and the concern over contractors possible lack of effectiveness/quality orientation, inclusion of assurances of performance are desirable. In all cases performance standards based on specification must be established and a means of systematic measuring and reporting on performance defined. In this undertaking a system comparable to management by objectives appears appropriate. Assurance of performance can take the form of some financial oriented reward or penalty imposed on the producer/provider based on performance. Included in the financial arrangements might be provisions such as for bonuses, automatic noncompetitive renewal, and combinations of sharing cost overruns of "profits" from services provided.

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SERVING BUSINESS AND THE PUBLIC WELFARE: A MODEL VENTURE CAPITAL INVESTMENT PROGRAM

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ABSTRACT

For many small firms in Massachusetts access to venture capital sources has been a problem. Proposals submitted for funding have not been in the amounts that venture funding sources prefer. This paper details some problems facing small rural businesses and provides information on a state supported venture capital program that addresses these problems.

INTRODUCTION

In an effort to bring the Massachusetts economic miracle to all areas of the commonwealth the state has established a number of programs and agencies that provide technical training and assistance in addition to funding resources. These programs and the agencies that administer them are an obvious attempt by state government to provide the impetus for the economic boom in all the cities and towns of the state. Massachusetts has been the shining example of economic resurgence for the New England states and much of the nation, but the fact remains that the "miracle" has failed to reach all sections of the state. There are a small number of economically depressed cities and towns that are not in close proximity to the high technology parks of the eastern part of Massachusetts. A great number of these cities and towns are hampered not only by geographic location, but also their reliance on smokestack manufacturing.

This reliance has resulted in specialized economic bases that are subject to the rise and fall of particular industries in the Northeast. Unable or unwilling to diversify the economic base the majority of these localities are now reaping the harvest of their inaction. Many of them are not large enough to establish and fund economic development offices within their communities and their own understanding of this function is woefully inadequate. The mass migration of manufacturing out of the New England states has exacerbated economic conditions on a regional basis and this out-migration has caused some of the severest economic repercussions in the northwestern section of Massachusetts. This situation has been fueled by the fact that these cities and towns hold no great voting power, they are, in the eyes of the politician, political non-entities.

The northern Berkshire area of Massachusetts is prime example of economic and political neglect. This region is composed of one city and a number of small towns and villages. The past four years has seen a number of old established manufacturing firms close their doors forever. The ability of this area to rebound has been hampered by the lack of transportation systems and an economic base that is continually shrinking. The area is rich in natural beauty but poor in financial and economic resources.

Faced with the diminished prospect of attracting replacement firms would employ the approximately 2,000 workers who had been displaced, community leaders recognized that the only source of new jobs and new business start-ups would come from within the communities themselves. The major hurdle facing potential business start-ups was the obvious lack of funding resources especially venture capital sources. Although it is true that large urban areas exist within fifty miles of the largest city in the northern Berkshires, the relatively small size of new enterprise projects precludes the interest of major venture capital firms. Geographically and politically isolated from the enormous resources for capital in the urban cities, and faced with the basic conservatism of local bankers, it appeared as if no solution to the dilemma was to be found.

STATE FUNDED PROGRAMS:
Recognizing these facts made it necessary for potential entrepreneurs in the northern Berkshires to rethink the means by which they intended to fund their ventures. State government had long recognized the need for venture capital resource availability for these localities and had an agency program in place wherein the needs of the community and the entrepreneur were conjoined. The agency involved is the Community Development Finance Corporation (CDFC) and the means of implementation is the Venture Capital Investment Program.

The CDFC's venture capital investment program is similar to most private venture programs with one major exception. That exception establishes a major criteria for loan approval as impact on the public welfare. This criteria allows the CDFC to deliver funding opportunities to locations in an identified target area. In order to ensure compliance with this criteria the CDFC has required that this program operate with the participation of a community development corporation. The program financial limits allow for unique kinds of financial packaging. The range of financial participation for the CDFC is $75,000 to $300,000. The northern Berkshire area also relies on the participation of a consortium of local banks, the Northern Berkshire Bank Pool whose limits of participation has been set at $250,000. One community development corporation serves this area through the Massachusetts Small Cities Revolving Loan fund program. The North Adams Community Development Corporation serves as subgrantee to the city of North Adams and the town of Adams. As such it administers a small business loan fund of approximately $200,000 annually. The Adams loan program has provided over $469,000 in loans leveraging another $1,310,000 and creating 72 new jobs. The North Adams program has made $210,000 in loans that leveraged $620,000 in additional financing and created 67 new jobs. These programs have not generated large sums of money nor has the history of loan applications shown a need for large infusions of venture capital into the region. The size and scope of the CDFC venture capital investment program is more than sufficient to meet the needs of the area.

FUNDING GUIDELINES
In spite of its size and scope the CDFC program operates as do most venture capital firms with of course the major exception noted earlier in this paper. That exception, impact on the public welfare, allows the CDFC to explore its very strong interest in projects that make new use of abandoned, vacant or underutilized buildings within an identified target area. The obvious spin-off of this interest is that any investment has the potential of

providing increased revenues to the communities affected by increasing the tax base. There has been a renewed interest and activity in old mill space in some areas of New England, but none so pronounced as in the northern Berkshires where a major abandoned industrial complex has been proposed as the site of the largest contemporary art museum in the world.

Rather than being viewed as liabilities these spaces have been rehabilitated at costs much less than new construction. Some of this space has been put back into manufacturing use and much of it has been put to mixed use. Major advantages accrue to the public benefit when mixed use allows the communities to expand their economic base and provide new jobs. This advantage is especially important to localities that have suffered through plant closedowns and layoffs.

The CDFC requires that any proposal submitted for consideration have a workable business plan with realistic assumptions and provisions for any contingencies that may arise. Within the structure of the business plan there must be strong evidence of a management team that is experienced and committed to the projected and its success. Although classified as a venture capital program every project must be supported by strong industry analyses that sustain the assumptions and the contingency provisions made in the plan. Included with this data must be a market analysis showing market penetration and financial analysis that gives some evidence of achievement of positive cash flows within a reasonable time. As in all major state funded programs in Massachusetts, an integral element necessary for the funding of a project through this program is the creation or retention of jobs. Proposals that address the issues of job training and affirmative action are preferred.

PROGRAM LIMITATIONS

As noted, the venture capital investment program provides a range of funding from $75,000 to $300,000. The general terms of any loan granted under this program has the added advantage of a fixed interest rate for the term of the loan. The interest rate is determined by using a base rate and adding a risk factor. The term of the loan runs anywhere from three to seven years. Historically the terms and conditions of such financing have been extremely favorable when compared to local banking institutions.

For many established and new entrepreneurs, the packaging requirements of such a loan application seem formidable. Many of them have little or no experience writing business plans or generating cash flow analyses. To eliminate some of the anxiety inherent in the process most loan applicants have had to use services of which they were unaware. The local community development corporation for example, provides regular technical training and assistance to anyone seeking it. The application process for this CDFC program requires community development corporation sponsorship. (see application, Appendix A). In addition the Small Business Institute at North Adams State College and the Small Business Development Center at the University of Massachusetts have proven to be invaluable sources of assistance. At North Adams State College over 50% of client requests are for help in preparing a business plan.

The funds made available under the CDFC program may be used in a variety of ways and are generally allowed to be used to fund working capital requirements. Activities which are not eligible for funding include debt consolidation, real estate acquisition, research and development and accrued tax payments. CDFC provides funding based on a leverage ratio of 1:3 to other public and private dollars. By allowing these funds to be used for working capital requirements an added incentive is provided for additional private funding in that desirable assets that provide the least risk may be used for security, i.e., real estate.

The CDFC program anticipates that most investments under the venture capital investment program will take the form of debt financing and equity participation.

To provide oversight for its investment the equity position of the CDFC is usually shared with the local community development corporation. The investments under this program are then monitored by CDFC staff and community development corporation staff.

The attractive advantage of this investment program is the willingness of the CDFC to subordinate its position in an effort to secure other participation from public and private sources. Subordination of position has been a stumbling block for most funding proposals that the local community development corporation has received and reviewed. To further ensure the participation of private lenders the community development corporation has subordinated its own position on loan packaging agreements.

There is a reluctance on the part of some business people to approach state agencies or quasi state agencies for potential funding. This reluctance is fueled by the fear that state participation in a funding proposal will lead to added interference in other aspects of business. Reporting requirements are however, similar to those required by other financial sources. They include monthly financial reports, annual audits employment and wage levels of target area residents and the achievement of other anticipated benefits.

CONCLUSION

The CDFC program has enormous potential for providing needed venture capital funds in amounts that closely match the needs of small business people. As such its benefits and potentials necessitate a concentrated effort at providing information to potential applicants in a timely manner. The program has received widespread acceptance in those areas of the commonwealth that are not so isolated from major industrial and economic activity. More needs to be done in the more rural and less economically successful areas of the state to ensure active participation in this program.

MASSACHUSETTS COMMUNITY DEVELOPMENT FINANCE CORPORATION
COMMUNITY DEVELOPMENT PROGRAM

PRE-APPLICATION

___

Project Name:____
Project Address:____

___

Community Development Corporation:______________________________

___

Contact Person:_________________________ Tel. #____________________
Developer:____

___

Contact Person:_________________________ Tel. #____________________
Proposed financing requested: $___________________________________
Proposed use of funds:____
____

___

Date of pre-application:____

(Pre-application materials submitted should include those listed on the attached schedule for initial screening and review by CDFC staff. If the project is selected to submit a full application for financing, CDFC will require extensive additional information to evaluate the proposal.)

All information attached to this pre-application is true and accurate to the best of my knowledge.

Submitted by:_______________________________________
For____
(Organization)

MASSACHUSETTS COMMUNITY DEVELOPMENT FINANCE CORPORATION
COMMUNITY DEVELOPMENT PROGRAM

APPLICATION FOR FINANCING
Project Name:____
Project Address:____
____
Community Development Corporation:_______________________________
____
Contact Person:______________________ Tel. #___________________
Developer:____
____
Contact Person:______________________ Tel. #___________________
Summary of financing requested: $________________________________
Proposed use of funds:____
____
____
Date of application:_____________________

CDFC requests extensive information in order to evaluate your proposed project. The attached outline should be followed in assembling an application for financing. CDFC may request additional information as deemed necessary to evaluate your proposal.

SMALL BUSINESS PLANNING IN A POST-INDUSTRIAL SOCIETY

Claude M. Jonnard, Fairleigh Dickinson University

ABSTRACT
Small business will become increasingly important to economic development on a global scale as a post-industrial culture spreads throughout the world. Governments in many countries are promoting smaller scale enterprises where these can be said to contribute to the creation of income and employment. Matching the right business to the right community has become a major thrust of business development and business planning to assure not only the commercial success of the venture but the appropriateness of the proposed business to its operating environment. This makes it necessary to correctly guage an area's economic status before deciding what sort of activities are suitable. The process of first identifying and qualifying one or more environments for an investment project is particularly important when considering overseas markets. Research for this work therefore focused on the development of an economic scanning process and a business/risk compatibility scale that could be applied by companies with transferable technologies seeking to find overseas markets having "friendly" business climates.

INTRODUCTION
The ideas which prompted the research for this paper developed over years of doing considerable business and travel in and out of the United States. The traditional explanations for business failure at home and abroad, i.e., lack of capital, lack of planning, and poor business plan, etc., had never been fully satisfactory. This is because there seem to have been as many instances of businesses who have been poorly managed but who, with a degree of persistency, have contrived to survive.

Business Failure, it might be suggested, often results from being unable to identify operating environments. Small firms may be plagued more by this problem than larger companies. The situation assumes even more critical proportions for those doing business internationally.

The idea of a market identification program, suitable for use by a small business, recalls similar efforts development economists more than three decades ago to classify countries into "stages of economic development". Practical use of the concept was limited at the time to broad-based economic planning. However, it can be applied today by a business to "scan the horizon" and evaluate the "climate" before making any kind of investment.

The methodology used here involved three steps. The first was to examine data for 126 states provided by The World Bank (1) and the International Monetary Fund. (2) This was used to develop parameters to encompass groups of countries within given stages economic development. The parameters used were population growth, gross domestic investment and gross domestic savings as a percentage of Gross Domestic Product, and annual per capital income. The second step was to see how well countries fit within those characteristics. It was felt that their combination, if properly analyzed, could be excellent barometers of fundamental long term changes within societies. The third step involved the construction of a business/risk compatibility scale to generate some quantitative risk values in examining individual countries.

THE ECONOMIC SCANNING PROCESS

The premise of this study is that economic scanning involves an understanding and acceptance of economic development as a process of societal change through time, development objectives being to improve living standards. Paul Alpert writes in his preface to the subject: "It can best be defined by its major objective, the exploitation of all productive resources in order to expand real income". (3) Economic development is not the same as economic growth, which is referred to as changes in output. (4) Economic growth does not really address income equality, the distribution of the gains of output, economic development's functional goal. It is nevertheless recognized that there can be no development without growth, i.e., rises in per capita gross national product. (5)

Economic development as a process through time also has a start and a finish line within the context of the industrial age where the term originated. Within that process, one thinks also of sequential episodal tracks, each having its own dynamics through which certain constants of human existence move.

The idea that development could thus be segmented into a number of stages started in the 1950's, resulting largely from the widespread interest in the development of former colonies. Four stages were depicted the economist, W.W. Rostow, who felt at the same time that a fifth stage might soon appear on the horizon, a society who had moved somewhat "beyond consumption" in what could be described a post-industrial mode. (6)

Warren J. Keegan refers to five stages of "market development" in his international marketing text. These are: pre-industrial countries, underdeveloped countries, developing countries, developed countries, industrialized countries, and post-industrial countries. (7) Keegan is of course looking at economic evolution from the perspective of commercial development, and uses per capita income data to create the breaking points between the five stages of development. (8)

The World Bank's survey of "development" indicators for 126 member countries lists six categories. A statement is made in the 1984 World Bank Development Report to the effect that GNP per capita is "useful in distinguishing economies at different stages of development. (9)

The category names used by the World Bank are: low-income, lower middle-income and upper middle-income, high-income oil exporters, industrial market economies and non-market industrial economies.
(10).

The ranks developed for this study rely on this World Bank data base. However, as indicated before, the countries have been arranged in a slightly different order to reflect the homogeneity of country groups to the sets of variables described in the introduction to this work. These seem to best explain major socioeconomic shifts in functional and organizational patterns of behavior within societies. They have been conceptually presented in Figure I.

The arrangement of population and savings data was simple enough. Obtaining quantitative information on countries' capital requirements proved to be logistically impossible. However, it was possible to derive a feel for a country's capital requirements from gross domestic investment information contained in the same World Bank tables. The difference between the domestic savings level and the gross domestic investment level, both shown as a percentage of Gross Domestic Product, is a fair indicator of whether a nation is a net capital exporter or whether its internal capital needs exceed its domestic savings, requiring its to become a capital importer. (See End Tables)

This investment/savings "gap", as it is sometimes called, can also be correlated with the country's Current Account status within its balance-of-payments. Thus, a Current Account deficit would normally indicate a savings/investment gap.

For example, India had in 1982 a domestic savings level of 22% of GDP against a 25% gross domestic investment position. (11) Its Current Account position sustained a deficit of $2.5 billion for the year.(12)

It is clear that India's needs exceeded available domestic savings, forcing it to import capital from abroad. As a point of fact, India has been a net capital importer from 1950 through 1987.

The People's Republic Of China is another interesting case. Its 1982 gross domestic savings were 30% of GDP against 28% for its gross domestic investment. (13) Its Current Account position for that year was a surplus of $5.8 billion, theoretically making it a net capital exporter for 1982. (14)

Stage I countries are the technologically primitive, pre-takeoff societies about whom much has been written by development economists of the past generation. There is probably no nation today that fits the mold, and the category has been retained in Figure I for historical interest. One can speculate nevertheless that Stage I areas, when they existed (excepting the contemporary remnants of some primitive societies), must have enjoyed a form of subsistence, static equilibrium in their internal and external economic activities.

The World Bank's list of 34 low income countries with annual per capita incomes ranging from $80 (Chad) to $390 (Sierra Leone) fit well in the Stage II area. (15) Their average annual rate of population growth is 2.6% and rising; their gross domestic savings and gross domestic investment levels are 5% and 13% of GDP respectively (16); and their combined Current Account positions are in a deficit. (17)

They are therefore net capital importers. They are also faced with the classical savings/investment gap that possesses so many countries today, including even The United States. This list of low income countries is shown in the End Tables.

One might have expected most of the countries of this group to have made the transition into Stage III of development over the many years since their progress has been tracked by the World Bank. It is an unfortunate commentary, however, that there actually seems to have been some deterioration. Their 1960-1970 population growth rate was 2.5%, rising to 2.6% for the 1970-1980 period, and is expected to increase again to 2.9% annually in the next decade. There has also been a rising dependence upon foreign sources of capital since 1960 when domestic savings and domestic investment were 10% and 13% of GDP respectively. (18)

The Stage III category, the developing nations, includes two distinct groups of countries totaling 59 states. The first group contains 29 "lower middle-income" countries; the second group contains 30 "upper middle-income" countries. (19) They are also shown in the End Tables.

The first group had an annual population growth rate of 2.5% in the last decade. It is expected to drop slightly to 2.4% in the 1980-2000 period. Annual per capita income ranged in 1982 from $440 to $1610. Gross domestic savings and gross domestic investment as a percentage of GDP was 17% and 23% respectively. They were also Current Account deficit nations for that year (and for most of the years that data is available) and were net importers of capital. (20)

The second group had an annual population growth of 2.3% in the last decade, and it is expected to fall to 2.1% between 1980 and 2000. Per capita income range in 1982 was from $1,660 to $6,840; gross domestic savings and gross domestic investment as percentages of GDP were 23% and 24% respectively. (21)

One cannot predict if and when the low middle-income countries will move more to the right of the curve in Figure I. It is of course obvious that their overall condition socio-economically is improved over that of their Stage II neighbors.

The upper middle-income countries seem to be rapidly approaching the industrial or Stage IV phase of their development. It should be noted, for example, that the five nations shown by the World Bank to be "high income oil exporters" had once been perennially placed among the developing areas. These countries are: Oman, Libya, Saudi Arabia, Kuwait and the United Arab Emirates. (22)

The conceptual expectation, if Figure I is true to form, is that Stage IV nations should have a surplus of domestic savings over their internal capital requirements. In other words, their gross domestic savings should be greater than their gross domestic investment level as a percentage of GDP.

This is true in the case of 14 nations in 1982 who were also net capital exporters, of which 5 are the high income oil states mentioned above. (23) However, it can be readily seen that not all 14 countries in question fit the commonly accepted image of the "typical" industrial society. Nor do they all fit neatly into the diagram of Figure I.

A Stage IV, or industrial society, projects the visual idea of an automated and streamlined factory system in which the functional and organizational patterns of human conduct are directed towards goods production and distribution. The wealthy oil exporters obviously convey another image. Their connection to Stage IV is by virtue of their high incomes coupled with the fact that they are net capital exporters. Their population growth is high, and in many respects they are as eager to receive goods, services and investments as they are committed to their own foreign investments. They are in a sense Stage III countries who have grown rich very rapidly. Indeed, it is more logical to expect that they may never be industrial, and may instead develop into post-industrial societies driven by information, technology and services.

Stage IV countries tend to have declining population growth rates. In the case of West Germany in particular, its total population has been declining. Their domestic savings exceed their investment, they are Current Account surplus countries, and they are net exporters of capital. They are often more interested in investing abroad than drawing foreign capital. Japan is an example. The nation's population is growing at 1.1% annually, and is expected to drop to 0.4% in this decade. Its gross domestic savings was 31% while the gross domestic investment is 30% of GDP. in 1982; its Current Account balance for the year was a surplus $6.85 billion. It should be noted that Japan's 1986 Current Account surplus was $86 billion. It makes sense to believe, under this fact pattern that Japan is under greater internal pressure to aggressively pursue investment opportunities offshore than it is to welcome them from abroad.

There were, as was noted earlier, 14 net capital exporters in 1982. (24) A review of preliminary data for 1987 indicates no change in the countries included in that classification. Five states were the high income oil exporters, the other nine were among the "Industrial Market Economies". These were: The United Kingdom, Japan, Austria, Finland, Netherlands, Canada, West Germany, Norway and Switzerland. (25) Comparative information was lacking for the "East European Non-Market Economies" which includes the U.S.S.R. along with seven other countries.

The Stage V category was made to include those industrial market economies who in 1982 were net capital importers, who had per capita incomes in excess of $10,000, and who had a savings/investment gap. Six countries had those features: Belgium, Australia, France, Denmark, The United States and Sweden. (26) A review of 1987 data sources suggests that there was no change in status over the years. This does not exclude the possibility of other nations reaching a post-industrial level of development in the next few years.

THE BUSINESS RISK/COMPATIBILITY SCALE

Once the parameters for changes in the process of economic development have been established, and individual nations have been identified within specific stages of development through the scanning mechanism discussed above, the setting forth of a simple and reasonably accurate scale or ranking system becomes possible. It may be rudimentary or complex, depending upon business requirements. A very elementary scale is presented here for demonstration purposes.

A hypothetical ranking order from 100 to 500 has been established below for each of the three variables discussed in the previous section: population growth rate, annual per capita income and the savings/investment gap shown as a percentage of Gross Domestic Product. All Data is taken from the tables to this report. The three variables considered were assigned equal weights.

Item:	**Scale:**
Per Capita Income.	
+$10,000	500
6,000 to 9,999	400
1,600 to 5,999	300
400 to 1,599	200
0 to 399	100
Annual Population Growth.	
less than 1%	500
1.00 to 1.49%	400
1.50 to 1.99%	300
2.00 to 2.49%	200
2.49 +	100
Savings/Investment Gap	
less than 1% of GDP	500
1.00 to 4.99%	400
5.00 to 9.99%	300
10.00 to 14.99%	200
15.00% +	100

As can be seen, greater business risk has been allocated to high population growth, to low per capita income and as well to high savings/investment gaps. This is because while market potential may be high, political instability and social unrest is often a consequence of rapid increases in population (creating high unemployment among younger people) and inadequate financial resources to meet capital requirements. Further, the dependence on foreign capital sources together with relatively low incomes fosters a generally hostile and anti-foreign mood.

Thus, taking Israel as a test case, with a per capita income of $5,090 in 1982, a population growth rate of 2.5% and a savings/investment gap of 15%, the country would eceive a score of 200 points. The United Kingdom, using the same criteria, would score

467 points. Saudi Arabia, even with its high income, no saving/investment gap would score only 366 points, owing to the fact that the country's population is growing rapidly. In contrast, the United States would score the same as England, this time because of its savings/investment gap.

CONCLUSIONS

The relationship between a nation's population growth and its saving/investment position as a percentage of its Gross Domestic Product, compared to per capita income, can be turned into parameters to identify and describe stages of economic development. Such an economic scanning of a country helps to develop a profile for that society which can then be measured by a ranking system similar to the business risk/compatibility scale developed earlier. While the results cannot be considered conclusive, they can help in reducing the risk of commercial failure by providing direction to more detailed research into a country's business climate.

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[Figure 1; Table 1, 2, 3 omitted]

LOST MOMENTUM: AN ENTREPRENEURIAL THREAT

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ABSTRACT
Momentum is proposed as an important driving force for successful small businesses. If those businesses are to experience continued success, momentum must be maintained. The primary threats to momentum are proposed to be complacency, carelessness, fatigue, and loss of employees. Each of these factors impacts on the ability or motivation of a company's employees. Therefore, a small business should anticipate the threats and combat them with an integrated managerial approach which includes personal leadership, reward system, organizational culture, structure, human resource program, and control system. The objective is to sustain the extra force which commonly contributes to a company's early entrepreneurial success but which often gets lost at later stages.

INTRODUCTION
One of the things most feared by basketball coaches is the loss of momentum by his or her team. Every coach has suffered through nearly unbearable stretches of a game when a lead was lost and the team turned into its own worst enemy. The swing in momentum had to be reversed if the game was to be salvaged.

Many business managers have likewise suffered through the experience of lost momentum. Initial entrepreneurial success is often followed closely by a plateau or decline of performance. Other companies may achieve more sustained success before they fall victim to mistakes that cause and compound the loss of momentum. For example, many companies which have been leaders in their industries, such as General Motors, Gillette IBM and BankAmerica, reported significant decreases in profits (and greater decreases than their industry average) in 1986. (3, pp. 113-160) Although each of these large businesses will likely survive because of their vast resources, the results of such downturns for smaller businesses with only limited reserves are often overwhelming. The rapidly changing technological, economic, political and competitive environment of the 1980's has contributed to a widespread upheaval in which many companies of all sizes have suddenly experienced declining success. Although the focus of this paper is on smaller companies, the analysis will also include references to larger companies which reflect the problems experienced in common.

The specific causes of these companies' problems vary. However, all have in common the loss of momentum which was once a force for their achievements. Is there a parallel between their experience and that of a basketball team which loses momentum? After developing a working model of momentum, the next step in this paper will be to identify the primary causes of lost momentum for a basketball team. These causes will then be tested for applicability in business organizations. Finally, the paper will present the most promising steps which managers can take in order to avoid lost momentum.

A WORKING MODEL OF MOMENTUM

The invisible, intangible nature of momentum makes it difficult to define or measure precisely. It is a driving force, an impetus for successful effort. In athletic contests, it is often reflected by domination of scoring or wins by one team. In a fast-paced sport such as basketball, the importance of momentum is more dramatic than in the performance of business organizations. It is easier to identify the contributing factors to momentum for a basketball team than the contributing factors to a business organization's momentum. The basketball analogy, therefore, will be used initially in order to better define the concept of momentum and to develop an understanding of the causes of lost momentum.

Based on observation and discussion with athletes, it is proposed that momentum in basketball is a function of two primary components--ability and motivation. Therefore, in order for a team to gain strong momentum, it must be performing things it is capable of in a motivated manner. This approach to momentum will be followed in the subsequent analysis. This is illustrated by figure 1, which is divided into four possible combinations of ability and motivation.

Quadrant 1 in the model depicts an organization with a combination of low motivation and low ability; such an organization would not be expected to have any momentum. Conversely, a Quadrant 4 organization, high on both ability and motivation, would be expected to have a great deal of momentum. The dotted diagonal line running between Quadrants 1 and 4 and dividing Quadrants 2 and 3 indicates the base line for momentum. The area above the line is the momentum area, while the area below the line represents a state of inertia. The greater the distance from the line, the greater is the momentum (or inertia). This approach leaves open the possibility of an organization having some momentum while in Quadrants 2 and 3. For example, a highly motivated organization may gain momentum in spite of limited ability--sometimes referred to in basketball as "playing above their heads." Likewise, a very skilled organization may gain momentum in spite of limited motivation. Although managers/coaches might ideally like to have their organizations in Quadrant 4, the model reflects the possibility that organizations can also have momentum in the other quadrants.

Momentum is considered to be a modifying factor of an organization's efforts which contributes to its performance. It is the extra force that can propel the organization toward its objectives. Conversely, an organization without movement must spend extra effort overcoming its inertia. For example, a new company must usually spend considerable resources just getting started. Those companies which succeed are often characterized by a high degree of entrepreneurial skill and motivation. The focus of this paper is on a subsequent stage; after momentum is gained, what causes it to be lost and what can be done to prevent that?

HOW MOMENTUM IS LOST BY BASKETBALL TEAMS

For basketball coaches, the most frustrating cause of lost momentum by a team is complacency. When the game is going great, there is a natural tendency for the players to start enjoying their success--and to assume continued success. It strikes fear in a coach's heart to hear a player predict an easy win after only one-half of the game. Momentum is dependent upon motivation and concentration, and a complacent team is not likely to maintain either. Without them, individual reactions to new situations are a half-step slow, and the synchronized team effort breaks down. In spite of this, the complacent team often continues running the same plays long after their execution has become ineffective. The belief in the team's superiority, which is based on past success, creates an expectation that play repetition will eventually bring back the past success. Thus, the loss of momentum caused by complacency is often the most prolonged because of the belated acceptance of reality by the players.

[FIGURE 1: MODEL OF MOMENTUM omitted]

Carelessness is a related cause of lost momentum. In fact complacency is often a contributing factor to carelessness. Usually, however, carelessness is more directly the result of trying to go beyond one's capabilities. Most players who try to dribble through a double-team trap or who try 22-foot shots are likely to be unsuccessful; even though they may have been successful in other parts of the game, their skills cannot be extended to these endeavors. For a team with momentum, the resulting turnover is often the beginning of the end.

Fatigue can also lead to lost momentum. Most teams which have been playing at full throttle, which is characteristic of a team with momentum, will have difficulty avoiding weariness and exhaustion. In that condition, the likelihood of lost momentum increases. Although less obvious than physical fatigue, mental fatigue may also be a factor involved in the swing of momentum. A decline in mental alertness is most likely to be experienced after sustained pressure, either because of pressure from the other team or because of the importance of the game. A particularly poignant example of the fatigue factor was the decisive unforced turnover by a Georgetown player at the end of the 1983 NCAA championship game. Basketball demands physical and mental alertness from the players, and the loss of that alertness from fatigue often signals a sharp swing of momentum. The loss of a player, such as by injury or by fouls, can also directly lead to a quick loss of momentum. The player's skills may be critical to the team, even though that player's total contribution to the team cannot necessarily be measured by quantitative measures such as points or rebounds. Without that player, intangibles such as confidence, teamwork and leadership may be severely diminished. Those intangibles, in turn, may have been the foundation for the team's momentum.

Besides causes of lost momentum which can be attributed to the team itself, other causes include actions of the other team such as a change in the offense or defense. Also, "lucky shots", "lucky bounces", and "lucky calls" can lead to a switch in momentum. Although these causes also have relevance in explaining the loss of momentum in organizations, this paper will focus on the internal causes--complacency, carelessness, fatigue, and loss of players-cited above. These causes are more subject to the control of managers than the external causes.

CAUSES OF LOST MOMENTUM IN BUSINESS

The shift from success to failure of a business is commonly explained by the organizational life cycle concept. For example, Birch wrote a recent article whose title "The Rise and Fall of Everybody" reflects this concept. (1, pp. 1821) A common classification of stages in the organizational life cycle includes the startup, growth, maturity and decline. Although there does appear to be a life cycle tendency whereby new competitors and substitutes create barriers for permanent success, total acceptance of the life cycle theory seems unduly fatalistic.

The momentum model offers small business managers a more positive way of looking at the problem; if the causes of lost momentum can be identified and anticipated, perhaps the loss can be prevented or controlled. Rather than being an inevitable victim of its environment, a successful small business, by its internal practices, may be able to maintain its momentum. This section, therefore, examines the causes of lost momentum identified above in order to test whether the basketball causes have validity when transferred to the world of small business.

Complacency

Complacency denotes a belief that a continuation of the current practices--or perhaps even less effort--will be sufficient for continued success. Just as in basketball, complacency appears to be a natural enemy of momentum in organizations. Walsh and Dewar described this relationship in a recent article:

> The path to decline is clear. At the end of the control stage, the administrative elite enjoy a privileged position... their focus shifts inward to maintaining their privilege (by the non-productive use of formalization) and they begin to pay less attention to their organization's competitive environment. (12, p. 225)

Resistance to change is a natural by-product of complacency which has been cited as an explanation for the decline of industry leaders such as Xerox and Eastman Kodak.

> "We were arrogant enough to think that no one could do anything better than we could. We didn't have anyone to learn from." (William F. Glavin, Xerox Vice-Chairman) (4, p. 106)

> During the seventies and early eighties, a complacent Kodak drifted while others produced the innovations it used to be known for ... Kodak's lethargy was partly caused by an insular, tradition-bound management that insisted on doing everything the way George Eastman did it. (10, p. 34)

These examples illustrate the complacency factor which tends to cause loss of momentum by business organizations. Although the companies cited are larger organizations, complacency is also a common occurrence in small businesses which have previously experienced success.

Many small business managers, overconfident of customer loyalty or their own abilities, don't realize until too late that environmental changes have created the necessity for strategic or operational changes.

Carelessness

The logs of momentum by many businesses can be attributed to carelessness--attempting to go beyond their capabilities. The skills responsible for their success in one business were not sufficient in others. Recent examples of failures by successful entrepreneurial companies include Federal Express' "Zap-Mail", Reebok's expansion into apparel, and People Express' expansion out of its niche in the airline industry. A small, growing bottling company known to the author was led by its founder into a related field; without adequate managerial and technical resources, the company has failed in the new field and is close to failure in the originally successful field due to neglect of that business. In all these instances, the results were costly and caused loss of momentum for the companies. Thus, just as a basketball team can get too "creative," so can an organization.

Fatigue and Loss of "Players"

Just as playing a basketball game can create fatigue and loss of players, so can working for a fast-track company. Long hours, deadlines, travel, and making-do with inadequate resources all are common requirements for key employees of companies with momentum. This is particularly evident with young companies, often led by dynamic entrepreneurs, in which a small group of enthusiastic people are meeting one challenge after another. Blanchard, in labeling an entrepreneur as an "arsonist", describes the results of their approach:

> The arsonist wants to move in many directions at once. Although initially it can be exciting to work for arsonists because of their energy and enthusiasm, subordinates often end up burning out. (2, p. 17)

Entrepreneurs themselves are subject to burnout, according to a recent article which described three such entrepreneurs. Their failure to delegate to subordinates added to the ordinary demands of managing fast-growth companies, which in turn resulted in severe fatigue by the entrepreneurs and loss of momentum for their companies. (5, pp. 89-96)

Besides the toll of fatigue and burnout, key employees often leave for other reasons. They often get impatient to test their own ideas and capabilities. If the organization's resources or management style do not allow this, the employees become frustrated. In other instances, the limited financial rewards often associated with a small venture may cause an employee to seek better opportunities.

The greatest threat to a young firm's momentum is usually the loss of the entrepreneur. An example of this is described in an article about the founder of Casablanca Fans, who left the company and then had to return in order to save it:

> Burton and his company are inextricably linked. He is, in effect, a prisoner of the role he initially carved out for himself. Without him, even the most basic underpinings of Casablanca's strategy are called into question. (6, p. 86)

The causes of lost momentum discussed in this section can be visualized on the working model introduced earlier as reducing either ability or motivation or reducing both. When this happens, a fast-moving company in Quadrant 4 (High-High) would be moved or moving to one of the other quadrants showing less momentum. For example, complacency would most directly impact on motivation, moving the company to Quadrant 3. Carelessness, fatigue and loss of "players" would generally cause a condition of lesser ability to accomplish the current objectives and therefore a move to Quadrant 2. A combination of these factors could result in a decline of the organization to Quadrant 1. Each of these causes of lost momentum can occur at any stage of the organizational life cycle. An entrepreneur should expect to encounter all of these factors as he or she starts and develops an organization. In an era of rapid environmental change, the maintenance of momentum is even more of a challenge.

ACTION TO AVOID LOSS OF MOMENTUM

A manager has numerous tools which can be employed in order to avoid losing momentum. This section will discuss briefly some of these tools which can be applied to prevent or reduce two of the specific causes identified above--complacency and carelessness. In order to avoid repetition, each tool will only be discussed in association with one of the causes, but most of the tools actually have applicability to more than one cause. For example, the personal leadership of an entrepreneur can be important in preventing all of the causes of lost momentum.

Fight Complacency

1. Personal leadership. The entrepreneur or top manager of a small business has the key role in fighting complacency in his or her organization. That individual must realize the threat and develop processes to counteract it. Lorange and Nelson stated: "the single biggest challenge is sensitizing top management to the fact that decline is almost unavoidable unless deliberate steps are taken to prevent it." (7, p. 47) In many instances, the smaller business is primarily "the lengthened shadow of the entrepreneur" and thereby directly influenced by that person's actions. The importance of the top manager's role in leading a company through different evolutionary stages has been described as follows:

> Executive leadership plays a key role in reinforcing system-wide momentum during convergent periods and in initiating and implementing bursts of change that characterize strategic reorientations. (11, p. 40)

The manager's actions and words can significantly encourage the use of anticomplacency factors like risk taking, doing things in different ways, inquisitiveness, creativity and dissent. Sam Walton, founder of Walmart Stores, still actively maintains personal contact with customers and employees, always seeking, encouraging, and rewarding better ways to serve Walmart customers. His personal actions have been an important anti-complacency tool during Walmart's growth to over one thousand stores.

2. Reward system. A reward system which rewards innovation can also be a powerful catalyst to guard against complacency. Combinations of recognition, promotions, and money given to an employee who has developed new products, services, markets, or processes will not only reinforce that individual's innovative efforts but also signal others in the organization the high value of innovation in the business.

3. Culture. If the reward system is the "hard sell", then the company's culture is the "soft sell." Just as in marketing, the two can complement each other and be equally effective. The culture represents an organization's shared values, beliefs and ways of doing things. If everyone understands and shares a high value for innovation, then innovative approaches are likely to be practiced. Flexibility, alertness, adaptability, and opportunism are other anti-complacency values which can be fostered by the culture. This can be a "way of life" which does not require continual external control by the manager. The manager does, however, need to take an active and open role in establishing and updating the desired culture through development and reinforcement of the organization's "vision". Many entrepreneurs find it very difficult to do this particularly to modify his or her original "vision" of what is to be done in response to a change in the environment.

4. Structure. Another tool for avoiding complacency is the structure of the organization. Two principles seem to be functional for this purpose. First, the structure should not be rigid; it should encourage interdisciplinary creative interaction such as task forces, and it should provide a free flow of information through the organization. John Sculley, CEO of Apple Computer, even says he would worry if there weren't always a little bit of anarchy in the organization." (9, p. 117) Second, the structure should reflect a delegation of authority down through the organization. Individuals who have the power to bring about change are much more likely to be committed to innovation than those who are not so empowered. In some instances, it may be necessary to decouple parts from the organizational mainstream and structure them into separate innovative operations; this might be the case where the innovative operations would disrupt the efficiency of the mainstream operations or where an entrenched bureaucracy might otherwise overwhelm the entrepreneurial efforts.

Fighting carelessness

Each of the four tools discussed in the previous section also have value in fighting carelessness. Personal leadership of the manager, the reward system, the organizational culture and the organizational structure all provide direction to and control over employees' efforts.

1. Control systems. Most control systems focus on preventing carelessness. Budgets, standards, financial reports, and production reports are all examples of control system components which are primarily designed to avoid careless actions. While using control systems to avoid "running out of control", the entrepreneur must also guard against overzealous control to the extent that momentum is killed. Quinn, in an article advocating a "controlled chaos" approach to control, stated:

> Effective managers of innovation channel and control its main directions ... they administer primarily by setting goals, selecting key people, and establishing a few critical limits and decision points for intervention rather than by implementing elaborate planning or control systems. (8, P. 83)

2. Group reviews. Particularly in a changing environment such as faced by most growing companies in the 1980's, it is often not feasible to rely on detailed goals and objectives. In lieu of that approach, there should be frequent reviews of the company's strategy and performance by the top manager and other key employees. This will not only allow an open discussion of information and ideas but also refocus action guidelines for the employees. In addition, it will provide a safeguard against unwise diversification which goes beyond the capabilities of the organization.

3. Skills assessment. The related key requirement is to be sure that the necessary skills are available to the organization. For example, in evaluating the feasibility of plans for expansion or diversification, there must be appropriate marketing skills and financial skills along with the technical skills. Perhaps most difficult of all, the entrepreneur must determine whether the managerial skills are still sufficient for a changing, growing organization.

4. Human resource management. A key solution to the problem of carelessness is good human resource management practices. Selecting competent individuals who have the motivation and capability to grow with the company is a prerequisite. Leading, training, compensating, empowering, and informing are all important practices for the development and retention of employees. The sharing of ownership must also be considered as a means of offering an additional incentive, particularly for key employees. Periodic discussion of personal objectives can also provide assistance in meeting mutual expectations and avoiding unpleasant surprises such as abrupt resignations. Fresh assignments and job rotation can be important as sources of challenge and growth for employees, as well as preparing them for greater responsibility.

SUMMARY

Momentum creates a force for continuous growth and revitalization of an organization. Most small businesses never gain the momentum necessary to grow significantly. Many others gain, then lose momentum fairly quickly. This loss of momentum, which often leads to organizational decline, was the primary focus of this paper. What are the causes? How can it be avoided?

The primary internal causes of lost momentum identified were complacency, carelessness, fatigue, and loss of key employees. In order to avoid the loss of momentum, several managerial tools, including leadership, reward system, culture, structure, human resources program, and control system, all must be adaptively aligned with the changing organizational environment. This approach is directed toward keeping alive the entrepreneurial spirit within the constraints of organizational capabilities. The resulting combination of high ability and high motivation is considered to be the key for maintaining momentum in the midst of a challenging environment.

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THEORIES ABOUT THE DEMOGRAPHICS OF MAIL ORDER BUYERS

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ABSTRACT
The growth in mail order purchases has slowed down, yet the direct mail industry, including many small businesses, continues to devise new methods of becoming more profitable. The result is a highly segmented market dominated by players who know much about their own buyers, but little about the mail order buyer generally. The paper tests hypotheses about the demographics of the generic mail order purchaser, finding only one, slightly reliable, predictor of purchase.

INTRODUCTION
The growth of mail order or direct mail activity is continuing, despite the fact that consumers appear to be peaking in their enthusiasm for purchasing through catalogs and other mail order pieces.(1) Approximately ten billion catalogs are mailed each year, reaching 50 for each American over 18 years old, and the number has more than doubled since 1978.(2) Forty-eight percent of U.S. homes, and 83% of two-income U.S. homes engage in a direct marketing transaction annually.(3)

This growth has inevitably led to increased competition. Artists and catalog designers are faced with the difficult task of differentiating their instruments among this burgeoning field of competitors.(4)

Mail order houses are selling ever-finer lists while mail order marketers are refining their own lists and madly scrambling to introduce new products and services. They are, in addition, increasingly presenting bounce-back offers in the packages in which merchandise is delivered.

Direct mail market segmentation, however, is possible in a way that the more traditional media would find impossible. Demographic and psychographic cross-tabulations of mailing lists are able to pinpoint submarkets of high potential, that, although small, offer a positive rate of return by virtue of their high likelihood of response.

This subsegmentation of the market, though, appears to have reached a point where further segmentation is neither possible nor profitable. Trade publications are, for the most part, recommending refining the execution of the catalog, rather than the mailing lists which are already as productive as they can be.(5) Professional catalog developers are recommending in-depth interviews of potential prospects, rather than more market defining research.(6) This approach requires complete knowledge of the behavioristics of prospects including a definition of information he is seeking, the way in which he thinks about and organizes his search for information, as well as the logical sequence he will follow when perusing the catalog. Mailing lists are presently so carefully refined that many experts are recommending the preparation of several small catalogs addressing specific needs of markets rather than a single comprehensive catalog which will waste much of its appeal on unreceptive prospects.(7)

Despite the plethora of demographic and psychographic information concerning who is most likely to buy individual products, and listing products that a particular demographic group will buy,(8) there is little research on the type of consumer, in general, who is most likely to engage in mail order purchasing, generally. While many mail order marketers may disdain this information as being too "gross" for practical use, it is nevertheless the duty of the academic business community to study and characterize the propensity to purchase through the mail. While the manufacturer of casual clothing has very little interest in the characteristics of buyers of recondite tools, the manufacturers of both of these products should have an interest in the demographics of mail order buyers in general. It is the obligation of academics to abstract the inquiry from the interests of individual businesses in search of underlying threads common to all.

Small businesses have a greater likelihood of success in mail order. There is a smaller cost of entry since little or no capital investment is required to offer even the most expensive products. Many small mail order houses never take possession of the products sold, but merely arrange for drop shipping. This paper is an attempt to uncover information of direct interest to some of these new-age retailers.

THE PROBLEM

There is little information about the type of person who buys through the mail, and for good reason. Just as television has achieved one hundred percent penetration in American households, consumer direct mail activity has enjoyed almost equal success, so that there is no way to characterize the mail order buyer in any way that is superior to characterizing the television viewer. There are many full reports on characteristics of buyers in product categories, but few on characteristics of mail order buyers, generally.

Theories

Despite these caveats, there are certain theories that anyone interested in mail order marketing would want to test. These include the following:

1. Females tend to purchase through the mail more often than males do. Since most shopping is conducted by females in the traditional in-store setting, by extension we would suspect that they would also be responsible for most of the mail order purchasing in this country, or at least proportionately more than that for which men are responsible.

2. The size of a community determines the level of mail order purchasing in it. Inner-city residents and suburban residents would probably be less likely to purchase through the mail, since the traditional in-store shopping opportunities are so readily available to them. Conversely, rural and isolated individuals would be more likely to shop through the mail.

3. People of higher incomes are more likely to engage in mail order shopping. Since there are few discounts or sales available in mail order catalogs, purchasers buying from direct response instruments are more than usually buying at full mark-up and price.

Consequently, it could be hypothesized that these are people for whom the marginal value of money is relatively low, and who are, therefore, higher in income than the population at large.

4. People of managerial or professional levels are more likely to shop through the mail. Since mail order is a time saving phenomenon, busy, stressed and time-pressed individuals are more likely to shop through the mail since it is a time saver, rather than a time user.

5. Married people are more likely to shop through the mail than single individuals. Since married people tend to be busier with the cares of money, households, and raising children, they are more likely to desire shopping in a time-saving setting.

6. Better educated people are more likely to shop through the mail. Because education leads to increased income, and because it is well known that better educated people are innovators, they are probably favorably disposed towards shopping in nontraditional ways, through nontraditional mail order catalogs.

The Study

To test these hypotheses, questionnaires were mailed to 4,000 consumers. All had purchased a low-cost stationery item advertised in the Sunday newspaper, nationally. Approximately half had responded to bounce-back offers of a large variety of personal and household products that were included in the stationery product package. 462 responses were returned. The questionnaire included questions on frequency of mail order purchases, sex, density of population, marital status and level of education. Cross tabulations were constructed by the Statistical Package for the Social Sciences and X2 tests were conducted on the responses. Each hypothesis was tested for significance.

While this sample may not represent the population of mail order buyers, the respondents had been offered a sufficient variety of products, over a large price range, to elicit a cross section of mail order transactions.

Results

The results of the study and the evidence it presented concerning each of the hypotheses follows below:

1. Gender. Theory Rejected. There is no statistically significant difference between the frequency with which men and women purchase through the mail.

2. Community Size. Theory Rejected. There was no statistically significant differences between frequency of mail order purchases for residents of population areas of varying density.

3. Income. Theory Weakly Supported. With a X2 significance of 10.58%, it can be concluded that people of differing levels of income purchase through the mail with differing levels of frequency. The data clearly showed that the most frequent purchasers

were middle income customers, while the most infrequent purchasers were high income customers, with low income customers being in the middle. Individuals with a 20 to 30 thousand dollar income purchased "once per week" through the mail 50% more often than would be expected, while those over $30,000 a year incomes purchased through the mail "at least once a week" half as often as the data would lead one to expect. Additionally, individuals with over $50,000 a year incomes purchased through the mail "at least twice per month", approximately half as often as people with incomes less than $10,000 per year. The percentage of people in the over $75,000 income category who purchase through the mail "less than once a year" was about three times that of people making less than $50,000 per year. These findings fly in the face of claims of direct marketers that high income is associated with high incidence of mail order purchasing.

4. Occupation. Theory Rejected. There is no evidence that managerial or professionally employed individuals purchase through the mail more or less often than other labor categories.

5. Marital Status. Theory Rejected. There is no statistical evidence indicating that marital status is in any way associated with mail order purchasing frequency.

6. Education. Theory Rejected. There is insufficient statistical evidence to conclude that level of education is in any way statistically associated with frequency of mail order purchase.

Conclusions

This study demonstrates that the level of penetration of mail order catalogs is so great that there is at present little demographic justification in categorizing mail order buyers by frequency of purchase. The only significant variable with relation to frequency of purchase is level of income. This leads to additional theories which are fertile for further testing. These theories include, but are certainly not limited to the following:

1. Wealthy individuals have strong reasons not to buy through the mail. These reasons may be associated with the behavioristic characteristics of desiring to appraise the merchandise in person, store loyalty, predilection for purchasing expensive products in a traditional retail setting and the sociological importance of traditional shopping activities.

2. Middle income people have a propensity to buy through the mail for specific reasons. These reasons may include time pressures, susceptibility to mail order appeals, and insecure self image which can be bolstered by media-endorsed products.

3. Lower income people are more likely to purchase through the mail for specific reasons such as, desire to avoid salesperson interaction, lack of transportation, or because at-home shopping is necessitated by poor health.

The findings concerning income levels should impact, especially, mail order catalogs attempting to sell up-scale products to higher income households. Since these individuals are relatively impervious to mail order appeals, the importance of further market segmentation is extremely vital.

NOTES

(1) All About Mail Order, Sroge (Maxwell) Publishing, Inc., May 1987.

(2) "Catalogues Adding Creativity to the Contests," Advertising Age, March 6, 1986, P. 46.

(3) "Direct Response Print Media Overview," Direct Marketing, May 1986, P. 42-43.

(4) Kern, Richard. "What's in a Catalogue?" Sales and Marketing Management, January 14, 1985, P. 55-57.

(5) "New Simmons Direct Marketing Study," Marketing Communications, January 1985, P. 16.

(6) Samuelson, Robert J. "The Myth of Exclusivity," The Washington Post, December 10, 1986, P. G1.

(7) Walters, Sharon, "What do the Yuppies Want?" Newsweek, December 10, 1984, P. 61.

(8) Zaleski, Janet. "Make Your Product Catalogue User Friendly," Sales and Marketing Management, September 10, 1984, P. 85-86.